

CHESSWOOD GROUP LIMITED

FIRST QUARTER REPORT TO SHAREHOLDERS

FOR THE THREE MONTHS ENDED

MARCH 31, 2017



Through its two wholly-owned subsidiaries in the U.S. and Canada, Chesswood Group Limited is North America's only publicly-traded commercial equipment finance company focused on small and medium-sized businesses. Our Colorado-based Pawnee Leasing Corporation, founded in 1982, finances a highly diversified portfolio of commercial equipment leases and loans through established relationships with over 600 independent brokers in the lower 48 states. In Canada, Blue Chip Leasing Corporation has been originating and servicing commercial equipment leases and loans since 1996, and today operates through a nationwide network of more than 50 independent brokers.

Based in Toronto, Canada, Chesswood's shares trade on the Toronto Stock Exchange under the symbol CHW (convertible debentures: CHW.DB). Learn more at www.chesswoodgroup.com, www.PawneeLeasing.com and www.BlueChipLeasing.com.

CONTENTS

<u>PRESIDENT'S MESSAGE</u>	<u>3</u>
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u>	<u>3</u>
<u>CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>29</u>
<u>DIRECTORS, OFFICERS AND OTHER INFORMATION</u>	<u>55</u>

This Interim Report is intended to provide shareholders and other interested persons with selected information concerning Chesswood Group Limited ("Chesswood"). For further information, shareholders and other interested persons should consult Chesswood's other disclosure documents, such as its 2016 Annual Report and its Annual Information Form. Copies of Chesswood's continuous disclosure documents can be obtained at www.chesswoodgroup.com, from www.sedar.com, or from Investor Relations at the addresses shown at the end of this report. Readers should also review the notes further in this report, in the section titled Management's Discussion and Analysis, concerning the use of Non-GAAP Measures and Forward-Looking Statements, which apply to the entirety of this Interim Report.

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

TO OUR SHAREHOLDERS

Our results for the first three months of 2017 reflect the fact that our year is off to a strong start. Our teams generated the growth we were expecting, further developed our infrastructure, and improved our delinquency rates - all fueled by a commitment to exceptional service and careful risk management.

From an originations perspective, our U.S. and Canadian businesses leveraged our unique competitive position as quality-oriented funders of all credit classes, while continuing to enhance our reputation as providers of unparalleled, personalized service. As a result, we enjoyed another record quarter in new business at Pawnee and Blue Chip, with \$79 million in new originations, up from \$48 million in the first quarter of 2016, a 65% increase year-over-year.

To help fund future growth, in April we exercised U.S.\$30 million under the U.S.\$80 million accordion feature in our syndicated revolving credit facility, which now expands our borrowing capacity to U.S.\$200 million from U.S.\$170 million.

On the earnings front, our performance was again very solid in the first quarter, helped by lower delinquency. Our



Barry Shafran,
President & CEO

Operating Income was essentially unchanged at \$8.049 million, compared to \$8.095 million in the same quarter last year, despite the absence of \$498,500 of operating income from Windset which was present in the first quarter of last year and a stronger Canadian dollar this year.

Delinquencies in our U.S. equipment finance portfolio cycled down at the end of the first quarter, from seasonal highs at December 31st. The lower delinquency helped generate a lower provision for credit losses, as expected. While our U.S. charge-offs continue to be elevated, driven primarily by our non-prime portfolio, our strong risk-adjusted yields continue to provide an excellent return on our capital for this segment of our business.

We have increased our team by six people since year end, and by 15 people since the first quarter of 2016, to support the growth in our originations and portfolio. Our enlarged teams represent an important investment in our future growth, and in our ongoing strategic initiatives to enhance our efficiency, technology and competitive capabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis (this "MD&A") is provided to enable readers to assess the financial condition and results of operations of Chesswood Group Limited ("Chesswood" or the "Company") as at and for the three months ended March 31, 2017. This discussion should be read in conjunction with the unaudited condensed consolidated interim financial statements and accompanying

notes of the Company for the period, and the audited consolidated financial statements and accompanying notes of the Company for the year ended December 31, 2016 set forth in the Company's 2016 Annual Report. 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 May 9, 2017.

MD&A Table of Contents

Forward-Looking Statements	4	Statement of Financial Position	12
Non-GAAP Measures	5	Liquidity and Capital Resources	15
Company Overview	5	Outlook	18
Pawnee	6	Risk Factors	19
Blue Chip	7	Critical Accounting Policies and Estimates	25
Discontinued Operations	8	Future Accounting Standards	25
Selected Financial information	9	Related Party Transactions	25
Adjusted EBITDA, Free Cash Flow	10	Controls & Procedures	26
Results of Operations	11	Market for Securities	27

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.

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: continuing access to required financing, continuing access to products that allow the Company and its subsidiaries to hedge exposure to changes in interest rates; risks of increasing default rates on leases, loans and advances; the adequacy of the Company's provisions for credit losses; increasing competition (including, without limitation, more aggressive risk pricing by competitors); increased governmental regulation of the rates and methods we use in financing and collecting on our equipment leases or loans, 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 rate; 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 the Company's annual information form, 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.

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 Adjusted EBITDA less maintenance capital expenditures and tax expense.

"FCF L4PQ" is defined as FCF for the most recently completed four financial quarters for which the Company has publicly filed its consolidated financial statements (including its annual consolidated financial statements in respect of a fourth quarter).

"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.

COMPANY OVERVIEW

Chesswood is North America's only public company focused exclusively on commercial equipment finance for small and medium-sized businesses. As at March 31, 2017, 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

The Company's U.S. operations are primarily conducted by Pawnee, which accounted for 80.7% of consolidated revenue and 83.8% of consolidated income from continuing operations before corporate overhead in the three months ended March 31, 2017. Established in Fort Collins, Colorado in 1982, Pawnee specializes in providing equipment financing of up to U.S.\$200,000 to small and medium-sized businesses for a wide range of credit profiles including start-up entrepreneurs to more established businesses in the prime and non-prime segments, in the lower 48 U.S. states, through a network of approximately 600 independent equipment finance broker firms. As of March 31, 2017, Pawnee employed 79 full-time equivalent employees.

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 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 pricing for risk; and a dedicated and efficient servicing and collection effort.

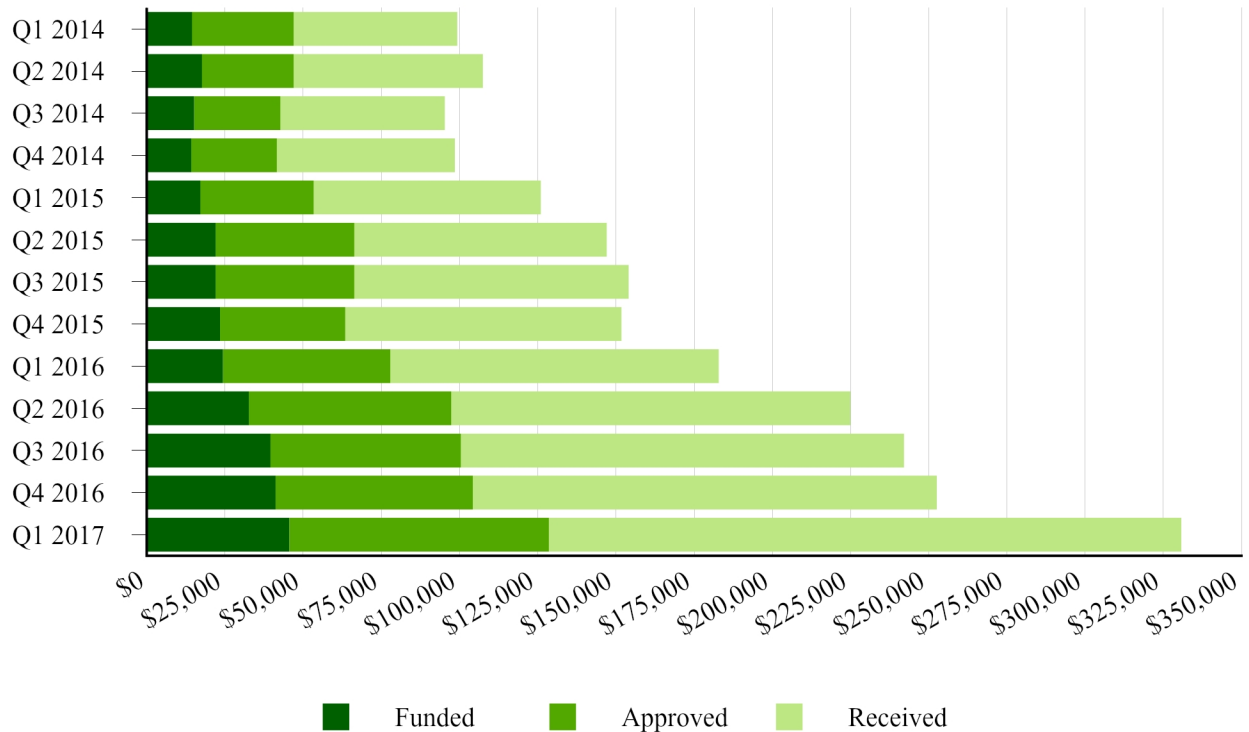
Pawnee Key Portfolio Statistics (in U.S.\$ thousands except # of leases/loans and %'s)

	June 30 2015	Sep 30 2015	Dec 31 2015	Mar 31 2016	June 30 2016	Sep 30 2016	Dec 31 2016	Mar 31 2017
Number of leases and loans outstanding (#)	10,707	11,140	11,440	11,881	12,636	13,479	14,259	14,943
Gross lease and loan receivable ("GLR") ⁽¹⁾	\$184,800	\$192,863	\$200,505	\$209,007	\$228,984	\$255,791	\$280,929	\$309,120
Residual receivable	\$15,614	\$15,414	\$15,235	\$15,112	\$15,393	\$15,659	\$15,906	\$16,041
Net investment in leases and loans receivable, before allowance ⁽⁴⁾	\$147,554	\$153,205	\$159,210	\$165,885	\$181,681	\$203,189	\$224,522	\$248,557
Security deposits (nominal value) ⁽⁴⁾	\$10,684	\$10,603	\$10,460	\$10,480	\$10,519	\$10,575	\$10,812	\$11,135
Allowance for doubtful accounts	\$4,172	\$5,134	\$5,265	\$4,958	\$4,662	\$6,044	\$7,240	\$6,555
Over 31 days delinquency (% of GLR) ⁽²⁾	2.33%	2.90%	2.91%	2.69%	2.19%	2.59%	2.74%	2.19%
Net charge-offs for the three-months ended ⁽³⁾	\$1,683	\$2,069	\$2,520	\$2,809	\$2,357	\$2,373	\$3,478	\$3,698
Provision for credit losses for the three-months ended	\$1,244	\$2,965	\$2,706	\$2,685	\$2,112	\$3,804	\$4,740	\$3,229

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)



BLUE CHIP

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 16.2% of consolidated revenue and 16.5% of consolidated income from continuing operations before corporate overhead in the three months ended March 31, 2017. Blue Chip had 31 full-time equivalent employees at March 31, 2017. Located in Toronto, Blue Chip originates

receivables across Canada which are sourced from a nationwide network of more than 50 independent equipment finance broker firms and through direct, in-house origination efforts via equipment vendors.

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

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	Mar 31 2017
Number of leases and loans outstanding (#)	9,504	9,852	10,231	10,479	11,142	11,551	11,883	12,278
Gross lease and loan receivable ("GLR")	\$119,560	\$123,250	\$127,505	\$129,851	\$139,692	\$144,984	\$148,250	\$152,502
Net investment in leases and loans receivable ("NIL"), before allowance	\$104,122	\$107,745	\$111,720	\$114,185	\$123,022	\$127,841	\$130,965	\$134,777
Allowance for doubtful accounts	\$1,252	\$1,272	\$844	\$888	\$1,076	\$1,363	\$1,342	\$1,438
Over 31 days delinquency (% of NIL)	0.84%	0.32%	0.66%	0.39%	0.67%	0.87%	0.72%	0.66%

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 16 - *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 2016, Windset ceased accepting loan applications, but continues to service its existing portfolio for the full-term of the loans.

At March 31, 2017, Windset had 206 loans outstanding with approximately U.S.\$3.2 million in gross loan receivables outstanding (December 31, 2016 - 404 loans - U.S.\$8.9 million). The terms of the loans range from three months to 18 months, but typically average nine to ten months, with approximately 67% scheduled to liquidate by June 30, 2017, and 90% 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 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 2016 for approximately \$35.0 million resulting in a gain of \$6.7 million (net of taxes and costs); 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, resulting in a gain of \$840,000 (net of taxes and costs).
- Chesswood's 2015 financial results (in the quarterly charts below) include the results of Acura Sherway, a Toronto automobile dealership, which was sold on November 15, 2015 for approximately \$20.4 million resulting in a gain of \$4.6 million (net of taxes and costs).

See Note 4 - *Discontinued Operations* in the audited financial statements for the year ended December 31, 2016 for further information.

SELECTED FINANCIAL INFORMATION

As at and for the quarter-ended (\$ thousands, except per share figures)	2015			2016				2017
	Q2	Q3	Q4	Q1 ⁽⁵⁾⁽⁶⁾	Q2	Q3	Q4	Q1
Revenue ⁽¹⁾	\$ 18,644	\$ 20,749	\$ 21,772	\$ 22,892	\$ 21,825	\$ 23,195	\$ 23,671	\$ 23,051
Finance margin before expenses ⁽¹⁾	13,670	12,264	13,499	14,289	14,979	13,698	12,974	14,859
Income before tax and other items (Operating Income ⁽¹⁾⁽²⁾)	8,399	6,811	7,547	8,095	9,016	7,220	5,979	8,049
Income before tax ⁽¹⁾	7,709	4,911	6,436	5,616	7,179	7,594	7,731	7,452
Provision for taxes ⁽¹⁾	3,672	2,754	2,804	2,650	3,233	2,375	2,545	2,768
Income from continuing operations ⁽¹⁾	4,037	2,157	3,632	2,966	3,946	5,219	5,186	4,684
Income from discontinued operations ⁽¹⁾	1,077	983	4,420	7,141	39	(136)	(83)	12
Net income	\$ 5,114	\$ 3,140	\$ 8,052	\$ 10,107	\$ 3,985	\$ 5,083	\$ 5,103	\$ 4,696
Basic earnings per share - continuing operations ⁽¹⁾⁽³⁾	\$0.23	\$0.11	\$0.21	\$0.17	\$0.22	\$0.29	\$0.29	\$0.26
Diluted earnings per share - continuing operations ⁽¹⁾⁽³⁾	\$0.22	\$0.11	\$0.20	\$0.16	\$0.22	\$0.28	\$0.29	\$0.25
Basic earnings per share ⁽³⁾	\$0.29	\$0.17	\$0.46	\$0.57	\$0.22	\$0.29	\$0.28	\$0.26
Diluted earnings per share ⁽³⁾	\$0.28	\$0.16	\$0.46	\$0.56	\$0.22	\$0.27	\$0.28	\$0.25
Total assets	\$ 509,025	\$ 540,697	\$ 565,510	\$ 453,553	\$ 473,750	\$ 500,202	\$ 527,937	\$ 547,686
Long-term liabilities	\$ 346,922	\$ 370,565	\$ 316,375	\$ 291,437	\$ 309,350	\$ 330,468	\$ 354,800	\$ 377,735
<u>Other Data</u>								
Adjusted EBITDA ⁽²⁾	\$ 9,990	\$ 8,172	\$ 7,395	\$ 8,700	\$ 9,066	\$ 7,168	\$ 6,097	\$ 8,092
Dividends declared ⁽⁴⁾	\$ 3,451	\$ 3,458	\$ 3,460	\$ 3,461	\$ 3,470	\$ 3,479	\$ 3,678	\$ 3,779
Dividends declared - special ⁽⁴⁾⁽⁵⁾				\$ 8,875				
Dividends declared per share ⁽⁴⁾⁽⁵⁾	\$0.195	\$0.195	\$0.195	\$0.695	\$0.195	\$0.195	\$0.205	\$0.210

(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* in the 2016 audited consolidated financial statements.

(2) Adjusted EBITDA and Operating Income are non-GAAP measures. See "Non-GAAP Measures" section 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 2016 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 (\$ thousands)	2015			2016				2017
	Q2	Q3	Q4	Q1 ⁽⁴⁾⁽⁶⁾	Q2	Q3	Q4	Q1
Net income	\$ 5,114	\$ 3,140	\$ 8,052	\$ 10,107	\$ 3,985	\$ 5,083	\$ 5,103	\$ 4,696
Interest expense - continuing	2,008	2,187	2,260	2,335	2,209	2,522	2,758	3,131
Interest expense - discontinued	706	718	734	462	—	—	—	—
Provision for taxes - continuing	3,672	2,754	2,804	2,650	3,233	2,375	2,545	2,768
Provision for taxes - discontinued	131	47	(462)	43	—	—	—	—
Amortization - continuing	424	221	661	398	402	419	430	421
Amortization - discontinued	232	139	377	—	—	—	—	—
EBITDA ⁽¹⁾	12,287	9,206	14,426	15,995	9,829	10,399	10,836	11,016
Interest expense	(2,714)	(2,905)	(2,994)	(2,797)	(2,209)	(2,522)	(2,758)	(3,131)
Share-based compensation expense	408	462	407	509	266	326	271	266
Financing costs - convertible debenture	(98)	276	272	100	750	300	510	(20)
Interest expense on convertible debenture	(324)	(328)	(328)	(324)	(324)	(328)	(328)	(321)
Contingent consideration accretion (reduction), acquisition costs & gain on sale of assets	468	173	(4,143)	(6,538)	41	41	(885)	—
Unrealized loss (gain) on investments	—	—	—	510	31	(363)	(181)	544
Foreign exchange unrealized loss (gain)	(37)	(12)	209	(278)	19	(241)	389	(11)
Unrealized loss (gain) – interest rate swaps	—	1,300	(454)	1,523	663	(444)	(1,757)	(251)
Adjusted EBITDA ⁽¹⁾	9,990	8,172	7,395	8,700	9,066	7,168	6,097	8,092
Maintenance capital expenditures	(137)	(90)	(29)	(55)	—	(27)	(30)	(7)
Provision for taxes	(3,803)	(2,801)	(2,342)	(2,693)	(3,233)	(2,375)	(2,545)	(2,768)
Free Cash Flow ("FCF") ⁽¹⁾	\$ 6,050	\$ 5,281	\$ 5,024	\$ 5,952	\$ 5,833	\$ 4,766	\$ 3,522	\$ 5,317
FCF L4PQ divided by 4 ⁽¹⁾	\$ 4,624	\$ 4,761	\$ 5,050	\$ 5,211	\$ 5,482	\$ 5,540	\$ 5,454	\$ 5,268
Maximum Permitted Dividends ⁽¹⁾⁽³⁾⁽⁵⁾	\$ 3,699	\$ 3,809	\$ 4,040	\$ 4,690	\$ 4,933	\$ 4,986	\$ 4,909	\$ 4,741
Dividends declared ⁽²⁾	\$ 3,451	\$ 3,458	\$ 3,460	\$ 3,461	\$ 3,470	\$ 3,479	\$ 3,678	\$ 3,779
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" section 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 can be 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 2016 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 MARCH 31, 2017 AND 2016

U.S. dollar results for the three months ended March 31, 2017 were converted at an exchange rate of 1.3238, which was the average exchange rate for 2017 (2016 - 1.3732).

See Note 16 - *Segment Information* in the notes to the Company's unaudited condensed consolidated interim financial statements for a breakdown of operating results and other information by industry segment and geographic location.

The Company reported consolidated net income of \$4.7 million in the three months ended March 31, 2017 compared to \$10.1 million in the same period of 2016, a decrease of \$5.4 million year-over-year. The prior year results included a \$6.8 million net gain on the sale of EcoHome which represents the majority of the decrease in net income.

Consolidated operating income ("income before undernoted items") from continuing operations was \$8.0 million, compared to \$8.1 million in the prior year, a decrease of \$46,000 or 0.6% comprised as follows:

Operating income by segment (see Note 16)

Segment	Q1 2017	Q1 2016	Change
	(\$ thousands)		
Equip finance - U.S.	\$ 7,417	\$ 7,860	\$ (443)
Equip finance - CDN	1,395	1,250	145
Corp overhead	(763)	(1,015)	252
	\$ 8,049	\$ 8,095	\$ (46)

Normalization adjustments:

Windset's operating (income) loss	32	(499)	531
Impact of decrease in exchange rate	—	(354)	354
Q1 2017 vs Q1 2016 Normalized	\$ 8,081	\$ 7,242	\$ 839

Pawnee and Windset's operating income decreased by \$443,000 compared to the prior year, predominantly as a result of the absence of \$498,500 in income from Windset in 2016 as Windset winds down. The 3.6% decrease in the exchange rate year-over-year led to a \$354,000 decrease in Pawnee's operating income.

Pawnee and Windset's finance income (finance margin before provision for credit losses) decreased \$757,000. The \$2.4 million growth in Pawnee's finance income compared to the

prior year is offset by a \$3.1 million decrease in Windset's finance income. The 3.6% decrease in the exchange rate also affected the finance income from our U.S. subsidiaries, and Pawnee's results in particular (given Windset's small portfolio size). Pawnee's interest revenue on its leases and loans decreased \$601,000 and its ancillary lease revenue was down \$93,000 compared to the prior year as a result of the drop in the exchange rate.

The decrease in finance income at Pawnee and Windset was offset by a \$1.2 million decrease in the provision for credit losses in the three month period year-over-year. The drop in the delinquency markers at March 31, 2017 translated to a \$638,000 non-cash decrease in the provision for credit losses year-over-year, and a \$545,000 decrease in actual net charge-offs accounted for the remaining decrease in provision for credit losses year-over-year. The drop in Windset's actual net charge-offs year-over-year offset the increase in Pawnee's actual net charge-offs in the three month period.

Personnel and other expenses at Pawnee and Windset increased by \$870,000, reflecting support for the growth in finance receivables and for the strategic initiatives to improve future efficiency, and to enhance the Company's technology and its competitive capabilities. Pawnee and Windset's combined employee headcount increased by six employees during the three months ended March 31, 2017 to bring the total to 79, and up from 63 employees at March 31, 2016.

Blue Chip generated operating income of \$1.4 million in the quarter compared to \$1.3 million in the first quarter of last year, an increase of \$145,000 or 11.6% due to growth in the finance receivable portfolio while maintaining cost controls.

Corporate overhead before other items decreased by \$252,000 year-over-year, mainly from \$98,000 reduction in other expenses, \$91,000 reduction in share-based compensation, and \$78,000 interest income on loan receivables from Dealnet Capital Corp. ("Dealnet"), and EcoHome.

At March 31, 2017, the Company's investment in Dealnet common shares had decreased in market value by \$544,000 in three months ended March 31, 2017 compared to a loss of \$510,000 in the same period of 2016 resulting in a decrease in net income of \$34,000 year-over-year.

The non-cash unrealized mark-to-market adjustment on the Company's convertible debentures was an unrealized gain of \$20,000 compared to an unrealized loss of \$100,000 in the

prior year, translating to an increase in net income of \$120,000 year-over-year.

The non-cash unrealized mark-to-market adjustment on the interest rate swaps for the three months ended March 31, 2017 totaled a gain of \$251,000 compared to a loss \$1.5 million in the prior year, translating to an increase in net income of \$1.8 million year-over-year.

The provision for taxes for the three months ended March 31, 2017 totaled \$2.8 million compared to \$2.7 million in the prior year. The \$2.8 million provision for taxes for the three months ended March 31, 2017 is comprised of \$1.7 million in current tax expense, future tax expense of \$949,100 and \$72,800 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 the three months ended March 31, 2017 totaled \$12,000 compared to \$7.1 million recorded in the same period in 2016. The income from discontinued operations in 2017 includes income from the wind-down of Case Funding's remaining legal finance receivables. The income from discontinued operations for 2016 included the \$6.7 million net gain on the sale of EcoHome and 1.5 months of operating results for EcoHome.

STATEMENT OF FINANCIAL POSITION

The total consolidated assets of the Company at March 31, 2017 were \$547.7 million. This is an increase of \$19.7 million from December 31, 2016. The U.S. dollar exchange rate on March 31, 2017 was 1.331 compared to 1.3427 at December 31, 2016. The decrease in the foreign exchange rate represents a decrease of \$2.9 million in assets, this decrease was offset by an increase in the finance receivables.

Cash totaled \$5.9 million at March 31, 2017 compared to \$11.4 million at December 31, 2016, a decrease of approximately \$5.5 million. Please see the Liquidity and Capital Resources Overview section of this MD&A for a discussion on cash movements during the three months ended March 31, 2017 and 2016.

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 March 31, 2017 there were 264 advances and loans

outstanding totaling \$5.1 million (December 31, 2016 - 298 advances and loans totaling \$5.9 million). The advances and loans are due when the underlying cases are settled. The number of days the receivable is outstanding does not necessarily indicate the likelihood of impairment. It is normal for receivables in this industry to be outstanding anywhere from 6 months to 48 months. Under IFRS, an allowance for the collectability of the legal finance receivables can only be set up if there is objective evidence that the impairment has already occurred - potential losses expected as a result of future events, no matter how likely based on past historical evidence or known uncertainties with this type of receivable, are not allowed to be recognized. The collectability of loans and/or advances made by Case Funding depends on litigation outcomes in the form of judgments and/or settlements. Once an advance/loan is made, the timing of the collection cycle is out of Case Funding's control. Therefore, the timing of actual collections will be irregular.

Prepaid expenses and other assets totaled \$13.1 million at March 31, 2017, a decrease of \$1.3 million from December 31, 2016. The other assets related to the sale of EcoHome in 2016 totaled \$10.2 million at March 31, 2017 compared to \$10.7 million at December 31, 2016. In relation to the sale of EcoHome, \$1.75 million of the proceeds were held back in escrow. The net present value of the escrowed funds at March 31, 2017 totaled \$1.7 million. Also included in other assets at March 31, 2017 is the non-cash consideration received as part of the sale of EcoHome to Dealnet in February 2016. Along with 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 March 31, 2017 totaled \$3.0 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 March 31, 2017 totaled \$3.0 million. See Note 6 - *Prepays and other assets* for further details.

Finance receivables consist of the following:

	March 31, 2017	December 31, 2016
	(\$ thousands)	
U.S. equip. leases & loans - Pawnee	\$ 320,911	\$ 290,681
Canadian equip. leases - Blue Chip	134,770	130,778
Working capital loans - Windset	3,314	9,589
	<u>\$ 458,995</u>	<u>\$ 431,048</u>

Finance receivables increased by \$27.9 million, or 6.5%, during the three months ended March 31, 2017. The decrease

in the foreign exchange rate led to a \$2.6 million decrease in finance receivables since December 31, 2016. In U.S. dollars, Pawnee's finance receivables increased by U.S.\$24.6 million. At the same time, Windset's net investment in working capital loans decreased by U.S.\$4.7 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 \$4.0 million during the three months ended March 31, 2017 as a result of expanded product lines and enhanced relationships with its brokers.

The \$459.0 million in net investment in leases and loans is net of \$10.7 million in allowance for doubtful accounts (compared to \$12.3 million in allowance for doubtful accounts at December 31, 2016). 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 \$21.5 million at March 31, 2017. Of the \$372,000 decrease in intangible assets from December 31, 2016, \$335,000 reflects amortization and \$37,000 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 \$40.7 million at March 31, 2017 compared to \$40.8 million at December 31, 2016. The \$126,000 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.

Accounts payable and other liabilities totaled \$11.7 million at March 31, 2017 compared to \$15.2 million at December 31, 2016, a decrease of \$3.5 million. See Note 8 - *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 included \$3.5 million in taxes relating to the sale of EcoHome in 2016 which was paid in the three months ended March 31, 2017. The contingent consideration of \$538,000 represents management's estimate of additional consideration payable which is contingent upon the future performance of Blue Chip. 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 their 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 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 debentures (and all the embedded derivatives) as a combined financial liability at fair value through profit or loss. The fair value of the 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 \$315.45 million at March 31, 2017 compared to \$293.08 million at December 31, 2016, an increase of \$22.4 million. The \$22.4 million increase in borrowings is supporting \$27.9 million of growth in our net finance receivables. The borrowings amount decreased \$1.6 million due to the decrease in the foreign exchange rate since December 31, 2016.

Chesswood was utilizing U.S.\$158.7 million of its credit facility at March 31, 2017 compared to U.S.\$144.3 million at December 31, 2016. 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 allowed borrowings of up to U.S. \$170.0 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 and matures on December 8, 2019.

On April 13, 2017, the Company announced that it had exercised U.S.\$30.0 million of the U.S.\$80.0 million available accordion under its corporate revolving credit facility, expanding allowable borrowings to U.S.\$200.0 million.

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 and contains covenants (including the maintaining of leverage and interest coverage ratios). Chesswood was in full compliance with all its bank covenants at March 31, 2017 and December 31, 2016 (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 March 31, 2017, Blue Chip had access to at least \$79.3 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 \$51.7 million of the funding availability is based on annual limits while the additional \$27.6 million is based on rolling balances. Blue Chip must meet certain financial covenants to support these securitization and bulk lease financing facilities. As at March 31, 2017 and December 31, 2016 (and throughout the periods), Blue Chip was in compliance with all covenants.

The \$13.7 million (December 31, 2016 - \$13.6 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 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 \$591,000 at March 31, 2017 (December 31, 2016 - \$850,000).

Future taxes payable at March 31, 2017 totaled \$27.7 million compared to \$27.0 million at December 31, 2016. The

\$734,000 increase reflects a \$829,000 million increase in future tax expense, \$74,000 reclassified from future tax asset, which were offset by a \$169,000 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 March 31, 2017, there were 16,526,367 common shares outstanding (excluding the shares issuable in exchange for the Exchangeable Securities, as defined below) with a book value of \$104.7 million. Including the Exchangeable Securities, Chesswood would have had 18,004,904 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. No common shares were repurchased under this normal course issuer bid during the three months ended March 31, 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 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.

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 March 31, 2017. There were 1,825,489 options and 70,000 restricted share units outstanding at March 31, 2017.

Accumulated other comprehensive income is the cumulative translation difference between the exchange rate on January 1, 2010, the IFRS adoption date, and the exchange rate on March 31, 2017 of self-sustaining foreign operations net assets.

LIQUIDITY AND CAPITAL RESOURCES

The primary sources of cash for the Company and its subsidiaries have been cash flows from operating activities, and borrowings under its, and its various subsidiaries' credit 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 March 31, 2017, the Company's continuing operations had approximately U.S.\$11.3 million in additional borrowings available under the corporate credit facility before the accordion feature and at least \$79.3 million under Blue Chip's securitization and bulk lease financing facilities to fund business operations.

The Chesswood credit facility was expanded to allow borrowings up to U.S.\$170.0 million on November 30, 2016, and 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.

On April 13, 2017, the Company announced that it had exercised U.S.\$30.0 million of the U.S.\$80.0 million available accordion under its corporate revolving credit facility, expanding allowable borrowings to U.S.\$200.0 million.

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 its 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 for which Chesswood has publicly filed its consolidated financial statements (including its annual consolidated financial statements in respect of a fourth quarter). Free Cash Flow is defined as the consolidated Adjusted EBITDA less maintenance capital expenditures and tax expense.

Cash Sources and Uses

The statement of cash flows, which is compiled using the indirect method, shows cash flows from operating, investing, and financing activities, and the Company's cash at the beginning and end of the period. Cash flows in foreign currencies have been translated at the average exchange rate for the period. Cash flow from operating activities comprises net income (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 expense 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 March 31, 2017

In the three months ended March 31, 2017, there was a decrease in cash of \$5.5 million compared to a decrease in cash of \$10.7 million in the prior year as a result of reasons discussed below.

The Company's continuing operations utilized \$26.0 million of cash during the three months ended March 31, 2017 compared to generating \$1.6 million in the prior year, an increase in the utilization of cash of \$27.6 million.

The net cash utilized to fund the growth in finance receivables (funds advanced, origination costs, security deposits, less principal payments) totaled \$41.5 million in the three months ended March 31, 2017 compared to \$18.2 million in the prior year, an increase of \$23.3 million. The Company funded the growth in finance receivables from excess opening cash, cash from operations and \$23.6 million in net borrowings in the three months ended March 31, 2017 (Q1 2016 - \$14.2 million in net repayments).

In the three months ended March 31, 2017, the Company made tax payments of \$5.1 million compared to \$1.9 million in the three months ended March 31, 2016, an increase of \$3.2 million year-over-year. The Company paid \$3.5 million in taxes in Q1 2017 on the gain on sale of EcoHome, which was sold in Q1 2016.

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 \$20.5 million in cash from net income, non-cash items and other working capital changes compared to \$21.7 million in the prior year, a decrease in cash generated from operations of \$1.2 million.

In 2016, from the \$25.0 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 \$159,000 (Q1 2016 - \$55,000) during the three months ended March 31, 2017, the majority of the capital expenditures relate to the expenditures for furniture and equipment for Pawnee as its staffing numbers increased.

The Company paid dividends to the holders of its common shares and Exchangeable Securities in the amount of \$3.8 million during the three months ended March 31, 2017 compared to \$12.3 million in the prior year, a decrease of \$8.6 million, due to the \$8.9 million special dividend in Q1 2016, offset by an increase in the monthly dividend per share paid in December 2016 and a higher number of shares outstanding. The Company received \$96,000 (2016 - \$14,000) from the exercise of options by employees during the three months ended March 31, 2017.

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 March 31, 2017, U.S.\$158.7 million was outstanding under the U.S.\$170.0 million facility and the

Company had capacity to draw up to U.S.\$11.3 million and remain within the borrowing base under the facility. The Company had U.S.\$4.5 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.

Dividends to Shareholders

The Company declared monthly cash dividends of \$0.07 per common share from January 2017 to March 31, 2017.

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 for which Chesswood has publicly filed its consolidated financial statements. The maximum cash dividend was 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.

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

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.

The following are the contractual payments and maturities of financial liabilities and other commitments as at March 31, 2017 (including interest):

(\$ thousands)	2017	2018	2019	2020	2021	2022 and beyond	Total
Accounts payable and other liabilities	\$ 11,188	\$ 538	\$ —	\$ —	\$ —	\$ —	\$ 11,726
Borrowings (a)	44,542	45,945	237,774	12,561	2,835	414	344,071
Customer security deposits (b)	3,131	3,700	3,625	2,387	1,757	490	15,090
Convertible debentures	1,300	21,300	—	—	—	—	22,600
Interest rate swaps	—	—	—	257	334	—	591
	60,161	71,483	241,399	15,205	4,926	904	394,078
Other financial commitments (c)	589	421	428	350	357	518	2,663
Total commitments	\$ 60,750	\$ 71,904	\$ 241,827	\$ 15,555	\$ 5,283	\$ 1,422	\$ 396,741

- 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 March 31, 2017 remains the same until December 2019, which is the date of expiry of the credit facility.
- 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.
- 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. \$4.5 million in letters of guarantee. Other commitments are disclosed in Note 19 - *Contingent liabilities and other financial commitments* of the 2016 annual audited consolidated financial statements.

OUTLOOK

We expect the trends of the first quarter, in general, to continue, subject to the seasonality of our business. This means expected continued growth in our portfolio along with similar charge-off levels, a focus on portfolio collections and credit discipline. As we have stated previously, in management's opinion the charge-off levels in our U.S. non-prime portfolio are reflective of more recent credit markets that have returned to customary levels, following the post-crisis years in which these credit markers were well above historical levels.

The potential exists for the U.S. economy to get significantly energized with the passing of any measures that address tax rates, tax regulations and/or financial regulations in general. This would be good news to small business lessees and

borrowers and would likely strengthen demand for our products.

Many in the U.S. are betting on the passing of legislation that addresses some of these issues, as promised by the current administration. There is however some uncertainty about whether the new administration can successfully get new legislation passed that addresses these issues, in a politically charged climate. Failure to address these issues could result in negative sentiment that might slow growth in the U.S. economy and weaken demand.

Lastly, in the event of a broad reduction in U.S. corporate tax rates, Chesswood is likely to benefit as we pay U.S. taxes on earnings in our Pawnee subsidiary.

RISK FACTORS

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

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

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, including Canada where Blue Chip gets a substantial portion of its origination volume from a few large equipment brokerage firms.

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 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 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; The Risk/Yield Trade-off

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

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

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

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

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

If judicial or other governmental rulings or actions or interpretations of laws adverse to the equipment finance 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. Our operating companies may be subject to risks related to broker practices whether or not our operating companies have actual legal responsibility for broker conduct. Any of these broker related risks can impair our operating companies’ rights with respect to recovering the rents and/or property under leases and loans. Pawnee has not been involved in any claims or litigation in relation to such risks 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 lender of the leased or financed property suffering a loss receives the related insurance proceeds, the lease or loan also requires that the lessor or lender be named as a loss payee under the requisite casualty coverage. However, each lessee/borrower is ultimately relied upon to obtain and maintain the required coverage for financed equipment but there is no certainty that they will obtain the requisite coverage either conforming to the requirements of the lease or loan, or at all. Additionally, there are often policy provisions including exclusions, deductibles and other conditions that by their terms, or by reason of a breach, could limit, delay or deny coverage. There can be no assurance that any insurance will protect our operating companies interests in the equipment, and the failure by the lessee/borrower to obtain insurance or the failure by the operating companies to receive the proceeds from such insurance policies could have a material adverse impact on our business, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

Lessor Liability

There is a risk that a lessor, such as Pawnee 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 wrongdoing 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.

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

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. Our operating companies may be subject to risks related to broker practices whether or not our operating companies have actual legal responsibility for broker conduct. Increased rates of fraud could have a material adverse impact on our business, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

Protection of Intellectual Property

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

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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Understanding the Company's accounting policies is essential to understanding the results of the Company's operations and financial condition. The Company's significant accounting policies are described in notes to the Company's audited consolidated financial statements for the year ended December 31, 2016 and this same section of the Company's December 31, 2016 MD&A. 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.

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 unaudited condensed consolidated interim financial statements for the three months ended March 31, 2017.

RELATED PARTY TRANSACTIONS

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

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Internal Control over Financial Reporting

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

Evaluation of Design Effectiveness of Controls

The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the design effectiveness of the Company’s DC&P and ICFR as at March 31, 2017 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.

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.

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 financial statements, management has commenced the remediation process through establishment of 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 remediation 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.

Management has also commenced the remediation process through engagement 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.

Changes in 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.

In response to the control weaknesses noted above, management conducted a comprehensive review of its processes and controls in regard to complex transactions and accounting matters. As result of this review, management has commenced the remediation process through establishment of processes for timely utilization of external expertise and internal management reviews of unusual and complex transactions, including preparation of research memoranda and other analysis supporting the final position taken.

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 period ended March 31, 2017.

	<u>Convertible debentures</u>		
	High	Low	Average Daily Volume
January	\$102.00	\$101.05	6,714
February	\$103.00	\$101.75	3,631
March	\$102.11	\$101.20	1,978
	<u>\$103.00</u>	<u>\$101.05</u>	<u>4,055</u>

The Company's common shares are traded on the Toronto Stock Exchange under the symbol CHW. The following table summarizes the high and low sales prices of the common shares and the average daily trading volume for each month in the period ended March 31, 2017.

<u>Common shares</u>			Average Daily Volume
	<u>High</u>	<u>Low</u>	
January	\$12.34	\$11.60	16,349
February	\$12.80	\$11.88	15,274
March	\$13.69	\$12.55	19,960
	<u>\$13.69</u>	<u>\$11.60</u>	<u>18,316</u>

CHESSWOOD GROUP LIMITED

NOTICE TO READERS

Accompanying this notice are the unaudited condensed consolidated interim financial statements of Chesswood Group Limited for the three months ended March 31, 2017. These statements have been prepared by, and are the responsibility of, the Company's management.

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

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

	<i>Note</i>	March 31, 2017 <i>(unaudited)</i>	December 31, 2016 <i>(audited)</i>
ASSETS			
Cash		\$ 5,911	\$ 11,443
Assets held for sale	3	5,055	5,903
Prepaid expenses and other assets	6	13,123	14,468
Finance receivables	7	458,995	431,048
Deferred tax assets		915	962
Property and equipment		1,506	1,434
Intangible assets		21,501	21,873
Goodwill		40,680	40,806
TOTAL ASSETS		\$ 547,686	\$ 527,937
LIABILITIES			
Accounts payable and other liabilities	8	\$ 11,726	\$ 15,243
Convertible debentures		20,240	20,260
Borrowings	9	315,449	293,081
Customer security deposits		13,715	13,603
Interest rate swaps		591	850
Deferred tax liabilities		27,740	27,006
		389,461	370,043
SHAREHOLDERS' EQUITY			
Common shares		104,729	104,596
Non-controlling interest		13,048	13,049
Share-based compensation reserve		5,009	4,780
Accumulated other comprehensive income		17,326	18,196
Retained earnings		18,113	17,273
		158,225	157,894
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 547,686	\$ 527,937

Please see notes to the condensed consolidated interim financial statements.

CHESSWOOD GROUP LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(in thousands of dollars, except per share amounts, unaudited)

	<i>Note</i>	<u>2017</u>	<u>2016</u>
Finance revenue			
Interest revenue on finance leases and loans		\$ 19,484	\$ 19,641
Ancillary finance and other fee income		3,567	3,251
		<u>23,051</u>	<u>22,892</u>
Finance expenses			
Interest expense - borrowings		3,131	2,335
Provision for credit losses	7	5,061	6,268
		<u>8,192</u>	<u>8,603</u>
Finance margin		<u>14,859</u>	<u>14,289</u>
Expenses			
Personnel expenses		3,696	3,466
Other expenses		3,028	2,662
Amortization - property and equipment		86	66
		<u>6,810</u>	<u>6,194</u>
Income before undernoted items		8,049	8,095
Acquisition related items		—	(292)
Amortization - intangible assets		(335)	(332)
Unrealized loss on investments held		(544)	(510)
Financing costs - convertible debentures		20	(100)
Unrealized gain (loss) on interest rate swaps		251	(1,523)
Unrealized gain on foreign exchange		11	278
Income before taxes		<u>7,452</u>	<u>5,616</u>
Tax expense		(2,768)	(2,650)
Income from continuing operations		<u>4,684</u>	<u>2,966</u>
Income from discontinued operations	3	12	7,141
Net income		<u>\$ 4,696</u>	<u>\$ 10,107</u>
Attributable to:			
Common shareholders		\$ 4,309	\$ 9,265
Non-controlling interest		\$ 387	\$ 842
Basic earnings per share	13	\$ 0.26	\$ 0.57
Diluted earnings per share	13	\$ 0.25	\$ 0.55

Please see notes to the condensed consolidated interim financial statements.

CHESSWOOD GROUP LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(in thousands of dollars, unaudited)

	<u>2017</u>	<u>2016</u>
Net income	\$ 4,696	\$ 10,107
Other comprehensive income:		
Unrealized loss on translation of foreign operations	(948)	(6,833)
Comprehensive income	<u>\$ 3,748</u>	<u>\$ 3,274</u>
Attributable to:		
Common shareholders	\$ 3,440	\$ 3,001
Non-controlling interest	\$ 308	\$ 273

Please see notes to the condensed consolidated interim financial statements.

CHESSWOOD GROUP LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(in thousands of dollars, unaudited)

	Common shares	Common shares	Non- controlling interest	Share-based compensation reserve	Accumulated other comprehensive income	Retained earnings	2017 Total
	(# '000s)						
Shareholders' equity - December 31, 2016	16,514	\$ 104,596	\$ 13,049	\$ 4,780	\$ 18,196	\$ 17,273	\$ 157,894
Net income	—	—	387	—	—	4,309	4,696
Dividends declared	—	—	(310)	—	—	(3,469)	(3,779)
Share-based compensation	—	—	—	266	—	—	266
Exercise of options	12	133	—	(37)	—	—	96
Unrealized loss on translation of foreign operations	—	—	(78)	—	(870)	—	(948)
Shareholders' equity - March 31, 2017	16,526	\$ 104,729	\$ 13,048	\$ 5,009	\$ 17,326	\$ 18,113	\$ 158,225

	Common shares	Common shares	Non-controlling interest	Share-based compensation reserve	Accumulated other comprehensive income	Retained earnings	2016 Total
	(# '000s)						
Shareholders' equity - December 31, 2015	16,264	\$ 101,726	\$ 13,194	\$ 4,434	\$ 20,987	\$ 16,214	\$ 156,555
Net income	—	—	842	—	—	9,265	10,107
Dividends declared	—	—	(1,028)	—	—	(11,308)	(12,336)
Share-based compensation	—	—	—	509	—	—	509
Exercise of options	7	38	—	(23)	—	—	15
Unrealized loss on translation of foreign operations	—	—	(568)	—	(6,265)	—	(6,833)
Shareholders' equity - March 31, 2016	16,271	101,764	12,440	4,920	14,722	14,171	148,017
Shares issued	10	100	—	—	—	—	100
Net income	—	—	1,171	—	—	13,000	14,171
Dividends declared	—	—	(879)	—	—	(9,748)	(10,627)
Share-based compensation	—	—	—	863	—	—	863
Exercise of restricted share units	38	466	—	(466)	—	—	—
Exercise of options	229	2,482	—	(537)	—	—	1,945
Repurchase of common shares under issuer bid	(34)	(216)	—	—	—	(150)	(366)
Unrealized gain on translation of foreign operations	—	—	317	—	3,474	—	3,791
Shareholders' equity - December 31, 2016	16,514	\$ 104,596	\$ 13,049	\$ 4,780	\$ 18,196	\$ 17,273	\$ 157,894

Please see notes to the condensed consolidated interim financial statements.

CHESSWOOD GROUP LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

(in thousands of dollars, unaudited)

	<i>Note</i>	2017	2016
OPERATING ACTIVITIES			
Income from continuing operations		\$ 4,684	\$ 2,966
Non-cash items included in net income			
Amortization		421	398
Provision for credit losses		6,759	7,669
Amortization of origination costs		4,509	5,066
Tax expense		2,768	2,651
Other non-cash items	<i>15</i>	798	2,675
		15,255	18,459
Cash from operating activities before change in net operating assets		19,939	21,425
Funds advanced on origination of finance receivables		(78,825)	(63,661)
Origination costs paid on finance receivables		(7,131)	(6,553)
Principal collections of finance receivables		44,267	52,082
Change in other net operating assets	<i>15</i>	799	218
		(20,951)	3,511
Cash from (used in) operating activities before undernoted		(5,091)	(1,930)
Income taxes paid - net		(26,042)	1,581
Cash from (used in) operating activities - continuing operations		802	(2,668)
Cash from (used in) operating activities - discontinued operations	<i>3</i>	(25,240)	(1,087)
Cash used in operating activities		(25,240)	(1,087)
INVESTING ACTIVITIES			
Acquisition, net of cash acquired		—	(6,000)
Proceeds from sale of discontinued operations, net of costs		—	24,964
Purchase of property and equipment		(159)	(55)
Cash from (used in) investing activities		(159)	18,909
FINANCING ACTIVITIES			
Borrowings, net	<i>15</i>	23,624	(14,198)
Proceeds from exercise of options		96	14
Cash dividends paid	<i>12</i>	(3,778)	(12,336)
Cash from (used in) financing activities - continuing operations		19,942	(26,520)
Cash used in financing activities - discontinued operations	<i>3</i>	—	(1,703)
Cash from (used in) financing activities		19,942	(28,223)
Unrealized foreign exchange loss on cash		(75)	(286)
Net decrease in cash		(5,532)	(10,687)
Cash, beginning of the period		11,443	15,920
Cash, end of the period		\$ 5,911	\$ 5,233

Please see notes to the condensed consolidated interim financial statements.

TABLE OF NOTES

1	<u>NATURE OF BUSINESS AND BASIS OF PREPARATION</u>	<u>35</u>
2	<u>ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE</u>	<u>36</u>
3	<u>DISCONTINUED OPERATIONS</u>	<u>37</u>
4	<u>FINANCIAL INSTRUMENTS</u>	<u>40</u>
5	<u>FINANCIAL RISK MANAGEMENT</u>	<u>44</u>
6	<u>PREPAID EXPENSES AND OTHER ASSETS</u>	<u>44</u>
7	<u>FINANCE RECEIVABLES</u>	<u>45</u>
8	<u>ACCOUNTS PAYABLE AND OTHER LIABILITIES</u>	<u>47</u>
9	<u>BORROWINGS</u>	<u>48</u>
10	<u>MINIMUM PAYMENTS</u>	<u>49</u>
11	<u>CAPITAL MANAGEMENT</u>	<u>50</u>
12	<u>DIVIDENDS</u>	<u>50</u>
13	<u>EARNINGS PER SHARE</u>	<u>51</u>
14	<u>RELATED PARTY TRANSACTIONS</u>	<u>51</u>
15	<u>CASH FLOW SUPPLEMENTARY DISCLOSURE</u>	<u>52</u>
16	<u>SEGMENT INFORMATION</u>	<u>53</u>

1. NATURE OF BUSINESS AND BASIS OF PREPARATION

Chesswood Group Limited (the “Company”) is incorporated under the laws of the Province of Ontario. The Company’s head office is located at 156 Duncan Mill Road, Unit 15, Toronto, Ontario, M3B 3N2, and its shares trade on the Toronto Stock Exchange under the symbol CHW.

The Company holds a 100% interest in Chesswood Holdings Ltd. and substantially all of the limited partnership units of Sherway LP (“Sherway”). Chesswood Holdings Ltd. owns 100% of the shares of the operating companies: Blue Chip Leasing Corporation (“Blue Chip”), Lease-Win Limited, Case Funding Inc. (“Case Funding”), as well as 100% of the shares of Chesswood U.S. Acquisition Co Ltd. (“U.S. Acquisitionco”), a corporation which owns 100% of the shares of the operating company Pawnee Leasing Corporation (“Pawnee”), incorporated in Colorado, United States, and Windset Capital Corporation (“Windset”), incorporated in Delaware, United States.

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

- Pawnee - micro and small-ticket equipment financing to small and medium-sized businesses in the lower 48 states of the United States.
- Windset - provided working capital loans to small businesses in 33 states of the United States.
- Blue Chip - commercial equipment financing to small and medium businesses in Canada.

Discontinued operations results include:

- EcoHome Financial Inc. (“EcoHome”) - consumer financing solutions to the heating ventilating and air conditioning (“HVAC”) and home improvement markets which was sold in February 2016.
- Case Funding - holds a portfolio of legal finance receivables in the United States.

The condensed consolidated interim financial statements, including comparatives:

- have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). The term IFRS also includes all International Accounting Standards (“IAS”) and all interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).
- have been prepared in accordance with IAS 34, *Interim Financial Reporting*, on a basis consistent with the accounting policies disclosed in the audited consolidated financial statements for the year ended December 31, 2016.

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

The reporting currency is the Canadian dollar. The financial statements are presented in thousands of Canadian dollars except per share amounts and as otherwise noted. The functional currency of the Company, Chesswood Holdings Ltd., Blue Chip, and Lease-Win Limited is the Canadian dollar. The functional currency of U.S. Acquisitionco, Pawnee, Windset and Case Funding is the United States dollar. Income and expenses of subsidiaries with a different functional currency than the Company's presentation currency are translated in the Company's consolidated financial statements at the average U.S. dollar exchange rate for the reporting period [for the three months ended March 31, 2017 - 1.3238; 2016 - 1.3732], and assets and liabilities are translated at the closing rate [as at March 31, 2017 - 1.331; December 31, 2016 - 1.3427].

In order to improve clarity, certain items have been combined on the statements of financial position with detail provided separately in the Notes.

The Company's condensed consolidated interim financial statements were authorized for issue on May 9, 2017 by the Board of Directors.

New accounting pronouncements adopted in 2017

The Company adopted the following amendment effective January 1, 2017.

IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to *IAS 7 Statement of Cash Flows* that require additional disclosures for changes in liabilities arising from financing activities, including cash flow and non-cash changes. There was no impact to the condensed consolidated interim financial statements other than the expanded disclosure in Note 9 - *Borrowings*.

2. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 9 Financial Instruments

The IASB issued the final complete standard during 2014. The Company plans to adopt the standard for the year ending December 31, 2018.

IFRS 9 uses a single principles-based approach to determine the classification and measurement of financial assets (either fair value or amortized cost) based on the entity's business model and the nature of the contractual cash flows derived from the asset.

The new standard introduces an expected loss impairment model for all financial instruments except those measured at fair value through profit and loss. Application of the model will depend on what stage a financial asset is at. A 12-month expected credit loss is recognized through a loss allowance on initial recognition of a financial asset. If credit risk subsequently increases significantly above the risk assessed at recognition, a loss is recognized for the lifetime expected loss. Finally, if a financial asset is considered credit impaired, then interest revenue is based on the net carrying amount of the asset instead of its gross carrying amount.

The standard requires an entity choosing to measure a liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income or loss section of the entity's statement of comprehensive income, rather than within profit or loss. IFRS 9 includes revised guidance related to de-recognition of financial instruments.

The Company believes that adoption of a model that includes a 12-month expected credit loss recognized on initial recognition of a finance receivable will result in an increase in the allowance for doubtful accounts and an increase in the provision for credit losses at each reporting period. The exact amount of the impact will depend on loss rates closer to adoption.

IFRS 15 Revenue from Contracts with Customers

The standard establishes principles for recognizing revenues based on a five-step model which is to be applied to all contracts with customers. Revenue arising from lease contracts accounted for under IAS 17 is outside of the scope of the new standard. The Company plans to adopt the new standard for the year ending December 31, 2018. Management is currently assessing the impact that adoption will have on the ancillary finance and other fee revenue.

IFRS 16 Leases

IFRS 16 replaces IAS 17 and is effective for periods beginning on or after 1 January 2019. IFRS 16's approach to lessor accounting is substantially unchanged from its predecessor, IAS 17. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The Company plans to adopt the standard for the year ending December 31, 2019.

The Company does not expect any significant or substantive changes to the Company's finance receivables. The Company will be required to recognize new assets and liabilities for its operating leases of its office premises at the Pawnee and Blue Chip locations. In addition, the nature of expenses related to those leases will now change from straight-line operating lease expense to a depreciation charge for right-of-use assets and interest expense on the lease liabilities. The expected amount for the new asset and liabilities would be the net present value amount of the commitments shown in Note 18 - *Minimum Payments*.

3. DISCONTINUED OPERATIONS

In the fourth quarter of 2015, the Company made a strategic decision to focus on the growth and development of the Company's specialty finance companies, in particular, commercial equipment finance. This led to the decisions to sell the assets of Sherway in November 2015, the sale of EcoHome in February 2016 and the potential sale of the remainder of Case Funding including the remaining legal finance receivables. It was determined that these disposals met the criteria of discontinued operations.

(a) Assets and liabilities that are classified as held-for-sale are as follows:

	March 31, 2017	December 31, 2016
Held-for-sale		
<i>(\$ thousands)</i>		
Finance receivables	\$ 5,055	\$ 5,903
Assets held for sale	\$ 5,055	\$ 5,903

Categories and measurement hierarchy

All financial instruments are categorized in accordance with IAS 39, *Financial Instruments: Recognition and Measurement* and those that are measured at fair value or for which fair value is disclosed are categorized into one of three hierarchy levels for disclosure purposes. The categories and hierarchies are described in Note 5 - *Financial Instruments* of the 2016 annual audited consolidated financial statements.

The fair values of financial instruments are classified using the IFRS 7, *Financial Instruments: Disclosures* measurement hierarchy as follows:

(\$ thousands)	Category	Level 1	Level 2	Level 3	March 31, 2017 Carrying Value
ASSETS HELD FOR SALE					
Attorney loans and medical liens (i)	L&R	\$ —	\$ 68	\$ —	\$ 68
Plaintiff advances	AFS	—	—	4,987	4,987

(\$ thousands)	Category	Level 1	Level 2	Level 3	December 31, 2016 Carrying Value
ASSETS HELD FOR SALE					
Attorney loans and medical liens (i)	L&R	\$ —	\$ 136	\$ —	\$ 136
Plaintiff advances	AFS	—	—	5,767	5,767

- (i) There is no organized market for the finance receivables. Therefore the carrying value is the amortized cost using the effective interest rate method. The contractual interest rates approximate current market rates.

(b) Results from discontinued operations

For the three months ended March 31, 2017	
(\$ thousands, except per share amounts)	Case Funding
	(c)
Interest revenue on leases and loans	\$ 176
Provision for credit losses	(97)
Finance margin	79
Other expenses	67
Income before taxes	12
Tax expense	—
Income from discontinued operations	\$ 12
Basic earnings per share from discontinued operations	\$ —
Diluted earnings per share from discontinued operations	\$ —
<u>Cash flow from discontinued operation</u>	
Net cash from operating activities	\$ 802

(\$ thousands, except per share amounts)	For the three months ended March 31, 2016		
	Case Funding	EcoHome	Total
	(c)	(d)	
Interest revenue on leases and loans	\$ 419	\$ 949	\$ 1,368
Ancillary finance and other fee income	—	85	85
Interest expense	—	(481)	(481)
Provision for credit losses	(93)	(8)	(101)
Finance margin	326	545	871
Personnel expenses	—	181	181
Share-based compensation expense	—	148	148
Other expenses	36	151	187
Income before undernoted items	290	65	355
Gain on sale, net of costs and taxes	—	6,830	6,830
Income before taxes	290	6,895	7,185
Tax expense	—	(44)	(44)
Income from discontinued operations	\$ 290	\$ 6,851	\$ 7,141
Basic earnings per share from discontinued operations			\$ 0.40
Diluted earnings per share from discontinued operations			\$ 0.39

Cash flow from discontinued operations

Net cash from (used in) operating activities	\$ 724	\$ (3,392)	\$ (2,668)
Net cash used in financing activities	\$ —	\$ (1,703)	\$ (1,703)

c) Case Funding

On February 3, 2015, Case Funding sold certain assets and operations to a private equity firm (the "Purchaser") for proceeds of \$6.2 million. The gain on sale, net of costs, totaled \$840,000 and resulted in the utilization of tax losses which were not previously recognized as a deferred tax asset of Case Funding.

Case Funding retained approximately \$9.4 million in finance receivables with a current balance of \$5.1 million and pays a servicing fee of 5% of collections to administer the remaining portfolio of attorney loans, plaintiff advances and medical liens.

In December 2015, the Company made a strategic decision to dispose of the retained legal finance receivables. An active search is still underway for a buyer. During 2016, certain external events delayed the search for a buyer.

Legal finance receivables in the held-for-sale assets consist of:

	March 31, 2017	December 31, 2016
	(\$ thousands)	
Attorney loans and medical liens	\$ 68	\$ 136
Plaintiff advances	4,987	5,767
Legal finance receivables	5,055	5,903
Current portion	1,680	1,955
Legal finance receivables – long-term portion	\$ 3,375	\$ 3,948

At Case Funding, management reviews each attorney loan and medical lien receivable on an individual basis for collectability and for reserve requirements, if any. At March 31, 2017, it was determined an allowance of \$265,000 (December 31, 2016 - \$162,000) was required. For further discussion on significant judgments and estimates used in valuing legal finance receivables, refer to Note 4(d) - *Discontinued Operations* of the 2016 annual audited consolidated financial statements.

d) EcoHome Financial Inc.

On February 18, 2016, the Company sold EcoHome for approximately \$35.0 million, of which \$29.0 million was paid in cash. Chesswood also received 6,039,689 common shares of Dealnet Capital Corp. ("Dealnet") with a value of \$3.5 million and a \$2.5 million convertible note which will mature in two years, bears interest at 6% per annum and is convertible (at the Company's option), in whole or in part at any time, into common shares of Dealnet at a conversion price of \$0.64 per share. Of the proceeds, \$1.75 million is held in escrow and will be released on August 18, 2017.

The net gain, after \$1.3 million in costs and \$3.5 million in taxes, is approximately \$6.8 million and is included in income from discontinued operations for the three months ended March 31, 2016. In conjunction with the sale of EcoHome, the stock options held by the employees immediately vested and thus the remaining \$137,600 in unrecognized share-based compensation was expensed on February 18, 2016.

4. FINANCIAL INSTRUMENTS

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

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

Financial assets

The subsequent measurement of financial assets depends on the following classifications:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's cash, escrow cash, accounts receivable, net investment in leases, loan receivables, attorney loans and medical liens, convertible debenture receivable are classified as loans and receivables. Cash is comprised of cash and highly liquid investments with original maturities of three months or less. Broker commissions related to the origination of financing leases are deferred and recorded as an adjustment to the yield of the net investment in financing leases. Such financial assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of income when the loans or receivables are derecognized or impaired.

Financial assets at fair value through net income or loss

Financial assets at fair value through net income or loss include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through net income or loss upon initial recognition. All derivative financial instruments are included in this category, except for those that are designated and effective hedge instruments. Upon initial recognition, attributable transaction costs are recognized in net income or loss as incurred.

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

The Company's investment in Dealnet common shares are classified in this category.

Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Financial instruments are classified as held to maturity investments if the Company has the intention and ability to hold them to maturity.

Subsequent to initial recognition, held to maturity investments are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined, for example, by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying value of the investment, including impairment losses, are recognized in net income or loss.

The Company had no financial instruments in this category at March 31, 2017 and December 31, 2016 .

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are either designated as available for sale or do not qualify for inclusion in any other category.

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

The Company's plaintiff advances are designated as available for sale financial assets for accounting purposes.

Financial liabilities

The categories of financial liabilities and their subsequent measurement are as follows:

Financial liabilities at fair value through net income or loss

Financial liabilities at fair value through net income or loss include financial liabilities that are either classified as held for trading or in defined circumstances, are designated at fair value through net income or loss upon initial recognition. When certain conditions are satisfied, IAS 39, Financial Instruments: Measurement and Recognition, requires embedded derivatives to be separately recognized and measured at fair value; changes in fair value in periods subsequent to initial recognition are recognized in net income. In order to avoid the measurement inconsistencies that would result from separate accounting for multiple embedded derivatives, IAS 39 allows an entity to designate the entire hybrid contract as at fair value through net income. All contingent consideration payable is also included in this category. Derivative financial instruments that are designated as effective hedge instruments are excluded from this category.

The Company's interest rate swap contracts are classified as held for trading for accounting purposes. The convertible debentures and contingent consideration are designated as at fair value through net income. The Company has not designated any financial instruments as hedges for accounting purposes.

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

Loans and borrowings

Interest bearing loans and borrowings not otherwise categorized as financial liabilities at fair value through net income or loss are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in net income or loss when the liabilities are derecognized. Transaction costs incurred in connection with the issuance of loans and borrowings

are capitalized and recorded as a reduction of the carrying amount of the related financial liabilities and amortized using the effective interest method.

The Company's financial liabilities designated as loans and borrowings include borrowings, accounts payable and other liabilities and customer security deposits.

(a) Change to fair value and measurement hierarchy

The categories to which the financial instruments are allocated under IAS 39, Financial Instruments: Recognition and Measurement are:

AFS	Available for sale	HFT	Held for trading
L&R	Loans and receivables	FVTP	Fair value through profit or loss
L&B	Loans and borrowings		

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

- (i) Level 1 Inputs - quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;
- (ii) Level 2 Inputs - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- (iii) Level 3 Inputs - techniques which use inputs which have a significant effect on the recorded fair value for the asset or liability that are not based on observable market data (unobservable inputs).

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

						March 31, 2017
	<u>Category</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		<u>Carrying Value</u>
						<i>(\$ thousands)</i>
ASSETS						
Cash (iii)	L&R	\$ 5,911	\$ —	\$ —	\$ —	5,911
Prepaid expenses and other assets	L&R	—	7,218	—	—	7,218
Prepaid expenses and other assets	FVTP	2,959	—	—	—	2,959
Loan receivables (i)	L&R	—	123,463	—	—	123,463
LIABILITIES						
Accounts payable (iii)	L&B	—	(11,188)	—	—	(11,188)
Contingent consideration	FVTP	—	—	(538)	—	(538)
Borrowings (ii)	L&B	—	(315,449)	—	—	(315,449)
Customer security deposits	L&B	—	(13,715)	—	—	(13,715)
Convertible debentures (iv)	FVTP	(20,240)	—	—	—	(20,240)
Interest rate swaps (v)	HFT	—	(591)	—	—	(591)

					<u>December 31, 2016</u>
	<u>Category</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Carrying Value</u>
					<i>(\$ thousands)</i>
ASSETS					
Cash (iii)	L&R	\$ 11,443	\$ —	\$ —	\$ 11,443
Prepaid expenses and other assets	L&R	—	7,198	—	7,198
Prepaid expenses and other assets	FVTP	3,503	—	—	3,503
Loan receivables (i)	L&R	—	108,744	—	108,744
LIABILITIES					
Accounts payable (iii)	L&B	—	(14,705)	—	(14,705)
Contingent consideration	FVTP	—	—	(538)	(538)
Borrowings (ii)	L&B	—	(293,081)	—	(293,081)
Customer security deposits	L&B	—	(13,603)	—	(13,603)
Convertible debentures (iv)	FVTP	(20,260)	—	—	(20,260)
Interest rate swaps (v)	HFT	—	(850)	—	(850)

- (i) There is no organized market for the finance receivables. Therefore the carrying value is the amortized cost using the effective interest rate method. The contractual interest rates approximate current market rates.
- (ii) The stated value of the borrowings approximates fair values, as the interest rates attached to these instruments are representative of current market rates, for loans with similar terms, conditions and maturities.
- (iii) Carrying amounts are expected to be reasonable approximations of fair value for cash and for financial instruments with short maturities, including accounts receivable and accounts payable.
- (iv) 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 every reporting period; as a result, there may be increased volatility in the reported net income. The \$1.4 million of costs related to the issuance of the convertible debenture were expensed when incurred in 2013; thus no transaction costs are capitalized in the fair value of the convertible debentures.
- (v) The Company determines the fair value of its interest rate swap under the income valuation technique using a discounted cash flow model. Significant inputs to the valuation model include the contracted notional amount, LIBOR rate yield curves and the applicable credit-adjusted risk-free rate yield curve. The Company's interest rate derivative is included in the Level 2 fair value hierarchy because all of the significant inputs are directly or indirectly observable. For the rates on the interest rate swaps, see Note 16 - *Interest Rate Swaps* in the 2016 annual audited consolidated financial statements.

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

(b) *Gains and losses on financial instruments*

The following table shows the net gains and losses arising for each IAS 39, *Financial Instruments: Recognition and Measurement*, category of financial instrument.

	For the three months ended	
	March 31,	
	2017	2016
	(\$ thousands)	
Loans and receivables:		
Provision for credit losses	\$ (5,061)	\$ (6,268)
Designated as at fair value through net income or loss:		
Convertible debentures	20	(100)
Contingent consideration	—	(297)
Fair value through net income or loss:		
Investment in Dealnet common shares	(544)	(510)
Interest rate swaps	251	(1,523)
Net loss	<u>\$ (5,334)</u>	<u>\$ (8,698)</u>

5. FINANCIAL RISK MANAGEMENT

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

There have been no changes in the Company's objectives, policies or processes for managing or for measuring any of the risks to which it is exposed since the previous year end. Refer to Note 6 - *Financial Risk Management* of the 2016 annual audited consolidated financial statements for further disclosure.

6. PREPAID EXPENSES AND OTHER ASSETS

(a) Loan receivable - The original loan receivable of \$8.0 million had a maturity date of April 28, 2016, bore interest at 4.0% per annum and represented the inter-company warehouse funding to EcoHome of leases and loans that had not yet been securitized with EcoHome funders prior to the sale of EcoHome. The secured note was restated to extend the maturity date to September 30, 2017, with interest at 5.5% per annum. The loan receivable is carried at amortized cost and the amount outstanding as at March 31, 2017 was \$3.0 million.

(b) Common shares - as partial consideration for the sale of EcoHome (Note 3(d)), Chesswood received 6,039,689 common shares of Dealnet. The Dealnet shares are measured at fair value through profit or loss. The fair value represents the trading price at each reporting date. Dealnet shares trade on the TSX Venture Exchange under the stock symbol "DLS".

(c) Escrow funds - \$1.75 million of the proceeds from the sale of EcoHome (Note 3(d)) were held back as escrow and are expected to be released by August 18, 2017. The escrow funds are carried at amortized cost.

(d) Convertible note - as partial consideration for the sale of EcoHome (Note 3(d)), Chesswood received a \$2.5 million convertible note of Dealnet, bearing interest at 6% per annum, which matures in February 2018 and is convertible into common shares of Dealnet (at the Company's option) at a conversion price of \$0.64 per share.

Prepaid expenses and other assets comprise:

	March 31, 2017	December 31, 2016
	(\$ thousands)	
Property tax receivable	\$ 448	\$ 629
Tax receivable	1,293	2,377
Sales tax receivable	51	45
Other prepaid expenses and current assets	1,154	716
Loan receivable - EcoHome	<i>a</i> 3,000	3,000
Common shares - Dealnet	<i>b</i> 2,959	3,503
Escrow funds - Dealnet	<i>c</i> 1,718	1,698
Convertible note - Dealnet	<i>d</i> 2,500	2,500
Prepaid expenses and other assets	13,123	14,468
Current portion	13,123	11,968
Long-term portion	\$ —	\$ 2,500

7. FINANCE RECEIVABLES

Finance receivables comprise:

	March 31, 2017	December 31, 2016
	(\$ thousands)	
Net investment in leases	\$ 335,532	\$ 322,304
Loan receivables	123,463	108,744
	\$ 458,995	\$ 431,048

The Company finances its finance lease and loan receivables by pledging such receivables as security for amounts borrowed from lenders under bulk lease facilities and the general corporate credit facility. The Company retains ownership and servicing responsibilities of the pledged lease and loan receivables; however, the lenders have the right to enforce their security interest in the pledged lease and loan receivables if the Company defaults under these facilities.

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

	March 31, 2017	December 31, 2016
	(\$ thousands)	
Total minimum payments	\$ 568,152	\$ 537,383
Residual values of leased equipment	21,520	21,527
	589,672	558,910
Unearned income, net of initial direct costs of acquisition	(121,405)	(116,784)
Net investment in finance receivables before allowance for doubtful accounts	468,267	442,126
Allowance for doubtful accounts (<i>b</i>)	(10,703)	(12,253)
	457,564	429,873
Reserve receivable on securitized financial contracts	1,431	1,175
Net investment in finance receivables	458,995	431,048
Current portion	164,959	163,329
Net investment in finance receivables - long-term portion	\$ 294,036	\$ 267,719

(b) Allowance for doubtful accounts

The activity in the allowance for doubtful accounts is as follows:

	For the three months ended	
	March 31,	
	2017	2016
	<i>(\$ thousands)</i>	
Balance, beginning of period	\$ 12,253	\$ 10,647
Provision for credit losses	5,061	6,268
Impact of change in foreign exchange rates	(105)	(561)
Charge-offs	(8,445)	(8,705)
Recoveries	1,939	1,474
Balance, end of period	\$ 10,703	\$ 9,123

(c) Finance receivables past due

The following aging represents the total carrying amount of the lease and loan receivables and not just the payments that are past due. The balances presented exclude the \$13.7 million (December 31, 2016 - \$13.6 million) of security deposits received from lessees/borrowers and the collateral held (including potential proceeds from repossessed equipment, and potential recoveries from personal guarantees) that would offset any charge-offs. An estimate of fair value for the collateral and personal guarantees cannot reasonably be determined.

<i>(\$ thousands)</i>	As of March 31, 2017					
	Current	1-30 days	31 - 60 days	61 - 90 days	Over 90 days	Total
Equipment lease receivables	\$ 329,999	\$ 6,415	\$ 2,310	\$ 1,330	\$ 2,329	\$ 342,383
Loan receivables	121,806	2,683	796	329	270	125,884
	451,805	9,098	3,106	1,659	2,599	468,267
Impaired	511	404	2,405	1,535	2,444	7,299
Past due but not impaired	\$ —	\$ 8,694	\$ 701	\$ 124	\$ 155	\$ 9,674

<i>(\$ thousands)</i>	As of December 31, 2016					
	Current	1-30 days	31 - 60 days	61 - 90 days	Over 90 days	Total
Equipment lease receivables	\$ 315,995	\$ 7,692	\$ 2,367	\$ 1,008	\$ 3,214	\$ 330,276
Loan receivables	107,185	2,887	866	262	650	111,850
	423,180	10,579	3,233	1,270	3,864	442,126
Impaired	546	992	2,524	1,089	3,671	8,822
Past due but not impaired	\$ —	\$ 9,587	\$ 709	\$ 181	\$ 193	\$ 10,670

(d) Minimum scheduled collections of minimum finance receivable payments receivable at March 31, 2017 are presented in the following table. The Company's experience has shown that the actual contractual payment streams will vary depending on a number of variables including: prepayment rates, charge-offs and modifications. Accordingly, the following minimum scheduled collections are not to be regarded as a forecast of future cash collections.

	Minimum payments	Present value
	(\$ thousands)	
2017	\$ 169,834	\$ 122,646
2018	179,024	137,649
2019	123,106	101,306
2020	65,903	57,336
2021	27,642	25,406
2022 and thereafter	2,643	2,404
Total minimum lease payments	\$ 568,152	\$ 446,747

8. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprise:

	March 31, 2017	December 31, 2016
	(\$ thousands)	
Dividend payable	\$ 1,260	\$ 1,259
Accounts payable	740	1,099
Sales tax payable	743	1,020
Customer deposits and prepayments	787	695
Unfunded finance receivables	4,654	3,636
Taxes payable	323	4,600
Payroll related payables and accruals	1,005	1,026
Accrued expenses and other liabilities	1,676	1,370
Contingent consideration (a)	538	538
	\$ 11,726	\$ 15,243

(a) 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. 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.

9. BORROWINGS

Borrowings are comprised of:

		March 31, 2017	December 31, 2016
		(\$ thousands)	
Chesswood credit facility	(b)	\$ 205,214	\$ 187,978
Deferred financing costs		(1,726)	(2,015)
		203,488	185,963
Securitization and bulk lease financing facilities	(c)	111,961	107,118
		\$ 315,449	\$ 293,081

(a) Movement in borrowings is summarized as follows:

	Chesswood credit facility (b)	Deferred financing costs	Securitization and bulk lease financing facilities (c)	Total
			(\$ thousands)	
Net as of December 31, 2015	\$ 164,250	\$ (1,524)	\$ 92,447	\$ 255,173
Proceeds or draw-downs	176,121	—	66,298	242,419
Repayments	(148,059)	—	(51,627)	(199,686)
Payment of financing costs	—	(1,411)	—	(1,411)
Amortization of deferred financing costs - continuing operations	—	743	—	743
Amortization of deferred financing costs - discontinued operations	—	177	—	177
Foreign currency translation adjustment	(4,334)	—	—	(4,334)
Net as of December 31, 2016	\$ 187,978	\$ (2,015)	\$ 107,118	\$ 293,081
Proceeds or draw-downs	39,037	—	18,048	57,085
Repayments	(20,256)	—	(13,205)	(33,461)
Amortization of deferred financing costs	—	289	—	289
Foreign currency translation adjustment	(1,545)	—	—	(1,545)
Net as of March 31, 2017	\$ 205,214	\$ (1,726)	\$ 111,961	\$ 315,449

(b) Chesswood's credit facility allows borrowings of up to U.S.\$170.0 million subject to, among other things, certain percentages of eligible gross finance receivables. The facility can be extended, subject to certain conditions, to U.S.\$250.0 million. This credit facility is secured by substantially all of Chesswood's assets, contains covenants including maintaining leverage and interest coverage ratios, and matures on December 8, 2019. At March 31, 2017, the Company was utilizing U.S.\$158.3 million (December 31, 2016 - U.S.\$144.3 million) of its credit facility and had approximately U.S.\$11.3 million in additional borrowings available under the corporate credit facility before the accordion feature. At March 31, 2017 and December 31, 2016, and throughout the periods presented, Chesswood was in compliance with all covenants. Based on average debt levels, the effective interest rate paid during three months ended March 31, 2017 was 4.29% (year-ended December 31, 2016 - 3.89%).

On April 13, 2017, the Company announced that it had exercised \$30.0 million of the \$80.0 million available accordion under its corporate revolving credit facility, expanding allowable borrowings to U.S.\$200.0 million.

(c) Blue Chip has entered into master purchase and servicing agreements with various financial institutions and life insurance companies (referred to collectively as the "Funders"). The funding facilities advance to Blue Chip on a tranche-by-tranche basis, with each tranche collateralized by a specific group of underlying finance receivables and any related security provided thereunder.

The facilities have limited recourse to other assets in the event that lessees/borrowers fail to make payments when due. Blue Chip either maintains certain cash reserves as credit enhancements or provides letters of guarantee in return for release of the cash reserves. Blue Chip continues to service these finance receivables on behalf of the Funders. As at March 31, 2017, Blue Chip had \$112.0 million (December 31, 2016 - \$107.1 million) in securitization and bulk lease financing facilities debt outstanding, was utilizing \$70.7 million (December 31, 2016 - \$57.5 million) of their available financing and had access to at least \$79.3 million (December 31, 2016 - \$92.5 million) of financing available for use from the Funders.

Blue Chip has access to the following committed lines of funding:

- \$40.0 million annual limit from one life insurance company;
- \$80.0 million rolling limit from one financial institution; and
- Approved funding from one financial institution with no annual or rolling limit.

Interest rates are fixed at the time of each advance and are based on Government of Canada Bond yields with maturities comparable to the term of the underlying leases plus a premium. Based on average debt levels, the effective interest rate paid during the three months ended March 31, 2017 was 3.25% (for the year ended December 31, 2016 - 3.20%). As at March 31, 2017, Blue Chip has provided \$5.7 million in outstanding letters of guarantee through Chesswood's credit facility. Blue Chip must meet certain financial covenants to support these securitization and bulk lease financing facilities. As at March 31, 2017 and December 31, 2016, and throughout the periods presented, Blue Chip was in compliance with all covenants.

10. MINIMUM PAYMENTS

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

(\$ thousands)		2017	2018	2019	2020	2021	2022 +	Total
Accounts payable and other liabilities		\$ 11,188	\$ 538	\$ —	\$ —	\$ —	\$ —	\$ 11,726
Borrowings	(i)	44,542	45,945	237,774	12,561	2,835	414	344,071
Customer security deposits	(ii)	3,131	3,700	3,625	2,387	1,757	490	15,090
Convertible debentures		1,300	21,300	—	—	—	—	22,600
Interest rate swaps		—	—	—	257	334	—	591
		60,161	71,483	241,399	15,205	4,926	904	394,078
Other financial commitments	(iii)	589	421	428	350	357	518	2,663
Total commitments		\$ 60,750	\$ 71,904	\$ 241,827	\$ 15,555	\$ 5,283	\$ 1,422	\$ 396,741

- i. Borrowings are described in Note 9, and include Chesswood's credit facility, which is a line-of-credit and, as such, the balance can fluctuate. 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 March 31, 2017 remains the same until December 8, 2019, which is the date of expiry of the credit facility.
- ii. 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.
- iii. 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. \$4.5 million in letters of guarantee. For contingent liabilities and other commitments, refer to Note 19 - *Contingent Liabilities and Other Financial Commitments* of the 2016 annual audited consolidated financial statements.

11. CAPITAL MANAGEMENT

The Company's capital consists of shareholders' equity, which at March 31, 2017 amounted to \$158.2 million (December 31, 2016 - \$157.9 million) and convertible debentures. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in the long-term and to provide adequate returns for shareholders.

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

Chesswood's three-year revolving senior secured U.S.\$170 million 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 April 13, 2017, the Company announced that it had exercised \$30.0 million of the \$80.0 million available accordion under its corporate revolving credit facility, expanding allowable borrowings to U.S.\$200.0 million.

Financing facilities of 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.

12. DIVIDENDS

Under the Chesswood credit facility (see Note 9 - *Borrowings*), the maximum cash dividends (or cost of any repurchases under normal course issuer bids) that the Company can pay in respect of a month is 1/12 of 90% (prior to January 25, 2016 - 1/12 of 80%) of free cash flow for the most recently completed four financial quarters in which Chesswood has publicly filed its condensed consolidated interim financial statements (including its annual financial statements in respect of a fourth quarter), including the free cash flow of acquired companies for the corresponding period for periods prior to acquisition dates.

In conjunction with the sale of EcoHome (Note 3(d)), the Company got approval to declare a special dividend and/or make repurchases under normal course issuer bids to an aggregate of \$17.7 million, of which, the Company declared a special dividend of \$0.50 per share on February 18, 2016 for shareholders of record on February 29, 2016 and was paid on March 15, 2016, totaling \$8.9 million.

The maximum permitted cash dividend under Chesswood's credit facility was further increased to allow for additional amounts up to a total to \$3.4 million until November 2017 in relation to the gain realized on the sale of Sherway.

The following dividends were paid to Common Shareholders and Exchangeable Securities holders (included as non-controlling interest) during three months ended March 31, 2017:

Record date	Payment date	Cash dividend per share (\$)	Total dividend amount
			(\$ thousands)
December 31, 2016	January 16, 2017	\$ 0.070	\$ 1,259
January 31, 2017	February 15, 2017	\$ 0.070	1,259
February 28, 2017	March 15, 2017	\$ 0.070	1,260
			<u>\$ 3,778</u>

The following dividends were paid to Common Shareholders and Exchangeable Securities holders (included as non-controlling interest) during three months ended March 31, 2016:

Record date	Payment date	Cash dividend per share (\$)	Total dividend amount (\$ thousands)
December 31, 2015	January 15, 2016	\$ 0.065	\$ 1,153
January 29, 2016	February 16, 2016	\$ 0.065	1,154
February 29, 2016 - special	March 15, 2016	\$ 0.500	8,875
February 29, 2016	March 15, 2016	\$ 0.065	1,154
			<u>\$ 12,336</u>

13. EARNINGS PER SHARE

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

	For the three months ended March 31,	
	2017	2016
Weighted average number of common shares outstanding	16,516,095	16,268,480
Dilutive effect of options	442,242	270,043
Dilutive effect of restricted share units	70,000	66,000
Weighted average common shares outstanding for diluted earnings per share	17,028,337	16,604,523
Options and convertible debentures excluded from calculation of diluted shares for the period due to their anti-dilutive effect	1,255,589	1,866,176

14. RELATED PARTY TRANSACTIONS

a) The Company has no parent or other ultimate controlling party.

b) The Company's key management consists of the President & Chief Executive Officer, Chief Financial Officer and the Board of Directors. Key management compensation is as follows:

	For the three months ended March 31,	
	2017	2016
	(\$ thousands)	
Salaries, fees and other short-term employee benefits	\$ 308	\$ 348
Share-based compensation	182	278
Compensation expense of key management	\$ 490	\$ 626

c) In February 2016, \$6 million was paid to a related party entity as contingent consideration payable in respect of the acquisition of Blue Chip and EcoHome in 2015 (see Note 3 - *Business Acquisition* in the 2016 annual audited consolidated financial statements). The entity is deemed a related party because a Director is a shareholder of that entity and the entity owns more than 10% of the outstanding common shares of the Company. The director was also an officer of Chesswood and Blue Chip at the time of the payment.

d) The Company paid fees to a related party for consulting services subsequent to his resignation as an officer of Chesswood and

Blue Chip. The individual is deemed a related party because he is a Director and owns more than 10% of the outstanding common shares of the Company. The expense incurred during the three months ended March 31, 2017 was nil (Q1 2016 - \$25,000) and is included in other expenses in the condensed consolidated interim statement of income. The consulting arrangement was completed during 2016 and no further fees are expected.

15. CASH FLOW SUPPLEMENTARY DISCLOSURE

	For the three months ended	
	March 31,	
	2017	2016
	(\$ thousands)	
Other non-cash items included in net income		
Share-based compensation expense	\$ 266	\$ 361
Amortization of deferred financing costs	289	177
Financing costs - convertible debentures	(20)	100
Unrealized loss on investments	544	510
Escrow receivable fair value accretion	(19)	(10)
Contingent consideration accretion	—	292
Unrealized (gain) loss on interest rate swaps	(251)	1,523
Unrealized gain on foreign exchange	(11)	(278)
	<u>\$ 798</u>	<u>\$ 2,675</u>
Change in other net operating assets		
Prepaid expenses and other assets	\$ (1,274)	\$ 145
Accounts payable and other liabilities	1,846	109
Customer security deposits	227	(36)
	<u>\$ 799</u>	<u>\$ 218</u>
Borrowings – continuing operations		
Chesswood credit facilities - proceeds	\$ 39,037	\$ 22,873
Chesswood credit facilities - payments	(20,256)	(35,332)
Proceeds from securitization and bulk lease financing facilities	18,048	9,911
Payments under securitization and bulk lease financing facilities	(13,205)	(11,650)
	<u>\$ 23,624</u>	<u>\$ (14,198)</u>

16. SEGMENT INFORMATION

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

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

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

Tax expense reflects the mix of taxing jurisdictions in which pre-tax income and losses were recognized. However, because the geographical mix of pre-tax income and losses in interim periods may not be reflective of full year results, this may distort the Company's interim period effective tax rate.

Selected information by segment and geographically is as follows:

(\$ thousands)	Three months ended March 31, 2017				
	Equipment Financing - U.S.	Equipment Financing - Canada	Discontinued Operations (Note 3)	Corporate Overhead - Canada	Total
Interest revenue on leases and loans	\$ 16,717	\$ 2,767		\$ —	\$ 19,484
Ancillary finance and other fee income	2,526	963		78	3,567
Interest expense	(2,122)	(1,009)		—	(3,131)
Provision for credit losses	(4,756)	(305)		—	(5,061)
Finance margin	12,365	2,416		78	14,859
Personnel expenses	2,403	641		386	3,430
Share-based compensation expense	59	19		188	266
Other expenses	2,404	357		267	3,028
Amortization - property and equipment	82	4		—	86
Income before undernoted items	7,417	1,395		(763)	8,049
Amortization - intangible assets	—	(335)		—	(335)
Fair value adjustments - convertible debentures and investments	—	—		(524)	(524)
Unrealized gain on interest rate swaps	—	—		251	251
Unrealized gain on foreign exchange	—	—		11	11
Income before taxes	7,417	1,060		(1,025)	7,452
Tax expense	2,145	297		326	2,768
Income from continuing operations	5,272	763		(1,351)	4,684
Income from discontinued operations	—	—	\$ 12	—	12
Net income	\$ 5,272	\$ 763	\$ 12	\$ (1,351)	\$ 4,696
Net cash used in operating activities	\$ (17,994)	\$ (3,374)	\$ 802	\$ (4,678)	\$ (25,244)
Net cash used in investing activities	\$ (159)	\$ —	\$ —	\$ —	\$ (159)
Net cash from financing activities	\$ —	\$ 4,843	\$ —	\$ 15,103	\$ 19,946
Total assets	\$ 353,818	\$ 175,936	\$ 5,055	\$ 12,877	\$ 547,686
Total liabilities	\$ 41,166	\$ 121,911	\$ —	\$ 226,384	\$ 389,461
Finance receivables	\$ 324,225	\$ 134,770		\$ —	\$ 458,995
Goodwill and intangible assets	\$ 21,503	\$ 40,678		\$ —	\$ 62,181
Property and equipment expenditures	\$ 159	\$ —		\$ —	\$ 159

	Three months ended March 31, 2016				
	Equipment Financing - U.S.	Equipment Financing - Canada	Discontinued Operations (Note 3)	Corporate Overhead - Canada	Total
(\$ thousands)					
Interest revenue on leases and loans	\$ 17,121	\$ 2,520		\$ —	\$ 19,641
Ancillary finance and other fee income	2,201	1,050		—	3,251
Interest expense	(1,444)	(891)		—	(2,335)
Provision for credit losses	(5,940)	(328)		—	(6,268)
Finance margin	11,938	2,351		—	14,289
Personnel expenses	2,019	715		371	3,105
Share-based compensation expense	61	21		279	361
Other expenses	1,937	360		365	2,662
Amortization - property and equipment	61	5		—	66
Income before undernoted items	7,860	1,250		(1,015)	8,095
Amortization - intangible assets, contingent consideration accretion (non-cash)	—	(327)		(297)	(624)
Fair value adjustments - convertible debentures and investments	—	—		(610)	(610)
Unrealized loss on interest rate swaps	—	—		(1,523)	(1,523)
Unrealized gain on foreign exchange	—	—		278	278
Income before taxes	7,860	923		(3,167)	5,616
Tax expense	2,536	212		(98)	2,650
Income from continuing operations	5,324	711		(3,069)	2,966
Income from discontinued operations	—	—	7,141	—	7,141
Net income	\$ 5,324	\$ 711	\$ 7,141	\$ (3,069)	\$ 10,107
Net cash used in operating activities	\$ 3,989	\$ (653)	\$ (2,668)	\$ (1,755)	\$ (1,087)
Net cash from investing activities	\$ (55)	\$ —	\$ —	\$ 18,964	\$ 18,909
Net cash used in financing activities	\$ —	\$ (1,739)	\$ (1,703)	\$ (24,781)	\$ (28,223)
Total assets	\$ 267,479	\$ 156,932	\$ 7,594	\$ 21,548	\$ 453,553
Total liabilities	\$ 33,370	\$ 100,315	\$ 1,276	\$ 170,575	\$ 305,536
Finance receivables	\$ 240,031	\$ 114,868		\$ —	\$ 354,899
Goodwill and intangible assets	\$ 20,955	\$ 41,909		\$ —	\$ 62,864
Property and equipment expenditures	\$ 55	\$ —		\$ —	\$ 55

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

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

Toronto Stock Exchange Symbols

*CHW
CHW.DB*

Chesswood Group Limited
156 Duncan Mill Road, Unit 15
Toronto, Ontario, Canada M3B 3N2
Tel. 416.386.3099 Fax. 416.386.3085
e-mail: investorrelations@chesswoodgroup.com
www.chesswoodgroup.com



**Chesswood Group Limited
Equipment Finance Company
Serving United States and Canada**

**TSX: CHW
Executive Office:
Chesswood Group Limited
156 Duncan Mill Road, Unit 15
Toronto, Ontario, Canada M3B 3N2
Tel. 416.386.3099 Fax. 416.386.3085
e-mail: investorrelations@chesswoodgroup.com
www.chesswoodgroup.com**