Chesswood Group Limited

2017 ANNUAL REPORT

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. Learn more at www.ChesswoodGroup.com, www.PawneeLeasing.com and www.BlueChipLeasing.com.

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This Annual 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 Annual Information Form and quarterly reports. 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 Annual Report. Readers should also review the notes further in this Annual 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 Annual Report.

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

TO OUR SHAREHOLDERS

Chesswood delivered another year of record performance in 2017. We achieved record results in most of our key financial measures, including: gross finance receivables of $691 million, total revenues of $95.3 million, finance margin of $59 million and operating income of $32.1 million. Our net income was also a record, helped significantly by a year-end recovery of deferred taxes as a result of the new U.S. tax laws. We posted very strong 4th quarter results as well, with operating income of $8 million versus $6 million in the 4th quarter of 2016. And of course we paid monthly dividends to our shareholders that totaled $15.1 million and provided an average annual yield of 6.75% based on our average share price in 2017.

We continued to focus on prudent growth in 2017. At Pawnee Leasing in the U.S., which represents roughly 68% of our consolidated assets, we generated strong earnings from our non-prime portfolio while our expanding product and portfolio mix continued its shift towards a greater mix from our growing prime (A-rated) originations. We also continued to leverage our market position as a small but well-established player at Blue Chip Leasing in Canada, where 90% of our portfolio is in the prime segment.

Our risk-centric approach to our markets is captured in the theme of this year's annual report: Prudent Growth. We manage our growth while carefully managing risk. In 2017 this is in part reflected by slower originations in our highest risk portfolio segment in the U.S., following our tightening of credit standards for this segment, in the spring of 2017.

The net charge-offs in our U.S. business, Pawnee, totaled U.S.$13.7 million in 2017, up from U.S.$11.0 million in 2016. Some of this increase reflects that, while charge-offs in our prime portfolio were modest, that portfolio grew to well over U.S.$100 million by the end of 2017. Some of the increase also stems from a return to historic charge-off levels for our non-prime portfolio after years of extremely high credit quality in that segment, following the contraction of credit in the financial crisis. While we still enjoy extremely strong risk-adjusted returns from this segment of our business, we have tightened our credit standards in the highest risk portion of this portfolio segment.

Our assets are well-diversified across more than 85 industries, 70 equipment types, and over 30,000 loans and leases across Canada and the U.S. Moreover, the overall composition of our portfolios is increasingly shifting towards lower-risk, prime-rated credits. Today, approximately 57% of our consolidated portfolio is comprised of prime-rated credits.

In 2017, our team grew to 120 people in Canada and the U.S. and we continued to invest in state-of-the-art software and internal infrastructure, including upgraded front-end management systems. These investments are designed to strengthen customer relationships, propel efficiencies in operating costs, marketing, and risk management. Our infrastructure expansion, including personnel and technology, slowed in the last quarter of the year as expected. Our continuing growth will of course come with ongoing investment in these areas but we believe the larger steps necessary to support our entry into the prime market over the last few years are behind us.

The growth in our prime portfolio has opened our access to the U.S. securitization market, leading Pawnee to successfully complete its first-ever securitized financing in October. Pawnee now has a U.S.$75 million non-recourse asset backed facility with Capital One. We welcome the greater diversification of funding sources, in support of our future growth.

To further support growth, we renewed Chesswood's revolving credit facility in 2017 for a term of three years, and exercised the accordion feature of this credit facility to increase it to U.S.$250 million from U.S.$170 million. We used part of the increased facility in January 2018 to redeem all $20 million of Chesswood's 6.5% convertible debentures, almost a year ahead of the December 31, 2018 maturity date. This should generate approximately $400,000 in pre-tax interest savings in 2018.

Another significant financial highlight for us in 2017 relates to the new U.S. Tax Cuts and Jobs Act. Chesswood recorded a one-time net tax benefit of $9.4 million due to the re-measurement of net deferred tax liabilities in our U.S. businesses at a future corporate tax rate of approximately 27% versus the previous approximately 41%. We expect to continue to benefit from the new tax laws in 2018 and beyond. Based on Chesswood's pre-tax U.S. income in 2017, the effective tax rate reduction would have generated tax savings of approximately $3.0 million in fiscal 2017, or $0.17 per share based on 18 million shares outstanding.

Looking ahead, our prospects are bright. The economic climate in the U.S. is optimistic and business confidence is running high. The financial injection from the new tax act is expected to fuel spending in the broader U.S. economy, including equipment purchases and leasing by small businesses. It should also improve the capacity of those businesses to service financings, which may have the dual impact of boosting our originations as well as our credit quality.

In 2018, we will continue to prudently expand and tightly manage our business with the overriding objective of again delivering superior, reliable returns to stakeholders. Our growing teams in Canada and the U.S. look forward to the challenge of achieving an eighth consecutive year of record results.

Barry Shafran,
President & CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis (this "MD&A") is provided to enable readers to assess the financial condition and results of operations of Chesswood Group Limited ("Chesswood" or the "Company") as at and for the year ended December 31, 2017. This discussion should be read in conjunction with the 2017 audited consolidated financial statements and accompanying notes of the Company. 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, unless specifically denoted otherwise. This MD&A is dated March 8, 2018.

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

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FORWARD-LOOKING STATEMENTS

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

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

The Company cautions readers against placing undue reliance on forward-looking statements when making decisions, as actual results could differ considerably from the opinions, plans, objectives, expectations, forecasts, estimates and intentions expressed in such forward-looking statements due to various 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; 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 this MD&A and in the Company's annual information form, as well as to other public filings of the Company available at www.sedar.com. The Company does not undertake to update any forward-looking statements, whether oral or written, made by itself or on its behalf, except to the extent required by securities 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 derivatives, 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 gains or expenses and (viii) 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 amount for 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.

"Operating Income" is defined as "income before undernoted items" as presented in 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 December 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 82.3% of consolidated revenue and 82.0% of consolidated income from continuing operations before corporate overhead in the year ended December 31, 2017.

Established in Fort Collins, Colorado in 1982, Pawnee specializes in providing equipment financing of up to U.S. $250,000 to small and medium-sized businesses in the lower 48 U.S. states, with a wide range of credit profiles from start-up entrepreneurs to more established businesses, in prime and non-prime market segments, through a network of approximately 600 independent equipment finance broker firms.

As of December 31, 2017, Pawnee employed 87 full-time equivalent employees.

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

	Mar 31 2016	June 30 2016	Sep 30 2016	Dec 31 2016	Mar 31 2017	June 30 2017	Sep 30 2017	Dec 31 2017
Number of leases and loans outstanding (#)	11,881	12,636	13,479	14,259	14,943	15,616	16,226	16,627
Gross lease and loan receivable ("GLR") (1)	$209,007	$228,984	$255,791	$280,929	$309,120	$337,276	$362,846	$398,053
Residual receivable	$15,112	$15,393	$15,659	$15,906	$16,041	$16,512	$16,849	$16,977
Net investment in leases and loans receivable, before allowance (4)	$165,885	$181,681	$203,189	$224,522	$248,557	$273,390	$296,655	$327,608
Security deposits (nominal value)(4)	$10,480	$10,519	$10,575	$10,812	$11,135	$11,510	$11,915	$12,325
Allowance for doubtful accounts	$4,958	$4,662	$6,044	$7,240	$6,555	$6,848	$8,602	$8,482
Over 31 days delinquency (% of GLR) (2)	2.69%	2.19%	2.59%	2.74%	2.19%	2.21%	2.69%	2.30%
Net charge-offs for the three-months ended (3)	$2,809	$2,357	$2,373	$3,478	$3,698	$2,962	$3,101	$3,912
Provision for credit losses for the three-months ended	$2,685	$2,112	$3,804	$4,740	$3,229	$3,334	$4,923	$3,857

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.

Pawnee defines "start-up" businesses as those with less than two years of operating history. Start-up businesses do not fall into traditional credit categories because of their lack of business credit history. "B" credit businesses are those with two or more years of operating history that have some unique aspect to their overall credit profile such that they are not

afforded an A-rated credit score, and/or that the business owner(s) do not have an A-rated personal or business/ commercial credit history.

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

In September 2008, prior to the financial crisis and in pursuit of growth, Pawnee leveraged its existing sales channel of equipment finance brokers by expanding its range of products to include the B credit market. This market consists of higher quality credits than Pawnee's historical market segment and is also a significantly larger segment. This was the first meaningful expansion from Pawnee's "core" suite of products.

As the financial crisis took hold in late 2008, Pawnee's portfolio also experienced more stress; however, it remained profitable by having maintained risk-adjusted pricing in the years leading up to the crisis that were in excess of most of its competitors. A large majority of Pawnee's competitors in both its traditional and B markets were gone by January 2009 having either retreated to their core markets, lost their funding and/or closed their operations.

Pawnee was fortunate, therefore, to be able to take advantage of its strong market position and continued access to capital to grow significantly while building a portfolio which, in each product "bucket", enjoyed unprecedented credit quality due to the also unprecedented contraction in credit markets, especially from 2009 through 2013. With the gradual normalization of credit markets, loss rates in Pawnee's higher yielding market segments are returning to more typical levels. Pawnee continues to generate excellent risk-adjusted returns, but at levels below the years immediately following the crisis, the same pattern seen in past economic cycles.

Beginning in 2015, Pawnee expanded its product line once more, by entering the prime or A-rated equipment finance market. Just as in 2008, when Pawnee entered the "B" market, this new market segment is much larger than the markets Pawnee had served previously. Pawnee now offers equipment financing to small and medium sized businesses across America in all credit classes with transactions up to U.S. $250,000, and it may, in the future, finance equipment costing up to U.S.$500,000 in the prime market. At December 31, 2017, approximately 42% of Pawnee's gross lease receivables are in the prime segment.

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

Funding

The majority of Pawnee's leases and loans are presently funded through Chesswood's revolving corporate credit facility. The credit facility was increased on August 2017 to allow borrowings of up to U.S.$250.0 million (2016: U.S. $170.0 million) subject to, among other things, threshold levels of eligible finance receivables, and renewed to December 8, 2020 (previously December 8, 2019).

On October 16, 2017, Pawnee closed its first non-recourse U.S.$75 million asset-backed facility, which is secured by a portfolio of Pawnee's prime equipment leases and loans. The repayment terms are based on the cash flow of the underlying portfolio. The proceeds from this non-recourse facility were applied to Chesswood's existing credit facility.

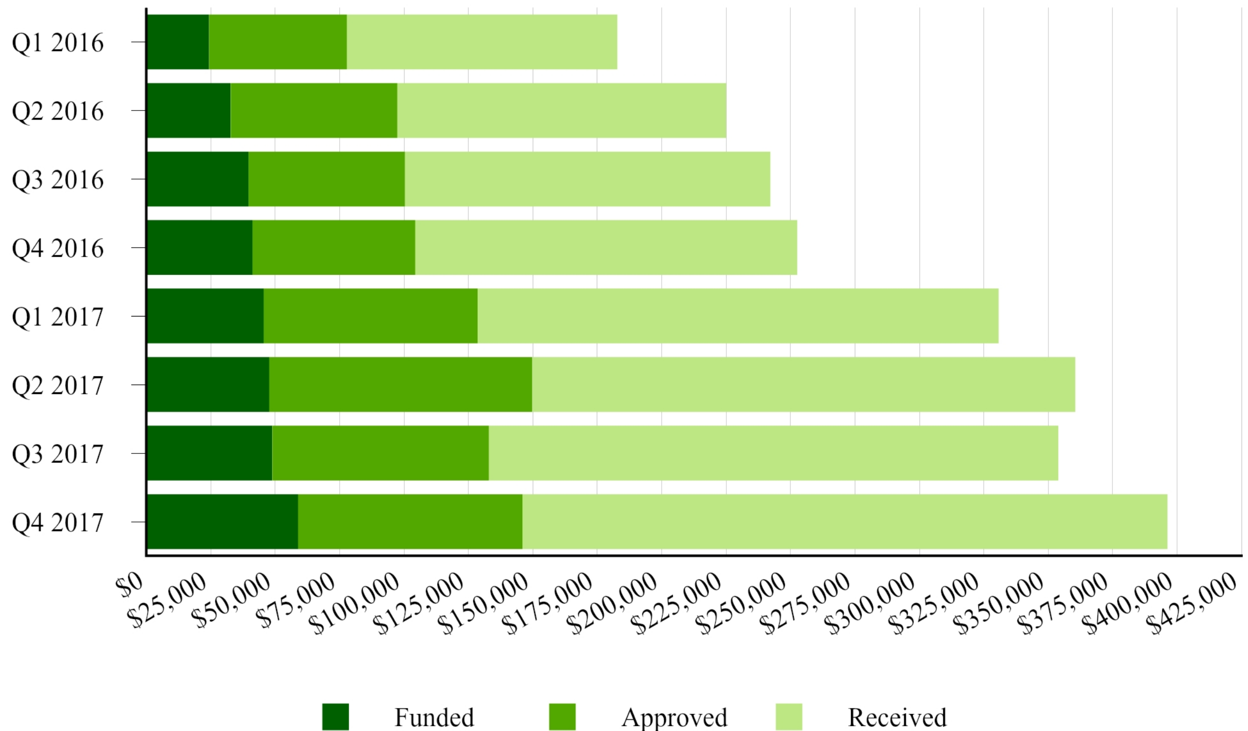
Key Aspects of Business Model

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

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

These four aspects are discussed in greater detail below.

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



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

- Pawnee finances only equipment that is fundamental to the core operations of the lessee/ borrower's business, reflecting management's view that payments on "business essential" equipment are among the least susceptible to default except in the case of business failure;

- Pawnee operates only in select market segments, excluding certain industries such as agriculture and hazardous materials;

- A personal guarantee of at least the major shareholder(s)/owner(s) and generally all owners are obtained for non-prime credits, with acceptable personal credit scores a prerequisite for credit approval;

- Business owners are interviewed by Pawnee for verification purposes prior to the commencement of the lease or loan, with site inspections conducted for financings as low as U.S.$15,000 or more (U.S. $100,000 for A-rated credits); and

- All scheduled payments for non-prime financings are paid by direct debit from the lessee's/borrower's account, allowing Pawnee's collection team to take immediate action on delinquencies.

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

Risk management begins with the selection and training of broker firms and their staff. Broker principals must have an acceptable personal credit profile, industry references, and preferably a minimum one-year track record in the equipment finance industry. Pawnee's Business Development managers train new and existing brokers and their staff, and develop a knowledge base on Pawnee's underwriting policies and procedures. The training process is instrumental in reducing

broker and Pawnee's time spent reviewing applicants unable to meet Pawnee's credit qualifications. Business Development managers also monitor broker efficiencies in credit application reviews and closings, including applications submitted, approved and ultimately funded.

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

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

As of December 31, 2017, Pawnee's portfolio of 16,627 leases and loans, representing U.S.$415.0 million in gross finance receivables (including residual receivable), was diversified, with:

- over 70 equipment categories, with the five largest - restaurant, titled trucks, construction, medical and trailers - accounting for 37.4% of the total number of active leases and loans;
- over 85 industry segments, with no industry representing more than 14.9% of the number of active financings;
- no lessee/borrower accounting for more than 0.08% of the total;
- 48 U.S. states, with no state representing more than 8.3% of the number of total active leases and loans (with the exception of California and Texas, which represented 13.0% and 12.4%, respectively); and
- the largest originator accounting for 8.4% of gross lease and loan receivables, and the ten largest accounting for 39.4%.

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

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

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

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

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

- Pawnee had 87 full-time equivalent employees at 2017 fiscal year-end, of which more than a third were engaged in the collection and servicing processes. Collection and servicing activities are structured to systematically and quickly resolve delinquent leases and loans whenever possible, mitigate losses, and collect post-default recovery dollars.

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

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

  - After 154 days of delinquency, or earlier if Pawnee deems the account uncollectible, the debt is written off. However, collection efforts continue when

prospects for recovery through a personal guarantor or other remedy warrant. Otherwise, the account is normally assigned to an independent collection agency for further collection efforts, where the primary sources of recovery include payments on restructured accounts, settlements with guarantors, equipment sales, litigation, and bankruptcy court distributions.

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

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

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 16.4% of consolidated revenue and 16.6% of consolidated income from continuing operations before corporate overhead in the year ended December 31, 2017. Blue Chip had 28 full-time equivalent employees at December 31, 2017.

Located in Toronto, Blue Chip provides equipment financing across Canada, through 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, industry, equipment type, equipment cost and credit class.

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

	Mar 31 2016	June 30 2016	Sep 30 2016	Dec 31 2016	Mar 31 2017	June 30 2017	Sep 30 2017	Dec 31 2017
Number of leases and loans outstanding (#)	10,479	11,142	11,551	11,883	12,278	12,910	13,345	13,781
Gross lease and loan receivable ("GLR")	$129,851	$139,692	$144,984	$148,250	$152,502	$162,164	$166,505	$170,183
Net investment in leases and loans receivable ("NIL"), before allowance	$114,185	$123,022	$127,841	$130,965	$134,777	$143,310	$147,436	$150,951
Allowance for doubtful accounts	$888	$1,076	$1,363	$1,342	$1,438	$1,621	$1,702	$1,284
Over 31 days delinquency (% of NIL)	0.39%	0.67%	0.87%	0.72%	0.66%	0.46%	0.36%	0.16%

Key Aspects of Business Model

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

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

- The micro-ticket segment is a high-volume, low-touch business. Blue Chip has invested in software to streamline the application process, speed credit decisions and automate the preparation of secure

documents to meet market demand for rapid funding and customer service excellence.
- Blue Chip also has the expertise in financial analysis and detailed documentation to meet the underwriting requirements of the small-ticket segment.
- Like Pawnee, Blue Chip's value proposition to originators is relationship and service based, with fast and predictable credit decision-making and the convenience of one-stop shopping for commercial equipment financing needs across all credit classes.

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

As at December 31, 2017, Blue Chip's gross finance receivables portfolio of $170.2 million (2016: $148.3 million) consisting of 13,781 leases and loans (2016: 11,883) was well diversified:
- Ontario represented 47.2% of net finance receivables, Alberta represented 20.7% and 32.1% were from the other provinces;
- the five largest equipment categories by volume - industrial, computers, photographic, truck and trailers - accounted for 50% of net finance receivables;
- of its network of more than 50 originators, the largest originator by dollar volume during 2017 accounted for 25% originations; and
- the four largest brokers by dollars financed accounted for approximately 63% of originations during 2017.

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

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

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

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

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 27 - *Segment Information*).

Chesswood launched Windset in September 2013, to provide working capital loans of up to U.S.$125,000 to tenured small businesses in the U.S., 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 December 31, 2017, Windset had nine loans outstanding,

with approximately U.S.$92,100 in gross loan receivables outstanding (December 31, 2016 - 404 loans - U.S.$8.9 million).

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. At December 31, 2017, there were 180 advances and loans outstanding totaling $3.4 million (December 31, 2016 - 298 advances and loans totaling $5.9 million).

See Note 5 - *Discontinued Operations* in the audited consolidated financial statements for the year ended December 31, 2017 for further information.

SELECTED FINANCIAL INFORMATION

($ thousands, except per share figures)	For the years ended December 31,		
	2015	2016[5]	2017[6]
Average foreign exchange rate for the year	1.2787	1.3248	1.2986
Revenue [1]	$ 76,577	$ 91,583	$ 95,324
Finance margin	$ 49,885	$ 55,940	$ 58,972
Income from continuing operations	$ 12,363	$ 17,317	$ 25,751
Net income	$ 19,804	$ 24,278	$ 25,431
Basic earnings per share - continuing operations [1][3]	$0.74	$0.97	$1.43
Diluted earnings per share - continuing operations [1][3]	$0.72	$0.95	$1.39
Basic earnings per share [3]	$1.19	$1.36	$1.41
Diluted earnings per share [3]	$1.16	$1.33	$1.37
Foreign exchange rate as at year end	1.384	1.3427	1.2545
Total assets	$ 565,510	$ 527,937	$ 643,612
Long-term financial liabilities	$ 316,375	$ 354,800	$ 447,412
Adjusted EBITDA [2]	$ 32,429	$ 31,031	$ 31,860
Dividends declared [4][5]	$ 13,062	$ 22,963	$ 15,147
Dividends declared per share [4][5]	$0.78	$1.29	$0.84

(1) It was determined that Sherway LP (the assets of which were sold in 2015), Case Funding and EcoHome meet the criteria of discontinued operations. The comparative figures have been reclassified as if their respective operations had been discontinued from the start of the comparative periods. See Note 5 - *Discontinued Operations* in the 2017 audited consolidated financial statements.
(2) Adjusted EBITDA and Operating Income are non-GAAP measures. See "Non-GAAP Measures" above for the definitions.
(3) Based on weighted average shares outstanding during the period for income attributable to common shareholders.
(4) Includes dividends on Exchangeable Securities (non-controlling interest, as described below under "Statement of Financial Position").
(5) In Q1 2016, a special dividend of $0.50 per share, or $8.9 million in total, was declared following the sale of EcoHome and was paid on March 15, 2016.
(6) As a result of the 2017 U.S. Tax Cuts and Jobs Act, the U.S. subsidiaries' net deferred tax liabilities were revalued, resulting in a $9.4 million reduction in future taxes expense and deferred tax liabilities.

As at and for the quarter-ended				2016				2017
($ thousands, except per share figures)	Q1 [5][6]	Q2	Q3	Q4	Q1	Q2	Q3	Q4[7]
Revenue [1]	$ 22,892	$ 21,825	$ 23,195	$ 23,671	$ 23,051	$ 24,286	$ 23,355	$ 24,632
Finance margin before expenses[1]	14,289	14,979	13,698	12,974	14,859	16,130	13,014	14,969
Income before tax and other items (Operating Income [1][2])	8,095	9,016	7,220	5,979	8,049	9,290	6,718	8,018
Income before tax [1]	5,616	7,179	7,594	7,731	7,452	7,026	5,527	7,806
Provision for taxes [1][7]	2,650	3,233	2,375	2,545	2,768	3,080	2,220	(6,008)
Income from continuing operations [1]	2,966	3,946	5,219	5,186	4,684	3,946	3,307	13,814
Income from discontinued operations [1]	7,141	39	(136)	(83)	12	(197)	(119)	(16)
Net income	$ 10,107	$ 3,985	$ 5,083	$ 5,103	$ 4,696	$ 3,749	$ 3,188	$ 13,798
Basic EPS - continuing operations [1][3]	$0.17	$0.22	$0.29	$0.29	$0.26	$0.22	$0.19	$0.76
Diluted EPS - continuing operations [1][3]	$0.16	$0.22	$0.28	$0.29	$0.25	$0.21	$0.19	$0.74
Basic earnings per share [3]	$0.57	$0.22	$0.29	$0.28	$0.26	$0.21	$0.18	$0.76
Diluted earnings per share [3]	$0.56	$0.22	$0.27	$0.28	$0.25	$0.20	$0.18	$0.74
Total assets	$ 453,553	$ 473,750	$ 500,202	$ 527,937	$ 547,686	$ 573,414	$ 593,065	$ 643,612
Long-term liabilities	$ 291,437	$ 309,350	$ 330,468	$ 354,800	$ 377,735	$ 404,784	$ 428,752	$ 447,412
Other Data								
Adjusted EBITDA [2]	$ 8,700	$ 9,066	$ 7,168	$ 6,097	$ 8,092	$ 9,089	$ 6,669	$ 8,010
Dividends declared [4]	$ 3,461	$ 3,470	$ 3,479	$ 3,678	$ 3,779	$ 3,787	$ 3,790	$ 3,791
Dividends declared - special [4][5]	$ 8,875							
Dividends declared per share [4][5]	$0.695	$0.195	$0.195	$0.205	$0.210	$0.210	$0.210	$0.210

(1) It was determined that Case Funding and EcoHome meet the criteria of discontinued operations. The comparative figures have been reclassified as if their respective operations had been discontinued from the start of the comparative periods. See Note 5 - *Discontinued Operations* in the 2017 audited consolidated financial statements.
(2) Adjusted EBITDA and Operating Income are non-GAAP measures. See "Non-GAAP Measures" above for the definitions.
(3) Based on weighted average shares outstanding during the period for income attributable to common shareholders.
(4) Includes dividends on Exchangeable Securities (non-controlling interest, as described below under "Statement of Financial Position").
(5) In Q1 2016, a special dividend of $0.50 per share, or $8.9 million in total, was declared following the sale of EcoHome and was paid 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.
(7) As a result of the 2017 U.S. Tax Cuts and Jobs Act, the U.S. subsidiaries' net deferred tax liabilities were revalued, resulting in a $9.4 million reduction in future taxes expense and deferred tax liabilities.

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

For the quarter-ended				2016				2017
($ thousands)	Q1 (4)(5)	Q2	Q3	Q4	Q1	Q2	Q3	Q4(6)
Net income	$ 10,107	$ 3,985	$ 5,083	$ 5,103	$ 4,696	$ 3,749	$ 3,188	$ 13,798
Interest expense - continuing	2,335	2,209	2,522	2,758	3,131	3,538	3,868	4,731
Interest expense - discontinued	462	—	—	—	—	—	—	—
Provision for taxes - continuing (6)	2,650	3,233	2,375	2,545	2,768	3,080	2,220	(6,008)
Provision for taxes - discontinued	43	—	—	—	—	—	—	—
Amortization and depreciation - continuing	398	402	419	430	421	449	626	636
EBITDA (1)	15,995	9,829	10,399	10,836	11,016	10,816	9,902	13,157
Interest expense	(2,797)	(2,209)	(2,522)	(2,758)	(3,131)	(3,538)	(3,868)	(4,731)
Share-based compensation expense	509	266	326	271	266	206	280	213
Financing costs - convertible debenture	100	750	300	510	(20)	710	(100)	540
Interest expense on convertible debenture	(324)	(324)	(328)	(328)	(321)	(324)	(328)	(328)
Contingent consideration accretion (reduction), acquisition costs & gain on sale of assets	(6,538)	41	41	(885)	—	—	—	(538)
Unrealized loss (gain) on investments	510	31	(363)	(181)	544	1,117	876	332
Foreign exchange unrealized loss (gain)	(278)	19	(241)	389	(11)	3	31	95
Unrealized loss (gain) – interest rate derivatives	1,523	663	(444)	(1,757)	(251)	99	(124)	(730)
Adjusted EBITDA (1)	8,700	9,066	7,168	6,097	8,092	9,089	6,669	8,010
Maintenance capital expenditures	(55)	—	(27)	(30)	(7)	(102)	(6)	(68)
Provision for taxes	(2,693)	(3,233)	(2,375)	(2,545)	(2,768)	(3,080)	(2,220)	6,008
Free Cash Flow ("FCF") (1)	$ 5,952	$ 5,833	$ 4,766	$ 3,522	$ 5,317	$ 5,907	$ 4,443	$ 13,950
FCF L4PQ divided by 4 (1)	$ 5,211	$ 5,482	$ 5,540	$ 5,454	$ 5,268	$ 4,912	$ 4,871	$ 4,824
Maximum Permitted Dividends (1)(3)	$ 4,690	$ 4,933	$ 4,986	$ 4,909	$ 4,741	$ 4,421	$ 4,384	$ 4,342
Dividends declared (2)	$ 3,461	$ 3,470	$ 3,479	$ 3,678	$ 3,779	$ 3,787	$ 3,790	$ 3,791
Dividends declared - special (2)(4)	$ 8,875							

(1) Adjusted EBITDA, EBITDA, Free Cash Flow, FCF L4PQ (Free Cash Flow for the last four published quarters) and Maximum Permitted Dividends are non-GAAP measures. See “Non-GAAP Measures” above for the definitions.
(2) Includes dividends on Exchangeable Securities (non-controlling interest, as described below under "Statement of Financial Position").
(3) Based on 90% of FCF L4PQ. On January 25, 2016, the rate was changed from 80% to 90%.
(4) In Q1 2016, the Company declared a special dividend of $0.50 per share, or $8.9 million in total, was declared following the sale of EcoHome and was paid on March 15, 2016.
(5) 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.
(6) As a result of the 2017 U.S. Tax Cuts and Jobs Act, the U.S. subsidiaries’ net deferred tax liabilities were revalued, resulting in a $9.4 million reduction in future taxes expense and deferred tax liabilities.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2017 AND 2016

U.S. dollar results for the three months ended December 31, 2017 were converted at an exchange rate of 1.2713, which was the average exchange rate for Q4 2017 (Q4 2016 - 1.3341).

	Three months ended December 31, 2017				
($ thousands)	**Equipment Financing - U.S.**	**Equipment Financing - Canada**	**Discontinued Operations** *(Note 5)*	**Corporate Overhead - Canada**	**Total**
Interest revenue on leases and loans	$ 17,509	$ 2,926		$ —	$ 20,435
Ancillary finance and other fee income	3,010	1,040		147	4,197
Interest expense	(3,610)	(1,121)		—	(4,731)
Provision for credit losses	(4,666)	(266)		—	(4,932)
Finance margin	**12,243**	**2,579**		**147**	**14,969**
Personnel expenses	2,435	770		300	3,505
Share-based compensation expense	64	(37)		186	213
Other expenses	2,124	408		578	3,110
Depreciation - property and equipment	117	6		—	123
Income before undernoted items	**7,503**	**1,432**		**(917)**	**8,018**
Amortization - intangible assets and contingent consideration reversal	—	(513)		538	25
Fair value adjustments - convertible debentures and investments	—	—		(872)	(872)
Unrealized gain on interest rate derivatives	192	—		538	730
Unrealized loss on foreign exchange	—	—		(95)	(95)
Income before taxes	**7,695**	**919**		**(808)**	**7,806**
Tax (recovery) expense	(6,596)	35		553	(6,008)
Income from continuing operations	**14,291**	**884**		**(1,361)**	**13,814**
Loss from discontinued operations	—	—	$ (16)	—	(16)
Net income	**$ 14,291**	**$ 884**	**$ (16)**	**$ (1,361)**	**$ 13,798**
Net cash used in operating activities	$ (39,640)	$ (1,233)	$ 482	$ (4,786)	$ (45,177)
Net cash used in investing activities	$ (144)	$ —	$ —	$ —	$ (144)
Net cash from financing activities	$ 87,826	$ 3,128	$ —	$ (51,648)	$ 39,306
Property and equipment expenditures	$ 144	$ —	$ —	$ —	$ 144

The Company reported consolidated net income of $13.8 million for the three months ended December 31, 2017 compared to $5.1 million in the same period of 2016, an increase of $8.7 million year-over-year. The increase in net income year-over-year predominantly related to the 2017 fourth quarter future tax recovery of $9.4 million as a result of the revaluation of our U.S. subsidiaries' net deferred tax liabilities due to the U.S. Tax Cuts and Jobs Act which was passed in December 2017. Our operating income increased by $2.0 million compared to the same period in the prior year, predominantly from a drop in the provision for credit losses in the three month period. The net decrease in other items compared to the same period in the prior year, including amortization of intangibles, changes in contingent consideration, unrealized foreign exchange, and non-cash mark-to-market adjustments on interest rate derivatives, investment in Dealnet common shares, and our convertible debentures, led to a decrease in net income of $2.0 million in the three month period compared to the same period in the prior year.

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

Pawnee and Windset's operating income increased by $2.3 million compared to the same period in the prior year, predominantly as a result of the $1.4 million decrease in Windset's provision for credit losses as it winds down and the $1.4 million decrease in Pawnee's provision for credit losses due to decreased delinquency rates and strong collection efforts.

Pawnee and Windset's revenue increased $894,000 in the three months ended December 31, 2017 compared to the same period in the prior year. The $2.7 million growth in Pawnee's revenue compared to the prior year is offset by the $1.8 million decrease in Windset's revenue.

Pawnee and Windset's finance income (finance margin before provision for credit losses) decreased $882,000 in the three months ended December 31, 2017 compared to the same period in the prior year. The $846,000 growth in Pawnee's finance income compared to the same period in the prior year is offset by the $1.7 million decrease in Windset's finance income. Interest expense increased $1.8 million year-over-year in the three month period compared to an increase in Pawnee's revenue of $2.7 million, of which $544,000 relates to increased commitment fees and other loan fees year-over-year.

The provision for credit losses at Pawnee and Windset decreased by $2.8 million for the three month period year-over-year. Both Windset and Pawnee experienced a $1.4 million drop/recovery in their provision for credit losses year-over-year. Pawnee's actual net charge-offs increased by $347,000 reflecting, in part, a larger portfolio compared to the same quarter last year. A strong collections effort in Q4 helped generate a decrease in Pawnee's delinquency markers

compared to the prior year, which led to a $1.74 million decrease in Pawnee's allowance for doubtful accounts and provision for credit losses compared to the same period in the prior year.

Personnel and other expenses at Pawnee and Windset decreased by $314,000 in the quarter compared to the same period last year, predominantly as a result of a decrease in Windset's expenses of $416,000.

Blue Chip generated operating income of $1.4 million in the quarter compared to $1.6 million in the same period last year, a decrease of $140,000 due primarily to a decrease in ancillary finance and other fee income in the three month period compared to the prior year and increased interest costs from the prior year.

Corporate overhead before other items increased by $77,000 year-over-year, mainly from a $157,000 increase in professional fees and other expenses, offset by a $44,000 increase in interest income on Chesswood's loans to Dealnet Capital Corp. ("Dealnet") and EcoHome and a $36,000 decrease in personnel and share-based compensation expense.

At December 31, 2017, the Company's investment in Dealnet common shares had decreased in market value by $332,000 in three months ended December 31, 2017 compared to an increase in value of $181,000 in the same period of 2016 resulting in a decrease in net income of $513,000 year-over-year.

The non-cash unrealized mark-to-market adjustment on the Company's convertible debentures was an unrealized loss of $540,000 compared to an unrealized loss of $510,000 in the prior year, translating to a decrease in net income of $30,000 year-over-year.

The non-cash unrealized mark-to-market adjustment on interest rate derivatives for the three months ended December 31, 2017 totaled a gain of $730,000 compared to $1.8 million in the same period in the prior year, translating to a decrease in net income of $1.0 million year-over-year.

The recovery of taxes for the three months ended December 31, 2017 totaled $6.0 million compared to provision of taxes of $2.5 million in the same period in the prior year. The $6.0 million recovery of taxes for the three months ended December 31, 2017 is comprised of $602,000 in current tax recovery, future tax expense of $3.8 million, and a future tax recovery of $9.4 million as a result of the revaluation of our U.S. subsidiaries' net deferred tax liabilities due to the U.S. Tax Cuts and Jobs Act passed in December 2017. 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.

The loss from discontinued operations in the three months ended December 31, 2017 totaled $16,000 compared to a loss of $83,000 recorded in the same period in 2016. The loss from discontinued operations relates to the wind-down of Case Funding's remaining legal finance receivables.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

See Note 27 - *Segment Information* in the notes to the Company's 2017 audited consolidated financial statements for a breakdown of operating results and other information by industry segment and geographic location.

U.S. dollar results for the year ended December 31, 2017 were converted at an exchange rate of 1.2986, which was the average exchange rate for 2017 (2016 - 1.3248).

Consolidated operating income ("income before undernoted items") from continuing operations was $32.1 million, compared to $30.3 million in the prior year, an increase of $1.8 million, or 5.8%, before being normalized for the effects of Windset's wind-down and foreign exchange. Our operating income was up 12.6% after normalizing for those affects as the table below illustrates.

Operating income by segment (*see Note 27*)

Segment	2017	2016	Change
	($ thousands)		
Equip finance - U.S.	$ 29,616	$ 28,845	$ 771
Normalization adjustments:			
Windset's operating income	(514)	(1,604)	1,090
Impact of exchange rate	—	(688)	688
Equip finance - U.S. Normalized	$ 29,102	$ 26,553	$ 2,549
Equip finance - CDN	5,887	5,039	848
Corp overhead	(3,428)	(3,574)	146
2017 vs 2016 Normalized	**$ 31,561**	**$ 28,018**	**$ 3,543**

Pawnee and Windset's operating income increased by $771,000 compared to the prior year. The $2.5 million increase in Pawnee's operating income was offset by a $1.1 million decrease in operating income from Windset as Windset winds down and a decrease of $688,000 due to the drop in the exchange rate year-over-year.

Pawnee and Windset's revenue increased $2.8 million year-over-year. The $13.7 million growth in Pawnee's revenue due to growth in its portfolio is offset by a $10.9 million decrease in Windset's revenue as Windset's portfolio continues to wind down.

The provision for credit losses at Pawnee and Windset decreased by $4.3 million year-over-year. The $6.6 million drop in Windset's provision for credit losses year-over-year was offset by a $2.3 million increase in Pawnee's provision for credit losses during 2017 compared to the prior year. The $3.2 million increase in Pawnee's actual net charge-offs, along with a decrease in Pawnee's allowance for doubtful accounts of $911,000, led to the net increase in Pawnee's provision for credit losses for the year ended December 31, 2017 compared to the prior year.

Personnel and other expenses at Pawnee and Windset increased by $1.5 million, reflecting support for the growth in new business volumes and for the strategic initiatives to improve future efficiency, and to enhance Pawnee's technology. Pawnee's personnel and other expense increased by approximately $3.2 million while revenues increased by $13.7 million. Windset's personnel and other expenses decreased by $1.7 million compared to the prior year. Pawnee and Windset's combined employee headcount increased by 14 employees during the year ended December 31, 2017 to bring the total to 87, and up from 73 employees at December 31, 2016.

Blue Chip generated operating income of $5.9 million in the year ended December 31, 2017 compared to $5.0 million in the prior year, an increase of $848,000 due to growth in the finance receivable portfolio while maintaining effective cost controls.

Corporate overhead before other items decreased by $146,000 year-over-year, mainly from a $245,000 reduction in share-based compensation expense, a $25,000 reduction in general expenses and professional fees, which were offset by a $62,000 increase in personnel expenses and a $62,000 decrease in interest income on Chesswood's loans to Dealnet and EcoHome.

The Company reported consolidated net income of $25.4 million in the year ended December 31, 2017 compared to $24.3 million in 2016, an increase of $1.2 million year-over-year. The prior year results included a $6.7 million net gain on the sale of EcoHome whereas 2017 results include a future tax recovery of $9.4 million as a result of the revaluation of our U.S. subsidiaries' net deferred tax liabilities due to the U.S. Tax Cuts and Jobs Act passed in December 2017. The $2.1 million decrease in net unrealized fair value adjustments and other items in 2017 compared to the prior year led to a decrease in net income year-over-year.

At December 31, 2017, the Company's investment in Dealnet common shares had decreased in market value by $2.9 million in the year ended December 31, 2017 compared to a increase in value of $3,000 in 2016 resulting in a decrease in net income of $2.9 million year-over-year.

The non-cash unrealized mark-to-market adjustment on the Company's convertible debentures was an unrealized loss of $1.1 million compared to an unrealized loss of $1.7 million in the prior year, translating to an increase in net income of $530,000 year-over-year.

The non-cash unrealized mark-to-market adjustment on interest rate derivatives for the year ended December 31, 2017 totaled a gain of $1.0 million compared to a gain of $15,000 in the prior year, translating to an increase in net income of $1.0 million year-over-year.

The provision for taxes for the year ended December 31, 2017 totaled $2.1 million compared to $10.8 million in the prior year. The $2.1 million provision for taxes for the year ended December 31, 2017 is comprised of $6.0 million in current tax expense, future tax expense of $6.1 million, a future tax recovery of $9.4 million due to the U.S. Tax Cuts and Job Act and $448,000 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.

The loss from discontinued operations in the year ended December 31, 2017 totaled $320,000 compared to income of $7.0 million recorded in 2016. The loss from discontinued operations in 2017 included 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 prior to the sale.

STATEMENT OF FINANCIAL POSITION

The total consolidated assets of the Company at December 31, 2017 were $643.6 million. This is an increase of $115.7 million from December 31, 2016. The U.S. dollar exchange rate on December 31, 2017 was 1.2545, compared to 1.3427 at December 31, 2016. The decrease in the foreign exchange rate represents a decrease of $22.2 million in assets, which was offset by an increase in finance receivables.

Cash totaled $3.6 million at December 31, 2017 compared to $11.4 million at December 31, 2016, a decrease of approximately $7.8 million. The Company's objective is to maintain low cash balances, investing any free cash in finance receivables as needed and using any excess to pay down debt on the primary financing facilities. Please see the Liquidity and Capital Resources Overview section of this MD&A for a discussion on cash movements during the years ended December 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 December 31, 2017, there were 184 advances and loans outstanding totaling $3.4 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 the legal finance industry to be outstanding anywhere from six months to 48 months (or longer). 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.

Other assets totaled $17.6 million at December 31, 2017, an increase of $3.1 million from December 31, 2016. Other assets included in this total relate to the sale of EcoHome in 2016 and totaled $10.3 million at December 31, 2017 compared to $10.7 million at December 31, 2016. In relation to the sale of EcoHome, the non-cash consideration received included 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, and the value at December 31, 2017 totaled $634,000. 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. The value at December 31, 2017 totaled $7.1 million. In Q4 2017, Chesswood advanced EcoHome an additional $5.5 million under this loan and the secured note was restated to extend the maturity date to October 2020 secured by specific leases and loans as well as a general security agreement over all of the assets of EcoHome. The loan has fixed monthly principal payments, and related interest based on a floating interest rate plus a fixed margin. See Note 6 - *Other Assets* in the 2017 audited consolidated financial statements for further details.

Finance receivables consist of the following:

	December 31, 2017	December 31, 2016
	($ thousands)	
U.S. equip. - Pawnee	$ 398,969	$ 290,681
Canada equip. - Blue Chip	151,574	130,778
Working capital loans - Windset	107	9,589
	$ 550,650	$ 431,048

Finance receivables increased by $119.6 million, or 28%, during the year ended December 31, 2017. The decrease in the foreign exchange rate led to a $19.7 million decrease in finance receivables since December 31, 2016. In U.S. dollars, Pawnee's finance receivables increased by U.S.$101.5 million. At the same time, Windset's net investment in working capital loans decreased by U.S.$7.1 million due to Windset's wind-down. Blue Chip's finance receivables increased by $20.8 million during the year ended December 31, 2017 as a result of expanded product lines and enhanced relationships with its brokers.

The $550.7 million in net investment in leases and loans is net of $11.9 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.

On January 1, 2018, the Company adopted the new impairment and measurement requirements under IFRS 9. The Company estimates the IFRS 9 transition amount will increase the allowance for doubtful accounts by approximately $10.0 million. Please see Note 2 - *Accounting Standards Issued But Not Yet Effective* in the audited consolidated financial statements for the year ended December 31, 2017.

Intangible assets totaled $19.7 million at December 31, 2017. Of the $2.2 million decrease in intangible assets from December 31, 2016, $1.7 million reflects amortization and $511,000 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 terms of the lease and loan receivables.

Goodwill totaled $39.9 million at December 31, 2017 compared to $40.8 million at December 31, 2016. The $949,000 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, 2017 and 2016.

Accounts payable and other liabilities totaled $14.9 million at December 31, 2017 compared to $15.2 million at December 31, 2016, a decrease of $354,000. See Note 11 - *Accounts Payable and Other Liabilities* in the audited consolidated financial statements for more detail on the balances that comprise accounts payable and other liabilities. 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.

On December 16, 2013, the Company issued a total of $20.0 million principal amount of convertible debentures. The debentures were to mature on December 31, 2018, and bore interest at a rate of 6.5% per annum, paid semi-annually. The Company announced on December 12, 2017 that it would exercise its right to early redemption of the debentures. On January 17, 2018, Chesswood paid, in cash, $20 million in outstanding principal and the accrued and unpaid interest to the debenture holders as the redemption amount.

The debentures had 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 elected under *IAS 39.11A* to designate the entire debentures (and all the embedded derivatives) as a combined financial liability at fair value through net income or loss. The fair value of the debentures was based on their trading price on the Toronto Stock Exchange as at the end of each reporting period.

Borrowings totaled $412.2 million at December 31, 2017 compared to $293.1 million at December 31, 2016, an increase of $119.1 million. The $119.1 million increase in borrowings is supporting $119.6 million of growth in our net finance receivables. The decrease in the foreign exchange rate since December 31, 2016, led to a $12.9 million decrease in the borrowings amount.

Chesswood was utilizing U.S.$165.0 million of its credit facility at December 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.

On August 29, 2017, the Company announced that it had exercised U.S.$50.0 million of the available accordion under its corporate revolving credit facility, expanding allowable borrowings to U.S.$250.0 million.

On December 12, 2017, the Company announced that it had extended the facility to December 2020 from December 2019 and had obtained approval to use the credit facility to redeem its convertible debentures.

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 December 31, 2017 and December 31, 2016 (and throughout the periods).

On October 16, 2017, Pawnee announced that it had closed its first U.S. non-recourse U.S.$75.0 million asset-backed facility secured by a portion of Pawnee's prime equipment finance receivable portfolio. The repayment terms are based on the cash flow of the underlying leases and loans. Proceeds from this non-recourse facility were applied to Chesswood's existing credit facility. Pawnee is to comply with leverage ratio, interest coverage ratio, and tangible net worth covenants. At December 31, 2017 and throughout the period from October to December 2017, the Company was in compliance with all covenants. The facility requires the Company to mitigate its interest rate risk by entering into interest rate cap for a notional amount not less than 80% of the aggregate outstanding balance. The interest rate cap is tied to the repayment terms of the underlying finance receivables portfolio supporting the facility, through the maturity date of October 13, 2021, with a floating index rate based on USD-LIBOR-BBA, but subject to a capped fixed rate of 2.25%. At December 31, 2017, the fair value of the cap was an asset of $185,000 (2016 - n/a).

Blue Chip has entered into master purchase and servicing agreements and bulk lease financing facilities with various financial institutions and life insurance companies (referred to collectively as the "Funders"). The funding facilities are advanced to Blue Chip on a tranche-by-tranche basis, with each tranche collateralized by a specific group of underlying finance receivables and any related security provided thereunder. Interest rates are fixed at the time of each advance and are based on Government of Canada Bond yields with maturities comparable to the term of the underlying leases plus a premium. Blue Chip maintains either certain cash reserves as credit enhancements or provides letters of guarantee in return for release of cash reserves. Blue Chip continues to service these finance receivables on behalf of the Funders. As at December 31, 2017, Blue Chip had access to at least $96.4 million of committed bulk financing lines of funding from both financial and insurance companies, in addition to access to Chesswood's revolving facility. Blue Chip must meet certain financial covenants to support these securitization and bulk lease financing facilities. As at December 31, 2017 and December 31, 2016 (and throughout the periods), Blue Chip was in compliance with all covenants.

The $14.0 million (December 31, 2016 - $13.6 million) in customer security deposits relates to security deposits predominantly held by Pawnee. Pawnee's non-prime contracts require that the lessees\borrowers provide two payments as security deposit (not advance payments), which are held for the full term of the lease/loan and then returned or applied to the purchase option of the equipment at the lessee's/borrower's request, unless the contract is in default (in which case the deposit is applied against the receivable). Historically, a very high percentage of such 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 $43,000 at December 31, 2017 (December 31, 2016 - $850,000).

Future taxes payable at December 31, 2017 totaled $21.2 million compared to $27.0 million at December 31, 2016, a decrease of $5.8 million. As a result of the U.S. Tax Cuts and Jobs Act of 2017 (which was enacted December 22, 2017), Chesswood was required to revalue its U.S. subsidiaries' net deferred tax liabilities to account for the future impact of lower corporate tax rates on those deferred amounts. Based on the reduction in the federal corporate tax rate from 35% to 21%, there was a reduction in the future taxes payable of $9.4 million. There was also a $1.2 million decrease in future taxes payable due to the change in the foreign exchange rate offset by a $4.5 million increase in future tax expense, and $259,000 reclassified from future tax asset. Taxes at Pawnee, Windset and Blue Chip are provided for using the asset and liability method of accounting. This method recognizes future tax assets and liabilities that arise from differences between the accounting basis of the subsidiary's assets and liabilities and their corresponding tax basis.

At December 31, 2017, there were 16,575,367 common shares outstanding (excluding the shares issuable in exchange for the Exchangeable Securities, as defined below) with a book value of $105.2 million. Including the Exchangeable Securities, Chesswood would have had 18,053,904 common shares outstanding.

In August 2017, the Company's Board of Directors approved the repurchase for cancellation of up to 1,085,981 of the Company's outstanding common shares for the period commencing August 25, 2017 and ending on August 24, 2018. No common shares were repurchased under this normal course issuer bid during the year ended December 31, 2017. Subsequent to year end (up to and including March 8, 2018), the Company repurchased 76,918 of its common shares under the normal course issuer bid at an average cost of $10.2128.

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 year ended December 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.

On January 1, 2018, the Company was required to adopt IFRS 9. The Company estimates the IFRS 9 transition amount will reduce retained earnings and non-controlling interest by approximately $7.0 million after-tax. Please see Note 2 - *Accounting Standards Issued But Not Yet Effective* in the audited consolidated financial statements for the year ended December 31, 2017.

Reserves represent the accumulated share-based compensation expensed over the vesting term for options and restricted share units unexercised at December 31, 2017. There were 2,155,989 options and 70,000 restricted share units outstanding at December 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 December 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, support working capital, long-term debt principal repayments and dividends.

At December 31, 2017, the Company's continuing operations had approximately U.S.$50.4 million in additional borrowings available under the corporate credit facility and at least $96.4 million under Blue Chip's securitization and bulk lease financing facilities to fund business operations.

The Chesswood credit facility allows borrowings up to U.S. $250.0 million. 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). The financing facilities are not intended to directly fund dividends by the Company. Under the facility, the maximum amount of cash dividends and purchases under its normal course issuer bid in respect of a month is 1/12 of 90% of Free Cash Flow (see Dividend Policy below) for the most recently completed four financial quarters for which Chesswood has publicly filed its consolidated financial statements (including its annual consolidated financial statements in respect of a fourth quarter). Free Cash Flow is defined as the consolidated

Adjusted EBITDA less maintenance capital expenditures and tax expense. Please refer to the definitions of Non–GAAP Measures provided in this MD&A.

On October 16, 2017, Pawnee closed its first U.S. non-recourse U.S.$75.0 million facility which is secured by a portion of Pawnee's prime equipment finance receivable portfolio. The repayment terms are based on the cash flow of the underlying leases and loans. The proceeds from this non-recourse facility were applied to Chesswood's existing credit facility.

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 payments relating to the purchase of property and equipment. Cash flow from financing activities comprises changes in borrowings, payment of dividends, proceeds from stock issues, exercise of stock options, and the purchase and sale of treasury stock.

For the year ended December 31, 2017

In the year ended December 31, 2017, there was a decrease in cash of $7.8 million compared to a decrease in cash of $4.5 million in the prior year as a result of reasons discussed below.

The Company's continuing operations utilized $126.9 million of cash during the year ended December 31, 2017 compared to $44.0 million in the prior year, an increase in the utilization of cash of $82.8 million.

The net cash utilized to fund the growth in finance receivables (funds advanced, origination costs, security deposits, restricted cash, less principal payments) totaled $196.3 million in the year ended December 31, 2017 compared to $123.6 million in the prior year, an increase of $72.7 million. The Company funded the growth in finance receivables from excess opening cash, cash from operations and $137.7 million in net borrowings in the year ended December 31, 2017 (2016 - $42.7 million).

In the year ended December 31, 2017, the Company made tax payments of $12.5 million compared to $5.4 million in the year ended December 31, 2016, an increase of $7.2 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 continuing operations generated $81.9 million in cash from net income, non-cash items and other working capital changes compared to $84.9 million in the prior year, a decrease of $3.0 million from the prior year, predominantly from the change in other net operating assets.

In 2016, from the $29.0 million in net cash 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 $943,000 (2016 - $844,000) during the year ended December 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 $15.1 million during the year ended December 31, 2017 compared to $22.9 million in the prior year, a decrease of $7.7 million, due to the $8.9 million special dividend in Q1 2016, offset by an increase in the monthly dividend per share starting in December 2016 and a higher number of shares outstanding. The Company received $162,000 (2016 - $2.0 million) from the exercise of options by employees during the year ended December 31, 2017.

For the three months ended December 31, 2017

In the three months ended December 31, 2017, there was a decrease in cash of $5.7 million compared to $6.0 million in the same period in the prior year as a result of reasons discussed below.

The Company's continuing operations utilized $45.7 million of cash during the three months ended December 31, 2017 compared to $10.3 million in the same period in the prior year, an increase in the utilization of cash of $35.4 million.

The net cash utilized to fund the growth in finance receivables (funds advanced, origination costs, restricted cash, security deposits, less principal payments) totaled $61.1 million in the three months ended December 31, 2017 compared to $30.5 million in the same period in the prior year, an increase of $30.6 million. The Company funded the growth in finance receivables from excess opening cash, cash from operations and $46.5 million in net borrowings in the three months ended December 31, 2017 (2016 - $16.5 million).

In the three months ended December 31, 2017, the Company made tax payments of $3.1 million compared to $708,000 in the three months ended December 31, 2016, an increase of $2.4 million year-over-year.

If the cash utilized to fund the growth in finance receivables and net tax payments (discussed above) is excluded from cash from operating activities, the Company generated $18.5 million in cash from net income, non-cash items and other working capital changes compared to $21.0 million in the same period in the prior year, a decrease of $2.5 million from the prior year, predominantly from the decrease in change in other net operating assets.

Capital expenditures totaled $144,000 (2016 - $77,000) during the three months ended December 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 December 31, 2017 compared to $3.6 million in the same period in the prior year, an increase of $212,000, due to an increase in the monthly dividend per share starting in December 2016 and a higher number of shares outstanding. The Company received $39,000 (2016 - $1.2 million) from the exercise of options by employees during the three months ended December 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 relating to finance receivable portfolio growth. It will seek such additional funds, if necessary, through public or private equity, debt financings or securitizations from time to time, as market conditions permit.

Financial Covenants, Restrictions and Events of Default

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

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

The Company's secured borrowing agreement and its subsidiaries' securitization and bulk lease financing facility agreements have financial covenants and other restrictions to obtain continued funding and avoid default.

Advances on the Chesswood revolving facility may be drawn at any time, subject to compliance with borrowing base calculations and compliance with the covenants set out therein. As of December 31, 2017, U.S.$165.0 million was outstanding under the U.S.$250.0 million facility and the Company had capacity to draw up to U.S.$50.4 million and remain within the borrowing base under the facility. The Company had U.S.$5.3 million of letters of credit outstanding under the Chesswood credit facility.

Dividends to Shareholders

The Company declared monthly cash dividends of $0.07 per common share from January 2017 to December 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 amount of monthly cash dividends and repurchases under its normal course issuer bid is 1/12 of 90% of Free Cash Flow (as defined under Non–GAAP Measures in this MD&A) for the most recently completed four financial quarters for which Chesswood has publicly filed its consolidated financial statements.

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 as a result of completing 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.

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

($ thousands)	2018	2019	2020	2021	2022	2023 and beyond	Total
Accounts payable and other liabilities	$ 14,889	$ —	$ —	$ —	$ —	$ —	$ 14,889
Borrowings (a)	86,790	72,745	256,076	29,016	1,711	576	446,914
Customer security deposits (b)	3,492	3,693	3,812	2,728	1,870	25	15,620
Convertible debentures	20,061		—	—	—	—	20,061
Interest rate swaps	—	—	(8)	51	—	—	43
	125,232	76,438	259,880	31,795	3,581	601	497,527
Other financial commitments (c)	843	816	742	555	461	150	3,567
Total commitments	$ 126,075	$ 77,254	$ 260,622	$ 32,350	$ 4,042	$ 751	$ 501,094

a. Borrowings are described in Note 13 - *Borrowings* in the audited consolidated financial statements, and include Chesswood's credit facility which is a line-of-credit; as such the balance can fluctuate. The credit facility matures in December 2020. The amount above includes fixed interest payments on Pawnee and Blue Chip's facilities and estimated interest payments on the corporate credit facility, assuming the interest rate, debt balance and foreign exchange rate at December 31, 2017 remain the same until December 2020, which is the date of expiry of the credit facility.
b. The Company's experience has shown the actual contractual payment streams will vary depending on a number of variables including: prepayment rates, charge-offs and modifications. Accordingly, the scheduled contractual payments of customer security deposits shown in the table above are not to be regarded as a forecast of future cash payments.
c. The Company and its subsidiaries are committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, expiring in 2020 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. $5.3 million in letters of guarantee. Other commitments are disclosed in Note 18 - *Contingent liabilities and other financial commitments* in the 2017 audited consolidated financial statements.

OUTLOOK

We expect that with lower corporate tax rates in the U.S. our business should experience higher demand for equipment financing in most if not all credit segments, as well as some improvement in portfolio performance.

The lower tax rates also apply to Chesswood and our U.S. businesses, which are taxpayers in the U.S. Our effective tax rate in the U.S. will decrease by approximately 13% which is a meaningful reduction that we estimate, based on 2017 figures, to be a tax savings of approximately CDN$3.0 million. It is important to note that the regulations required to more fully understand the many changes in the tax code are not written as yet and it is therefore not possible to fully assess the impact of the changes on Chesswood and our U.S. businesses.

That said, we also expect 2018 to be a year of rising interest rates in both Canada and the U.S. While a significant portion of our overall debt is at a fixed cost, we have debt that is floating as well. The majority of our floating rate debt supports our non-prime portfolio however, which has strong risk-adjusted yields and is less sensitive to a change in interest rates.

We expect to see portfolio growth continue in 2018, most notably in our prime portfolio in the U.S. We do not expect to see any growth in our highest yielding U.S. portfolio segment following our credit tightening in the spring of 2017. This segment of our portfolio - start-up and "C" credit-rated business - grew very consistently for many years, from 2009 through to the spring of 2017. We believe that the risk-adjusted yields required for this market segment's long-term performance are now under competitive pressure that is irrational and we have chosen not to follow the market's behavior.

Chesswood continues to have a strong balance sheet, multiple banking partners and modest leverage that has us well positioned to take advantage of opportunities, organic and/or acquisitively. In addition, and most importantly, our tenured, committed and proven management team and staff are dedicated to driving Chesswood's success well into the future, just as they have in the past.

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 or fixed rate securitizations) may have a material adverse impact on our businesses, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

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

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

Portfolio Delinquencies; Inability to Underwrite Lease and Loan Applications

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

Analogous risks are faced by Blue Chip in its business.

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 equipment finance industry generally may be affected by changes in accounting treatment for leases and loans, and negative publicity with respect to, among other things, fraud or deceptive practices by certain participants in the industry. Greater governmental scrutiny is also a risk, especially as to the tax treatment of certain transaction structures or other aspects of these transactions that, if changed, could result in additional tax, fee or other revenue to that governmental authority. Any of these factors may make leasing 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 began offering its prime product in 2015 - financing for higher credit rated lessees and borrowers, and this product represents an increasing part of the composition of Pawnee's portfolio. While it is expected that the losses and allowance for doubtful accounts in respect of this part of Pawnee's portfolio will be lower - commensurate with the prime credit rating of the lessees/borrowers - the spread between the rates that Pawnee can charge over our cost of funds is also considerably smaller.

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

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

"Characterization" Risks

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

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, and U.S. $100,000 for "A", Pawnee's practice of requiring only a verbal confirmation that the property has been delivered and irrevocably accepted under the subject lease or loan, and/or inspecting the property to confirm the same, could make Pawnee vulnerable to certain defenses. By way of example, Pawnee's deemed failure to deliver conforming property under the lease or loan documents could be a defense to a lessee/borrower's "unconditional" obligation to pay the rents and certain other amounts. Pawnee has not suffered any material losses relating to these practices, however, there can be no assurance that it would not in the future.

Analogous risks are faced by Blue Chip.

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

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

Licensing Requirements

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

Fees, Rates and Charges

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

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

operations, and on the amount of cash available for dividends to our shareholders.

Insurance

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

Lessor Liability

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

Liability for Misuse of Leased Equipment

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

Estimates Relating to Value of Leases

Based on the particular terms of a lease, equipment finance companies estimate the residual value of the financed equipment, which is recorded as an asset on its statement of financial position. At the end of the lease term, equipment finance companies seek to realize the recorded residual for the equipment by selling the equipment to the lessee or in the secondary market or through renewal of the lease by the lessee. The ultimate realization of the recorded residual values depends on numerous factors, including: accurate initial estimate of the residual value; the general market conditions and interest rate environment at the time of expiration of the lease; the cost of comparable new equipment; the obsolescence of the leased equipment; any unusual or excessive wear and tear on or damage to the equipment; and the effect of any additional or amended government regulations.

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

Competition from Alternative Sources of Financing

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

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

Many of the firms and institutions providing financing alternatives are substantially larger than Pawnee and have considerably greater financial, technical and marketing resources. Some of them may have a lower cost of funds and

access to funding sources that are unavailable to Pawnee. A lower cost of funds could enable a competitor to offer leases and loans with pricing lower than that of Pawnee, potentially forcing Pawnee to decrease its prices or lose origination volume. In addition, some financing sources may have higher risk tolerances or different risk assessments, which could allow them to establish more origination sources and customer relationships to increase their market share.

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

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

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.

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

Security Risks

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

Risks Related to our Structure and Exchange Rate Fluctuations

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

Unpredictability and Volatility of Share Price

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

Leverage, Restrictive Covenants

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

Possible Acquisitions

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

Restrictions on Potential Growth

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

Canadian Income Tax Matters

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

United States Income Tax Matters

There can be no assurance that U.S. federal and state income

tax laws and administrative policies will not develop or be changed in a manner that adversely affects our shareholders.

On December 22, 2017, the U.S. government enacted new tax legislation effective January 1, 2018. However, the legislation makes broad and complex changes to the U.S. tax code and, accordingly, it will take time to assess and interpret the changes. Consequently, the provisional recovery recorded by the Company in our financial statements may change in the future following a more comprehensive review of the legislation, including implementation of the associated rules and regulations and supporting guidance from the Internal Revenue Service and other bodies, and as a result of any future changes or amendments to this legislation.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Net Investment in Leases

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

Allowance for Doubtful Accounts

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

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

Pawnee's allowance for doubtful accounts on Chesswood's consolidated financial statements is comprised of the net investment in leases and loans value that is over 30 days delinquent, plus any leases or loans identified as impaired less than 30 days delinquent and approximately 15% of the 1-30 day delinquent leases (those considered most likely to fall into the over 30 days delinquent category by the next month). A similar approach is taken for Windset and Blue Chip.

Under IFRS, an allowance can only be set up if there is objective evidence that the impairment has already occurred; potential losses expected as a result of future events, no matter how likely based on past historical evidence, are not allowed to be recognized. As only a small percentage of the total lease and loan receivable portfolio have monthly payments that are past due at any one reporting date, the portion of the lease and loan receivables that shows observable objective evidence of impairment at any one reporting date is quite small, despite long-term historical experience that indicates that future charge-offs with respect to the current lease and loan receivable will typically exceed the level of observable impairment, in a matter of months.

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

As of January 1, 2018, the Company adopted IFRS 9 which introduces a new expected credit loss impairment method for calculating allowance for doubtful accounts. Please see Note 2 - *Accounting Standards Issued But Not Yet Effective* in the 2017 audited consolidated financial statements for further disclosure.

Legal Finance Receivables

Attorney loans and medical lien financing are deemed to be a financial asset as they are a contractual right to receive cash from another entity and are considered to be loans and receivables for accounting purposes, based on an evaluation

of all the terms and conditions of the contracts. The contracts are deemed to have fixed or determinable payments, in that the payments are due when the underlying cases are settled however the date as to which that will happen is not known and is estimated. Loans and receivables are accounted for at amortized cost using the effective interest method; however the effective interest rate is calculated using estimated cash flows based on an estimated settlement dated.

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

Once an advance/loan is made, the timing of the collection cycle is out of Case Funding's control. Therefore, the timing of actual collections will be irregular.

Impairment of Goodwill

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

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

Contingent Consideration

The estimated fair value of contingent consideration required very subjective assumptions to be made of various potential operating result scenarios and discount rates. The Company periodically reviewed expected operating results and an updated assessment of various probability weighted projected scenarios.

Convertible Debentures

The convertible debentures had several embedded derivative features which were determined to not meet the criteria for treatment as equity components and would otherwise be required as separate financial instruments, measured at fair value through the profit or loss. The Company had elected under IAS 39.11A to designate the entire convertible debentures (and all the embedded derivatives) as a combined financial liability at fair value through profit or loss. As the convertible debentures were fair valued based on the trading price on the Toronto Stock Exchange every reporting period, there may have been increased volatility in our reported net income. As result of the election to value the convertible debentures at fair value, the expenses related to the issuance of the convertible debenture were expensed when incurred.

Share-based Payments

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

Interest rate derivatives

Financial instruments accounting requires recognition of the fair value of all derivative instruments on the statement of financial position as either assets or liabilities. Changes in a derivative's fair value are recognized currently in earnings

unless specific hedge accounting criteria are met. Gains and losses on derivative hedging instruments must be recorded in either other comprehensive income or current earnings, depending on the nature and designation of the instrument.

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

Taxes

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

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

FUTURE ACCOUNTING STANDARDS

A listing of the recent accounting pronouncements not yet adopted by the Company is included in Note 2 - *Accounting Standards Issued But Not Yet Effective* in the audited consolidated financial statements for the year ended December 31, 2017.

RELATED PARTY TRANSACTIONS

See Note 25 - *Related Party Transactions* in the 2017 audited consolidated financial statements for the disclosure of key management compensation.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

The Certifying Officers have assessed the design and operating effectiveness of the Company's DC&P as at December 31, 2017 and have concluded that the design and the operation of the Company's DC&P are effective as at that date.

Internal Control over Financial Reporting

The Certifying Officers, along with other members of management, have also designed, or caused to be designed under their supervision, Internal Control over Financial

Reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes prepared in accordance with IFRS. The Certifying Officers have used the Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013, to design the Company's ICFR.

The Certifying Officers have assessed the design and operating effectiveness of the Company's ICFR as at December 31, 2017 and have concluded that the design and the operation of the Company's ICFR are effective as at that date.

Changes in the Company's ICFR

During 2017, with the oversight of the Audit and Governance Committee, the Certifying Officers commenced a comprehensive Internal Control Program to address the remediation of Material Weaknesses as previously reported. The Program was managed by external advisers, and among other items, included the design and implementation of specific policies, procedures and controls to address the control weaknesses as discussed below:

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 and to remediate the previously disclosed control weakness, management has established 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.

Furthermore, documentation of policies and procedures at the Head Office Finance Group has been enhanced and formalized.

2) ***Information Technology Controls***

Due to the relatively small size of the Company, the Company had 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 required revision to mitigate the risk of inappropriate access to systems and applications. In addition, improvements to exception reporting were 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 related 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 established 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 IFRS. Furthermore, through the use of external resources to conduct independent reviews and establishment of a sub-certification process, management has taken further remediation steps to ensure the integrity of the Company's disclosure documents.

Management has also focused on its General Computer Controls to ensure that access to financial reporting systems and data is underpinned by password protocols and the access granted is appropriate and authorized, changes to these systems are made in accordance with management's intent and approval and the security over the internal networks is adequately protected and monitored. Outsourced service providers regularly attest, through third party reports and management bridge letters, to the design and operating effectiveness of controls over the systems managed by them.

In the area of Spreadsheet Controls, management has remediated the control weaknesses through:

- Issuance of a Spreadsheet Control Policy
- Providing Spreadsheet Control Training to staff
- Performance of Risk Assessment on Spreadsheets

3) ***Anti-Fraud Controls***

As a result of the lack of segregation of duties at the Company level as described above, anti-fraud controls were 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 felt the existing signing authorities and current review of bank balances were sufficient to mitigate the risk.

Management has remediated the above weakness through a complete review of its treasury cycles and implementation of segregated roles and responsibilities and 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. Furthermore, management has issued a Journal Entry Policy and Procedure which has been rolled out to employees and has segregated the journal entry preparation, review and approval roles.

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

	Common Shares		
	High	Low	Average Daily Volume
January	$12.34	$11.60	16,349
February	$12.80	$11.88	15,274
March	$13.69	$12.55	19,960
April	$14.60	$12.62	22,843
May	$13.72	$11.70	13,592
June	$12.53	$11.21	15,195
July	$13.58	$11.23	11,268
August	$13.82	$11.75	13,669
September	$12.70	$12.01	11,563
October	$13.00	$12.10	9,620
November	$13.00	$11.17	19,082
December	$11.75	$11.17	14,763
	$14.60	$11.17	15,524

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Chesswood Group Limited and all of the information in this Annual Report are the responsibility of Management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by Management in accordance with International Financial Reporting Standards ("IFRS"). These statements include some amounts that are based on best estimates and judgment. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. Financial information used elsewhere in the Annual Report is consistent with that in the consolidated financial statements. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit and Governance Committee.

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 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.

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 ("2013 COSO Framework") issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") to design the Company's ICFR.

As more fully detailed in the accompanying MD&A, the Certifying Officers have evaluated, or caused to be evaluated under their supervision, the design and operating effectiveness of the Company's DC&P and ICFR as at December 31, 2017 and have concluded that the Company's DC&P and ICFR are effective as at financial year end.

The Audit and Governance Committee is appointed by the Board and is comprised of independent Directors. The committee meets periodically with Management and the independent external auditors, to discuss disclosure controls and internal control over the financial reporting process, auditing matters and financial reporting issues to satisfy itself that each party is properly discharging its responsibilities. The Audit and Governance Committee reviews the Company's annual consolidated financial statements, the external auditors' report and other information in the Annual Report. The committee reports its findings to the Board for consideration by the Board when it approves the consolidated financial statements for issuance to the shareholders.

The consolidated financial statements have been audited by BDO Canada LLP, the independent external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the Shareholders. The Independent Auditor's Report outlines the nature of their examination and their opinion on the consolidated financial statements. BDO Canada LLP has full and unrestricted access to the Audit and Governance Committee to discuss their audit and related findings as to the integrity of the financial reporting.

Barry Shafran
President & CEO
March 8, 2018

Independent Auditor’s Report

To the Shareholders of
Chesswood Group Limited

We have audited the accompanying consolidated financial statements of Chesswood Group Limited, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and December 31, 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Chesswood Group Limited as at December 31, 2017 and December 31, 2016, and its financial performance and its cash flows for the years ended December 31, 2017 and December 31, 2016 in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants

March 8, 2018
Toronto, Ontario

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

	Note	**December 31, 2017**	December 31, 2016
ASSETS			
Cash		**$ 3,640**	$ 11,443
Restricted funds	*13 (d)*	**5,971**	—
Assets held for sale	*5*	**3,371**	5,903
Other assets	*6*	**17,564**	14,468
Finance receivables	*7*	**550,650**	431,048
Deferred tax assets	*16*	**755**	962
Interest rate derivatives	*15*	**185**	—
Property and equipment	*8*	**1,935**	1,434
Intangible assets	*9*	**19,684**	21,873
Goodwill	*10*	**39,857**	40,806
TOTAL ASSETS		**$ 643,612**	$ 527,937
LIABILITIES			
Accounts payable and other liabilities	*11*	**$ 14,889**	$ 15,243
Convertible debentures	*12*	**20,090**	20,260
Borrowings	*13*	**412,155**	293,081
Customer security deposits	*14*	**14,012**	13,603
Interest rate derivatives	*15*	**43**	850
Deferred tax liabilities	*16*	**21,202**	27,006
		482,391	370,043
SHAREHOLDERS' EQUITY			
Common shares	*20*	**105,208**	104,596
Non-controlling interest	*21*	**13,230**	13,049
Share-based compensation reserve	*22*	**5,295**	4,780
Accumulated other comprehensive income		**10,776**	18,196
Retained earnings		**26,712**	17,273
		161,221	157,894
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 643,612**	$ 527,937

Approved by the Board of Directors

Fred Steiner, Chairman

Clare R Copeland

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(in thousands of dollars, except per share amounts)

	Note	2017	2016
Finance revenue			
Interest revenue on finance leases and loans		**$ 79,693**	$ 77,465
Ancillary finance and other fee income		**15,631**	14,118
		95,324	91,583
Finance expenses			
Interest expense		**15,268**	9,824
Provision for credit losses	7	**21,084**	25,819
		36,352	35,643
Finance margin		**58,972**	55,940
Expenses			
Personnel expenses		**14,757**	13,931
Other expenses		**11,699**	11,387
Depreciation - property and equipment	8	**441**	312
		26,897	25,630
Income before undernoted items		**32,075**	30,310
Acquisition related items	11	**538**	678
Amortization - intangible assets	9	**(1,691)**	(1,337)
Unrealized gain (loss) on investments held	6	**(2,869)**	3
Financing costs - convertible debentures	12	**(1,130)**	(1,660)
Unrealized gain on interest rate derivatives	15	**1,006**	15
Unrealized gain (loss) on foreign exchange		**(118)**	111
Income before taxes		**27,811**	28,120
Tax expense	16	**(2,060)**	(10,803)
Income from continuing operations		**25,751**	17,317
Income (loss) from discontinued operations	5	**(320)**	6,961
Net income		**$ 25,431**	$ 24,278
Attributable to:			
Common shareholders		**$ 23,345**	$ 22,265
Non-controlling interest		**$ 2,086**	$ 2,013
Basic earnings per share	24	**$ 1.41**	$ 1.36
Diluted earnings per share	24	**$ 1.37**	$ 1.33

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(in thousands of dollars)

	2017	2016
Net income	**$ 25,431**	$ 24,278
Other comprehensive income:		
Unrealized loss on translation of foreign operations	**(8,083)**	(3,042)
Comprehensive income	**$ 17,348**	$ 21,236
Attributable to:		
Common shareholders	**$ 15,925**	$ 19,474
Non-controlling interest	**$ 1,423**	$ 1,762

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(in thousands of dollars)

	Note	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		—	—	**2,086**	—	—	**23,345**	**25,431**
Dividends declared	23	—	—	**(1,242)**	—	—	**(13,906)**	**(15,148)**
Share-based compensation	22	—	—	—	**965**	—	—	**965**
Exercise of restricted share units	22	**38**	**386**	—	**(386)**	—	—	—
Exercise of options	22	**23**	**226**	—	**(64)**	—	—	**162**
Unrealized loss on translation of foreign operations		—	—	**(663)**	—	**(7,420)**	—	**(8,083)**
Shareholders' equity - December 31, 2017		**16,575**	**$ 105,208**	**$ 13,230**	**$ 5,295**	**$ 10,776**	**$ 26,712**	**$ 161,221**

	Note	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
Shares issued	20	10	100	—	—	—	—	100
Net income		—	—	2,013	—	—	22,265	24,278
Dividends declared	23	—	—	(1,907)	—	—	(21,056)	(22,963)
Share-based compensation	22	—	—	—	1,372	—	—	1,372
Exercise of restricted share units	22	38	466	—	(466)	—	—	—
Exercise of options	22	236	2,520	—	(560)	—	—	1,960
Repurchase of common shares under issuer bid	20	(34)	(216)	—	—	—	(150)	(366)
Unrealized loss on translation of foreign operations		—	—	(251)	—	(2,791)	—	(3,042)
Shareholders' equity - December 31, 2016		16,514	$ 104,596	$ 13,049	$ 4,780	$ 18,196	$ 17,273	$ 157,894

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(in thousands of dollars)

	Note	2017	2016
OPERATING ACTIVITIES			
Income from continuing operations		**$ 25,751**	$ 17,317
Non-cash items included in net income			
Amortization and depreciation		**2,132**	1,649
Provision for credit losses (excluding recoveries)	*7*	**29,154**	31,981
Amortization of origination costs		**18,786**	19,400
Tax expense		**2,060**	10,803
Other non-cash items	*26*	**5,068**	2,692
		57,200	66,525
Cash from operating activities before change in net operating assets		**82,951**	83,842
Funds advanced on origination of finance receivables		**(343,614)**	(294,253)
Origination costs paid on finance receivables		**(30,072)**	(28,601)
Principal collections of finance receivables		**182,252**	199,162
Change in other net operating assets	*26*	**(4,550)**	2,479
Cash used in operating activities before undernoted		**(113,033)**	(37,371)
Interest paid on convertible debentures	*12*	**(1,300)**	(1,300)
Income taxes paid - net		**(12,532)**	(5,372)
Cash used in operating activities - continuing operations		**(126,865)**	(44,043)
Cash from (used in) operating activities - discontinued operations	*5*	**1,899**	(2,600)
Cash used in operating activities		**(124,966)**	(46,643)
INVESTING ACTIVITIES			
Acquisition, net of cash acquired	*11(a)*	**—**	(6,000)
Proceeds from sale of discontinued operations, net of costs	*5*	**—**	30,964
Purchase of property and equipment	*8*	**(943)**	(844)
Cash from (used in) investing activities		**(943)**	24,120
FINANCING ACTIVITIES			
Borrowings, net	*26*	**137,725**	42,733
Payment of financing costs	*13*	**(4,320)**	(1,411)
Proceeds from exercise of options	*22*	**162**	1,960
Repurchase of common shares under issuer bid	*20*	**—**	(366)
Cash dividends paid	*23*	**(15,143)**	(22,857)
Cash from financing activities - continuing operations		**118,424**	20,059
Cash used in financing activities - discontinued operations	*5*	**—**	(1,703)
Cash from financing activities		**118,424**	18,356
Unrealized foreign exchange loss on cash		**(318)**	(310)
Net decrease in cash		**(7,803)**	(4,477)
Cash, beginning of year		**11,443**	15,920
Cash, end of year		**$ 3,640**	$ 11,443

Please see notes to the consolidated financial statements.

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1. NATURE OF BUSINESS AND BASIS OF PREPARATION

Chesswood Group Limited (the “Company” or "Chesswood") is incorporated under the laws of the Province of Ontario. The Company’s head office is located at 156 Duncan Mill Road, Unit 16, 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. 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 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. The company ceased accepting loan applications in September 2016, but does not meet the criteria for a discontinued operation.
- Blue Chip - commercial equipment financing to small and medium businesses in Canada.

Discontinued operations 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 consolidated 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 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.

In order to improve clarity, certain items have been combined on the statements of financial position with detail provided separately in the Notes to the consolidated financial statements and certain of the comparative figures have been reclassified to conform to the presentation adopted in the current year's consolidated financial statements.

The Company’s consolidated financial statements were authorized for issue on March 8, 2018 by the Board of Directors.

Foreign currency transactions

The financial statements of consolidated entities which are prepared in a foreign currency are translated using the functional currency concept of IAS 21, *The Effects of Changes in Foreign Exchange Rates*. The functional currency of a subsidiary is determined on the basis of the primary economic environment in which it operates and typically corresponds to the local currency.

The reporting currency is the Canadian dollar and the financial statements are presented in thousands of Canadian dollars except per share amounts and as otherwise noted. The functional currency of the Company, Chesswood Holdings Ltd., Blue Chip, and Lease-Win Limited is the Canadian dollar. The functional currency of U.S. Acquisitionco, Pawnee, Windset 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 year ended December 31, 2017 - 1.2986; 2016 - 1.3248], and assets and liabilities are translated at the closing rate [as at December 31, 2017 - 1.2545; December 31, 2016 - 1.3427]. Exchange differences arising from the translation are recognized in other comprehensive income. Foreign currency payables and receivables in the statement of financial position are recorded at

the transaction date at cost. Exchange gains and losses arising from conversion of monetary assets and liabilities at exchange rates at the end of the reporting period are recognized as income or expense.

Statement of cash flows

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 year. Cash flows in foreign currencies have been translated at the average rate for the period. Exchange rate differences affecting cash items are presented separately in the statement of cash flows.

Cash flow from operating activities comprises net income adjusted for non-cash items, changes in working capital and operational net assets. Receipts and payments with respect to tax are included in cash from operating activities.

Cash flow from investing activities comprises payments relating to business acquisitions and property and equipment.

Cash flow from financing activities comprises payment of dividends, net proceeds from borrowings, proceeds from convertible debentures and stock issues, and the purchase and sale of treasury stock.

Exercise of judgment and use of accounting estimates and assumptions

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to apply a significant degree of judgment in applying the Company's financial accounting policies and to make certain assumptions and estimates that have a material effect on the reported amounts of assets, liabilities, revenue and expenses.

The assumptions and estimates are based on premises that reflect the facts that are known at any given time. Future economic factors are inherently difficult to predict and are beyond management's control. If the actual development differs from the assumptions and estimates, the premises used and, if necessary, the carrying amounts for the assets and liabilities in question are adjusted accordingly. The exercise of judgment is based on management's experience and also on past history. As a result, actual amounts could differ from these estimates.

The fair value of interest rate derivatives, certain assets acquired and consideration paid in business acquisitions, contingent consideration, and available for sale financial assets are estimated using valuation techniques based on assumptions of, for example, estimated future cash flows, future interest rate movements, the probability of success of legal claims and the timing of collections. The estimated fair values are sensitive to changes in these assumptions.

There were no significant changes in estimates made in the interim periods that have been adjusted in the final quarter.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are presented in the following Notes: *Legal Finance Receivables - Note 5(c) , Net Investment in Leases - Note 7, and Taxes - Note 16.*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are presented in the following Notes: *Legal Finance Receivables - Note 5(c), Contingent Consideration - Note 11, Impairment of Financial Asset Receivables - Note 7, Impairment of Intangibles and Goodwill - Note 9 and Note 10, and Taxes - Note 16.*

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 consolidated financial statements other than the expanded disclosure in Note 13 - *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 when it becomes effective, for the year ending December 31, 2018, retrospectively, but without restatement of prior periods.

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. This new approach is not expected to have any significant effect on the Company's classification of financial assets.

The new standard introduces an expected credit loss impairment ("ECL") model for all financial instruments except those measured at fair value through profit and loss. Application of the model will depend on the following credit stages of the financial assets:

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

The measurement of expected credit losses for each stage and the assessment of significant increase in credit risk considers information about past events and current conditions, as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will also require judgment.

An option is available to recognize a lifetime ECL on initial recognition of lease and loans. The Company is not exercising this option because sufficient credit risk information is available for application of the general requirements of the standard which, because of the duration of the Company's lease and loan agreements, will result in higher quality financial information.

For financial receivables in Stages 1 and 2, interest revenue is recognized using the effective interest rate applied to the gross carrying amount of the asset. Interest is recognized for financial receivables in Stage 3 at the effective interest rate applied to the net carrying amount of the asset.

We are in the process of testing and validating the Company's methodology. The effects of adoption will be recognized as an adjustment to the Company's consolidated statement of financial position as at January 1, 2018. The adjustment primarily relates to adoption of the new ECL model and to the U.S. equipment financing segment.

The Company estimates the IFRS 9 transition amount will reduce shareholders' equity and non-controlling interest by approximately $7 million after-tax.

The Company's banking agreement includes a provision for the mutual agreement of new covenant calculations between management and the lender in the event of a material change in the financial reporting framework.

IFRS 9 also requires an entity choosing to measure a liability at fair value to present the portion of the change in fair value due to changes in the entity's own credit risk in other comprehensive income or loss in the entity's statement of comprehensive income, rather than within profit or loss. The standard also includes revised guidance related to de-recognition of financial instruments. These requirements are not expected to have a material impact on the Company's financial position or performance.

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 does not anticipate any significant changes to ancillary finance and other fee revenue from adoption.

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 the 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 lease commitments included in Note 17 - *Minimum Payments*.

3. FINANCIAL INSTRUMENTS

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

Financial assets are derecognized when the contractual rights to the cash flows from the asset expire or when the asset and substantially all related risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, canceled 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, restricted funds, net investment in leases, loan receivables, and convertible note receivable (included in Other Assets on the consolidated statement of financial position) 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 finance leases are deferred and recorded as an adjustment to the yield of the net investment in finance 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 the Company's derivative financial instruments are included in this category. 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 (included in Other Assets on the consolidated statement of financial position) 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 December 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.

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; whereas, 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 or loss. All contingent consideration payable is also included in this category. Derivative financial instruments that are designated as effective hedge instruments are excluded from this category.

The Company's interest rate swap contracts are classified as held for trading for accounting purposes. The convertible debentures and contingent consideration are designated as at fair value through net income or loss. 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 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. Transaction costs attributable to the issuance of financial liabilities at fair value through net income or loss are recognized in net income or loss as incurred.

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) Categories 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 net income 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. 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:

					December 31, 2017
	Category	Level 1	Level 2	Level 3	Carrying Value
ASSETS					*($ thousands)*
Cash *(iii)*	L&R	$ 3,640	$ —	$ —	$ 3,640
Restricted funds *(iii)*	L&R	5,971	—	—	5,971
Other assets	L&R	—	9,629	—	9,629
Other assets	FVTP	634	—	—	634
Loan receivables *(i)*	L&R	—	177,879	—	177,879
Interest rate derivatives *(v)*	HFT	—	185	—	185
LIABILITIES					
Accounts payable and other liabilities *(iii)*	L&B	—	(14,889)	—	(14,889)
Borrowings *(ii)*	L&B	—	(412,155)	—	(412,155)
Customer security deposits	L&B	—	(14,012)	—	(14,012)
Convertible debentures *(iv)*	FVTP	(20,090)	—	—	(20,090)
Interest rate derivatives *(v)*	HFT	—	(43)	—	(43)

	Category	Level 1	Level 2	Level 3	December 31, 2016 Carrying Value ($ thousands)
ASSETS					
Cash *(iii)*	L&R	$ 11,443	$ —	$ —	$ 11,443
Other assets	L&R	—	7,198	—	7,198
Other assets	FVTP	3,503	—	—	3,503
Loan receivables *(i)*	L&R	—	108,744	—	108,744
LIABILITIES					
Accounts payable and other liabilities *(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 derivatives *(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, restricted funds and for financial instruments with short maturities, including accounts payable and other liabilities.
(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 net income 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 net income 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.
(v) The Company determines the fair value of its interest rate derivatives under the income valuation technique using a discounted cash flow model. Significant inputs to the valuation model include the contracted notional amount, LIBOR rate yield curves and the applicable credit-adjusted risk-free rate yield curve. The Company's interest rate derivative is included in the Level 2 fair value hierarchy because all of the significant inputs are directly or indirectly observable.

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

(b) Gains and losses on financial instruments

The following table shows the net gains and losses arising for each IAS 39, category of financial instruments:

	For the years ended December 31,	
	2017	2016
	($ thousands)	
Loans and receivables:		
Provision for credit losses	**$ (21,084)**	$ (25,819)
Designated as at fair value through net income or loss:		
Convertible debentures	**(1,130)**	(1,660)
Contingent consideration	**538**	678
Fair value through net income or loss:		
Investment in Dealnet common shares	**(2,869)**	3
Interest rate derivatives	**1,006**	15
Net loss	**$ (23,539)**	$ (26,783)

4. FINANCIAL RISK MANAGEMENT

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

There have been no material changes in the Company's objectives and policies or processes for measuring and managing risk while our processes and analysis for managing and measuring credit risk are continually evolving as our product range grows and as the markets in which we operate change, over time.

i) Credit risk

Credit risk stems primarily from the potential inability of a customer or counterparty to a financial instrument to meet its contractual obligations. The Company's maximum exposure to credit risk is represented by the carrying amounts of cash, EcoHome loan receivable and finance receivables.

The Company's excess cash is held in accounts with several major Canadian chartered banks and a few U.S. banks with the majority at J.P. Morgan Chase. Management has estimated credit risk with respect to such balances to be nominal and monitors changes in the status of these financial institutions to mitigate potential credit risk.

Pawnee and Blue Chip's investment in finance receivables are originated with smaller, often owner-operated businesses, some of whom have limited access to traditional financing. A portion of Pawnee's lessees and borrowers are either start-up businesses that have not established business credit or more tenured businesses that have experienced some business credit difficulty at some time in their history ("non-prime"). As a result, such leases and loans entail higher credit risk than our prime customers (reflected in higher than expected levels of delinquencies and loss) relative to the prime commercial equipment finance market. The typical Blue Chip borrower is a tenured small business with a strong credit profile.

Pawnee's credit risk is mitigated by: funding only "business essential" commercial equipment, where the value of the equipment is less than U.S.$200,000, typically obtaining at least the personal guarantee of the majority owners of the lessee\borrower for each lease or loan, and by diversification on a number of levels, including: geographical across the United States, type of equipment, equipment cost, industries in which Pawnee's lessees\borrowers operate and through the number of lessees\borrowers, none of which is individually significant. Furthermore, Pawnee's credit risk in its non-prime portfolio is mitigated by the fact that the standard lease\loan contract most often requires that the lessee\borrower provide two months payments as a security deposit, which, in the case of default, is applied against the lease\loan receivable; otherwise the deposit is held for the full term of the lease\loan and is then returned or applied to the purchase option of the equipment at the lessee's option.

Pawnee and Blue Chip are entitled to repossess leased equipment if the lessee defaults on their lease contract in order to minimize any credit losses. When an asset previously accepted as collateral is to be repossessed, it undergoes a process of physical repossession

and disposal in accordance with the legal provisions of the relevant market. See Note 7 - *Finance Receivables*, for a further discussion on the repossession of collateral.

The finance receivables consist of a large number of homogenous leases and loans, with relatively small balances, and as such, the evaluation of the allowance for credit losses is performed collectively for the lease and loan receivable portfolio. More detailed information regarding this methodology and on finance receivables that are considered to be impaired is provided in Note 7 - *Finance Receivables*.

Blue Chip, in a similar segment of the Canadian equipment finance market as Pawnee's market segment in the U.S., mitigates credit risk in similar fashion to Pawnee including the small average size of each lease, diversification in multiple asset categories and industries, very low lessee concentration and personal guarantees of the business principals on certain leases.

The credit risk on the Dealnet convertible note is deemed to be low as the cash was received subsequent to year-end. The credit risk on the EcoHome loan is mitigated by the security held by the Company against EcoHome; the loan is secured by specific leases and loans as well as a general security agreement in favour of Chesswood over all the assets of EcoHome.

ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Company's objective is to maintain low cash balances, investing any free cash in finance receivables as needed and using any excess to pay down debt on the primary financing facilities. At December 31, 2017, the Company's continuing operations has at least $159.6 million (2016 - $127.0 million) in additional borrowings available under various credit facilities to fund business operations.

The Company's operations and growth are financed through a combination of the cash flows from operations, borrowings under existing credit facilities, and through non-recourse asset-backed bulk lease\loan transactions (ofter referred to as securitization). Prudent liquidity risk management requires managing and monitoring liquidity on the basis of a rolling cash flow forecast and ensuring adequate committed credit facilities are in place, to the extent possible, to meet funding needs.

The Company has a corporate credit facility that allows borrowings of up to U.S. $250.0 million (U.S.$215.4 million available based on borrowing base as at December 31, 2017), subject to certain percentages of eligible gross lease receivables, of which U.S.$165.0 million was utilized at December 31, 2017 (2016 - U.S.$144.3 million). See Note 13 - *Borrowings*. In addition, the Company has several bulk financing lines available to its Canadian business and recently completed the first of such financing for its U.S. prime portfolio. At this time, however, management believes that the syndicate of financial institutions that provides Chesswood's credit facility and the banks and life insurance company that provides financing to our subsidiaries are financially viable and will continue to provide the facilities, however there are no guarantees.

Under the corporate credit facility, the maximum cash dividends that the Company can pay in respect of a month is 1/12 of 90% of free cash flow for the most recently completed four financial quarters in which the Company has publicly filed its consolidated financial statements less cost of any repurchases under normal course issuer bid.

The maturity structure for undiscounted contractual cash flows is presented in Note 17 - *Minimum payments*.

iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market price risks faced by the Company relate to the trading price of convertible debentures and Dealnet common shares, interest rates and foreign currency.

a) Trading prices

The Company's convertible debentures were being measured at fair value at each reporting date with changes in fair value recognized in net income or loss. Fair value was based on the trading price of the debentures on the Toronto Stock Exchange. Therefore changes in trading price had a direct impact on net assets and net income or loss. The Company did not hedge this fair value price exposure. Subsequent to year-end, the convertible debentures were redeemed, see Note 12 - *Convertible debentures*.

The Company's investment in Dealnet common shares (included in Other Assets on the statement of financial position) are measured at fair value at each reporting date with changes in fair value recognized in net income or loss. Fair value is based on the trading price of the shares on the Toronto Stock Exchange. Therefore changes in trading price has a direct impact on net assets and net income or loss. The Company does not hedge this fair value price exposure.

b) Interest rate risk

The finance receivables are written at fixed effective interest rates. To the extent the Company finances its fixed rate finance receivables with floating rate funds, there is exposure to fluctuations in interest rates such that an increase in interest rates could narrow the margin between the yield on a lease/loan receivable and the interest rate paid by the Company to finance working capital. The Company elects to lock in the majority of its credit facility at the LIBOR based interest rate.

The following table presents a sensitivity analysis for a reasonable fluctuation in interest rates and the effect on the Company for the years ended December 31, 2017 and 2016:

	For the years ended			
	December 31, 2017		December 31, 2016	
	+100 bps	-100 bps	+100 bps	-100 bps
	($ thousands)			
Increase (decrease) in interest expense	**$ 1,627**	**$ (1,627)**	$ 1,130	$ (1,130)
Increase (decrease) in net income and equity	**$ (1,001)**	**$ 1,001**	$ (695)	$ 695

c) Foreign currency risk

The Company is exposed to fluctuations in the U.S. dollar exchange rate because significant operating cash inflows are generated in the U.S. while dividends are paid to shareholders in Canadian dollars. For the year-ended December 31, 2017, dividends paid totaled $15.1 million (2016 - $14.0 million, excluding the special dividend paid in 2016 which was supported by Canadian dollar cash flow).

The following table presents a sensitivity analysis for a hypothetical fluctuation in U.S. dollar exchange rates and the effect on the Company as at December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016
	($ thousands)	
Year-end exchange rate	**1.2545**	1.3427
U.S. denominated net assets in U.S.$ held in Canada	**$ 115**	$ 1,376
Effect of a 10% increase or decrease in the Canadian/U.S. dollar on U.S. denominated net assets	**$ 14**	$ 185

5. 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 sale of 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 decisions met the criteria of discontinued operations.

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

Legal finance receivables (Case Funding) consist of:	**December 31, 2017**	December 31, 2016
	($ thousands)	
Attorney loans and medical liens	**$ 68**	$ 136
Plaintiff advances	**3,303**	5,767
Legal finance receivables *(net of allowance)*	**3,371**	5,903
Current portion	838	1,955
Long-term portion	$ 2,533	$ 3,948

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 3 - *Financial Instruments* of these consolidated financial statements.

The fair values of financial instruments are classified using the measurement hierarchy as follows:

($ thousands)	Category	Level 1	Level 2	Level 3	December 31, 2017 Carrying Value
ASSETS HELD FOR SALE					
Attorney loans and medical liens *(i)*	L&R	$ —	$ 68	$ —	$ 68
Plaintiff advances	AFS	—	—	3,303	3,303

($ 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

($ thousands, except per share amounts)	For the year ended December 31, 2017	For the year ended December 31, 2016		
	Case Funding	Case Funding	EcoHome	Total
	(c)	*(c)*	*(d)*	
Interest revenue on leases and loans	**$ 308**	$ 759	$ 949	$ 1,708
Ancillary finance and other fee income	**—**	—	85	85
Interest expense	**—**	—	(481)	(481)
Provision for credit losses	**(403)**	(359)	(8)	(367)
Finance margin	**(95)**	400	545	945
Personnel expenses	**—**	—	181	181
Share-based compensation expense	**—**	—	148	148
Other expenses	**225**	124	151	275
Income (loss) before undernoted items	**(320)**	276	65	341
Gain on sale, net of costs and taxes	**—**	—	6,663	6,663
Income (loss) before taxes	**(320)**	276	6,728	7,004
Tax expense	**—**	—	(43)	(43)
Income (loss) from discontinued operation	**$ (320)**	$ 276	$ 6,685	$ 6,961
Basic earnings per share from discontinued operations	**$ (0.02)**			$ 0.39
Diluted earnings per share from discontinued operations	**$ (0.02)**			$ 0.38
Cash flow from discontinued operations				
Net cash from (used in) operating activities	**$ 1,899**	$ 1,494	$ (4,094)	$ (2,600)
Net cash from (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 $3.4 million and pays a servicing fee of 5% of collections to administer the remaining portfolio.

In the fourth quarter of 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 and 2017, certain external events delayed the search for a buyer.

At Case Funding, management reviews each attorney loan and medical lien receivable on an individual basis for collectability and for allowance requirements, if any. At December 31, 2017, it was determined an allowance of $207,000 (December 31, 2016 - $162,000) was required.

Significant judgments

Attorney loans are collateralized loans to contingency fee-based law firms based on a combination of an assessment of the likelihood of a successful outcome for a pool of cases put forward by the law firm, and the creditworthiness of the borrowers. Plaintiff advances are structured as a purchase of an interest in the proceeds of a legal claim and are made (or declined) based on the probability of success and potential claim size, not the plaintiff's credit. Advances are on a non-recourse basis where Case Funding

forfeits its entire advance and any related fees if the plaintiff is not successful in the claim. Such advances are not characterized as loans because there is no promise to repay in the event the plaintiff does not succeed in his/her claim. Medical lien financing refers, generally, to the purchase of existing medical debt obligations of patients involved in existing litigation that is the result of an injury or multiple injuries.

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

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

Reconciliation of Level 3 Financial Instruments - The following table sets forth a summary of changes in the carrying value of plaintiff advances:

	For the years ended **December 31,**	
	2017	2016
	($ thousands)	
Balance, beginning of year	**$ 5,767**	$ 7,031
Originations	**—**	—
Fair value accretion *(i)*	**308**	752
Losses and provision for losses	**(403)**	(359)
Collections	**(2,071)**	(1,433)
Foreign exchange impact *(ii)*	**(298)**	(224)
Balance, end of year	**$ 3,303**	$ 5,767

(i) Management considered that the change in fair value for plaintiff advances, which are carried at fair value, related to the amortization of interest or successful settlement of advances during the year. The fair value accretion on plaintiff advances is included in interest revenue on finance leases and loans in the consolidated statement of income.
(ii) Difference between year-end foreign exchange rate and average exchange rate; the amount is included in other comprehensive income.

Significant Estimates
Fair value measurements are based on level 3 inputs of the three-level hierarchy system which indicates inputs for the assets that are not based on observable market data (unobservable inputs). Plaintiff advances are initially recorded at their fair value, equivalent to the funds advanced. Subsequent measurement of plaintiff advances is at fair value utilizing a fair value model developed by the Company.

The principal assumptions used in the fair value model are as follows:
- Estimated duration of each plaintiff advance;
- Best estimate of anticipated outcome;
- Monthly fee per advance contract on nominal value of each plaintiff advance; and
- Market interest rate at which estimated cash flows are discounted.

The fair value of plaintiff advances is reviewed quarterly on an individual case basis. Events that may trigger changes to the fair value of each plaintiff advance include the following:
- Successful and unsuccessful judgments of claims in which the Company has a plaintiff advance;
- Outstanding appeals against both successful and unsuccessful judgments;
- Receipt of funds to settle plaintiff advances;
- A case is dismissed with prejudice (meaning, it can never be re-filed anywhere);
- Change in monthly fee assessed on plaintiff advances;
- Market interest rate at which estimated cash flows are discounted.

Inherent to the underwriting process is the approval for funding of cases that have a high probability of success, to be achieved either in pre-trial settlement or as a result of a judgment by a court. The fair value estimate is inherently subjective being based largely on an estimate of the duration of plaintiff advance and its potential settlement. In the Company's opinion there is no useful alternative valuation that would better quantify the market risk inherent in the portfolio and there are no other inputs or variables to which the value of the plaintiff advances are correlated.

A 10% change in the estimated duration of plaintiff advances, while all other variables remain constant, would have no significant impact on the Company's net income and net assets.

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 matured in February 2018, bore interest at 6% per annum and was 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. See Note 6 - *Other Assets* and Note 28 - *Subsequent Events*.

The net gain, after $1.3 million in costs and $3.5 million in taxes, was approximately $6.7 million and is included in income from discontinued operations for 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 and is included in income from discontinued operations.

6. OTHER ASSETS

Other assets comprise:

		December 31, 2017	December 31, 2016
		($ thousands)	
Property tax receivable		**$ 527**	$ 629
Tax receivable		**5,763**	2,377
Sales tax receivable		**342**	45
Other prepaid expenses and current assets		**669**	716
Loan receivable - EcoHome	*a*	**7,129**	3,000
Common shares - Dealnet	*b*	**634**	3,503
Escrow funds - Dealnet	*c*	—	1,698
Convertible note - Dealnet	*d*	**2,500**	2,500
Other assets		**17,564**	14,468
Current portion		9,801	11,968
Long-term portion		$ 7,763	$ 2,500

(a) Loan receivable - The loan receivable is carried at amortized cost. In Q4 2017, the Company advanced EcoHome an additional $5.5 million secured by specific EcoHome leases and loans and a general security agreement over all the assets of EcoHome. The

loan was restated to extend the maturity date to October 2020, with fixed monthly principal payments, and related interest based on a floating interest rate plus a fixed margin. At December 31, 2017, it was determined no allowance against the loan receivable was required.

(b) Common shares - as partial consideration for the sale of EcoHome (Note 5(d)), the Company received 6,039,689 common shares of Dealnet. The Dealnet shares are measured at fair value through net income 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 - $2.75 million of the proceeds from the sale of EcoHome (Note 5(d)) were held back in escrow; $1.0 million was released in Q3 2016 and $1.75 million was released in Q4 2017.

(d) Convertible note - as partial consideration for the sale of EcoHome (Note 5(d)), the Company received a $2.5 million convertible note of Dealnet, bearing interest at 6% per annum, which matured in February 2018 and the Company has since received the $2.5 million.

7. FINANCE RECEIVABLES

Description and accounting policy

The net investment in finance receivables arises from the Company's equipment financing operations. For the Company's lease receivables, the Company uses standard lease contracts which are non-cancelable finance leases and provide for monthly lease payments for periods of one to six years. Leases are accounted for as finance leases because substantially all of the risks and rewards incidental to legal ownership of the property are transferred to the lessee. The total present value of minimum lease payments to be received over the lease term is recognized at the commencement of the lease. The difference between this total value, net of incremental execution costs, such as broker commission, and the cost of the leased asset is deferred income and is recognized as a reduction of the lease receivable, with the net result shown as net investment in leases. The deferred income is then recognized over the life of the lease using the effective interest method, which provides a constant rate of return on the net investment throughout the lease term.

For the Company's loan receivables, interest is recognized using the effective interest rate method over the term of the loan. Initial loan acquisition costs are capitalized and amortized using the effective interest rate method over the term of the loan.

Significant judgments

The leases entered into by the Company are considered to be finance leases in nature, based on an evaluation of all the terms and conditions and the determination that the Company has transferred substantially all risks and rewards of legal ownership of the asset to the lessee.

Finance receivables comprise:

	December 31, 2017	December 31, 2016
	($ thousands)	
Net investment in leases	**$ 372,771**	$ 322,304
Loan receivables	**177,879**	108,744
	$ 550,650	$ 431,048

The Company finances its leases 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:

	December 31, 2017	December 31, 2016
	($ thousands)	
Total minimum payments	**$ 669,656**	$ 537,383
Residual values of leased equipment	**21,482**	21,527
	691,138	558,910
Unearned income, net of initial direct costs of acquisition	**(130,469)**	(116,784)
Net investment in finance receivables before allowance for doubtful accounts	**560,669**	442,126
Allowance for doubtful accounts *(b)*	**(11,926)**	(12,253)
	548,743	429,873
Reserve receivable on securitized financial contracts	**1,907**	1,175
Net investment in finance receivables	**550,650**	431,048
Current portion	194,919	163,329
Long-term portion	$ 355,731	$ 267,719

(b) Allowance for doubtful accounts

Description and accounting policy
The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and the event has a negative impact on the present value of estimated cash flows of the financial asset and the loss can be reliably estimated. Potential losses expected as a result of future events, no matter how likely based on past historical evidence, are not allowed to be recognized.

The carrying amount of the financial asset is reduced through the use of an allowance for doubtful accounts and the amount of loss is recognized as a provision for credit losses. Individually significant loans and receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Loans and receivables that are not considered to be individually impaired are reviewed for impairment on a group basis, determined by reference to the shared credit and delinquency characteristics.

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

Significant estimates
Quantifying the impairment of finance receivables is based on: for receivables that are in default, estimates of the carrying value that will ultimately not be collected, and for finance receivables that are in default, the application of current delinquency rates at each reporting date. Quantifying the impairment utilizes several assumptions and estimation uncertainties about the amount and timing of cash that is expected to be collected.

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

	For the years ended December 31, 2017	2016
	($ thousands)	
Balance, beginning of year	**$ 12,253**	$ 10,647
Provision for credit losses	**21,084**	25,819
Impact of change in foreign exchange rates	**(733)**	(272)
Charge-offs	**(28,748)**	(30,102)
Recoveries	**8,070**	6,161
Balance, end of year	**$ 11,926**	$ 12,253

(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 $14.0 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.

As of December 31, 2017

($ thousands)	**Current**	**1-30 days**	**31 - 60 days**	**61 - 90 days**	**Over 90 days**	**Total**
Equipment lease receivables	**$ 366,436**	**$ 7,356**	**$ 2,220**	**$ 849**	**$ 2,802**	**$ 379,663**
Loan receivables	**175,859**	**3,209**	**753**	**335**	**850**	**181,006**
	542,295	**10,565**	**2,973**	**1,184**	**3,652**	**560,669**
Impaired	**1,029**	**585**	**2,233**	**1,050**	**3,585**	**8,482**
Past due but not impaired	**$ —**	**$ 9,980**	**$ 740**	**$ 134**	**$ 67**	**$ 10,921**

As of December 31, 2016

($ thousands)	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) Collateral

Pawnee and Blue Chip are entitled to repossess financed equipment if the borrower defaults on their lease or loan contract. When a lease or loan is charged-off, the related equipment no longer has a carrying value on the consolidated financial statements. Any amounts recovered from the sale of equipment after a charge-off, are credited to the allowance for doubtful accounts when received. In the year-ended December 31, 2017, the proceeds from the disposal of repossessed equipment that was charged-off totaled $3.3 million (2016 - $1.9 million). Repossessed equipment is held at various warehouses by the company's contracted to repossess and sell the equipment.

(e) Minimum scheduled collections of finance receivables at December 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)	
2018	$ 248,947	$ 189,406
2019	196,174	157,661
2020	129,829	108,867
2021	69,805	61,211
2022	24,239	21,604
2023 and thereafter	662	438
Total minimum payments	$ 669,656	$ 539,187

8. PROPERTY AND EQUIPMENT

Description and accounting policy

Property and equipment are measured at acquisition or purchase cost less scheduled depreciation based on the useful economic lives of the assets. No components (those parts of individual property and equipment assets having different economic lives than the remainder of the asset) have been identified. Scheduled depreciation is based on the following annual rates, which are reassessed annually:

Furniture and equipment	20% to 30% declining balance
Computer hardware	20% to 30% declining balance

	Furniture and equipment	Computer hardware	Total
Cost:		*($ thousands)*	
December 31, 2015	$ 547	$ 1,217	$ 1,764
Additions	581	263	844
Disposals	(218)	(11)	(229)
Translation	(7)	43	36
December 31, 2016	903	1,512	2,415
Additions	302	641	943
Disposals	—	(41)	(41)
Translation	5	3	8
December 31, 2017	**$ 1,210**	**$ 2,115**	**$ 3,325**

The expenditures in 2017 reflects acquisitions related to the growth in Pawnee staff numbers during the year. The change in the carrying amount of property and equipment during 2016 relates to the expenditures and disposals for furniture and equipment for the new premises of Pawnee, which they moved into in June 2016.

Accumulated depreciation:	Furniture and equipment	Computer hardware	Total
		($ thousands)	
December 31, 2015	$ 383	$ 486	$ 869
Depreciation	87	225	312
Disposals	(153)	(11)	(164)
Translation	30	(66)	(36)
December 31, 2016	347	634	981
Depreciation	138	303	441
Disposals	—	(41)	(41)
Translation	3	6	9
December 31, 2017	**$ 488**	**$ 902**	**$ 1,390**

Carrying amount:	Furniture and equipment	Computer hardware	Total
		($ thousands)	
December 31, 2015	$ 164	$ 731	$ 895
December 31, 2016	$ 556	$ 878	$ 1,434
December 31, 2017	**$ 722**	**$ 1,213**	**$ 1,935**

9. INTANGIBLE ASSETS

Description and accounting policy

Purchased intangible assets are recognized as assets in accordance with IAS 38, Intangible Assets, where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be determined reliably. Intangible assets acquired are initially recognized at cost of purchase and are subsequently carried at cost less accumulated amortization and, if applicable, accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Management has determined that trade names have indefinite lives. The broker relationships are considered to have a finite life and are amortized on a scheduled straight-line basis over their estimated useful life of seven to fifteen years. The non-compete agreements are amortized on a scheduled straight-line basis over their three-year life.

The amortization period and method of amortization for intangible assets with finite lives are reassessed annually. Changes in the useful life or in the pattern of economic benefits derived are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually at the cash generating unit ("CGU") level and are reviewed annually to determine whether the indefinite life continues to be applicable. Any change from indefinite life to finite life would be accounted for prospectively. CGUs are defined as the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

A previously recognized impairment loss for non-financial assets is reversed if there has been a change in the assumptions used to determine recoverable amount since the previous impairment loss was recognized. The carrying amount after the reversal cannot exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the asset in prior years.

Significant estimates

The impairment testing utilizes several assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year as a result of the value-in-use being derived from an estimated discounted cash flow model. Value-in-use ("VIU") is the present value of the estimated future cash flows from the CGU discounted using a pre-tax rate that reflects current market rates and the risks inherent in the business of each CGU. The cash flows are derived from budgets for the next five years, excluding restructuring activities and future investments. Other than the cash flow estimates, the value-in-use is most sensitive to the discount rate used and the growth rate applied beyond the five-year estimate.

	Indefinite useful life	Finite useful life		
	Trade names	Broker relationships	Non-Compete	Total
Cost:		($ thousands)		
December 31, 2015	$ 7,889	$ 19,440	$ 1,309	$ 28,638
Additions	—	99	—	99
Translation	(224)	—	—	(224)
December 31, 2016	7,665	19,539	1,309	28,513
Adjustment	—	(22)	—	(22)
Translation	(476)	—	—	(476)
December 31, 2017	**$ 7,189**	**$ 19,517**	**$ 1,309**	**$ 28,015**

	Trade names	Broker relationships	Non-Compete	Total
Accumulated amortization:		($ thousands)		
December 31, 2015	$ 127	$ 4,970	$ 206	$ 5,303
Amortization	—	1,075	262	1,337
December 31, 2016	127	6,045	468	6,640
Amortization	—	1,087	604	1,691
December 31, 2017	**$ 127**	**$ 7,132**	**$ 1,072**	**$ 8,331**

	Trade names	Broker relationships	Non-Compete	Total
Carrying amount:		($ thousands)		
December 31, 2015	$ 7,762	$ 14,470	$ 1,103	$ 23,335
December 31, 2016	$ 7,538	$ 13,494	$ 841	$ 21,873
December 31, 2017	**$ 7,062**	**$ 12,385**	**$ 237**	**$ 19,684**

Trade names were recognized in the acquisitions of Pawnee and Blue Chip and can be renewed annually, at nominal cost and for an indefinite period. There is no legal limit to the life of these trade names. The businesses to which these intangible assets relate have established names in the market and, given the stability in the demand for their products and services, management expects to be able to derive economic benefit from these intangible assets for an indefinite period of time and has therefore determined them to be of indefinite life.

The following table shows the carrying amount of indefinite-life intangible assets by CGU as at:

	December 31, 2017	December 31, 2016
	($ thousands)	
Pawnee	**$ 6,774**	$ 7,250
Blue Chip	**288**	288
Total indefinite-life intangible assets	**$ 7,062**	$ 7,538

10. GOODWILL

Description and accounting policy
Goodwill is initially measured at cost which represents the excess of the fair value of consideration paid for a business acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Impairment testing is applied on an individual asset basis unless an asset does not generate cash inflows that are largely independent of the cash inflows generated by other assets or groups of assets. None of the Company's non-financial assets generate independent cash inflows and therefore all non-financial assets are allocated to CGU for purposes of assessing impairment.

Impairment losses are recognized when the carrying amount of a CGU exceeds the recoverable amount, which is the greater of the CGU's fair value less cost to sell and its VIU. If the recoverable amount of the CGU is less than its carrying amount, the CGU is considered impaired and is written down to its recoverable amount. The impairment loss is allocated to reduce the carrying amount of the assets of the CGU, first to reduce the carrying amount of the CGU's goodwill and then to the other assets of the CGU allocated pro-rata on the basis of the carrying amount of each asset. Impairment losses of continuing operations are recognized in the statement of income.

CGUs to which goodwill and intangible assets with indefinite lives have been allocated are tested for impairment annually as at December 31, and all CGUs are tested for impairment more frequently when there is an indication that the CGU may be impaired.

Significant judgments
The impairment testing utilizes several assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year as a result of the VIU being derived from an estimated discounted cash flow model. The cash flows are derived from budgets for the next five years, excluding restructuring activities and future investments. Other than the cash flow estimates, the VIU is most sensitive to the discount rate used and the growth rate applied beyond the five year estimate.

The goodwill allocated to each CGU and movements in goodwill consist of the following:

	Pawnee	Blue Chip	Total
Cost:		($ thousands)	
December 31, 2015	$ 50,198	$ 26,365	$ 76,563
Translation	(1,498)	—	(1,498)
December 31, 2016	48,700	26,365	75,065
Translation	(2,475)	—	(2,475)
December 31, 2017	**$ 46,225**	**$ 26,365**	**$ 72,590**

	Pawnee	Blue Chip	Total
Accumulated impairment:		*($ thousands)*	
December 31, 2015	$ 35,313	$ —	$ 35,313
Translation	(1,054)		(1,054)
December 31, 2016	34,259	—	34,259
Translation	(1,526)		(1,526)
December 31, 2017	**$ 32,733**	**$ —**	**$ 32,733**

	Pawnee	Blue Chip	Total
Carrying amount:		*($ thousands)*	
December 31, 2015	$ 14,885	$ 26,365	$ 41,250
December 31, 2016	$ 14,441	$ 26,365	$ 40,806
December 31, 2017	**$ 13,492**	**$ 26,365**	**$ 39,857**

The Company completed its annual goodwill impairment test as at December 31, 2017 and 2016 and determined that no impairment had occurred. Goodwill is considered impaired to the extent that its carrying amount exceeds its recoverable amount. The recoverable amounts of the Company's CGUs were determined based on their VIU. The calculation of VIU incorporated five years of cash flow estimates plus a terminal value and was based on the following key variables:

i) The five years of cash flow estimates were based on achieving key operating metrics and drivers based on management estimates, past history and the current economic outlook, and were approved by Chesswood management. The VIU for Pawnee and Blue Chip is most sensitive to assumptions of lease origination volumes and net charge-offs.
ii) Terminal value incorporated into the VIU calculations was estimated by applying the growth rates in the following chart to cash flow estimates for the fifth year. The growth rates reflect the historical average core inflation rate which does not exceed the long-term average growth rate for the industry.

	Pawnee	Blue Chip
Terminal value growth rates:		
December 31, 2016	3.0%	3.0%
December 31, 2017	3.0%	3.0%

iii) The following pre-tax discount rates were applied in determining the recoverable amount of the CGUs. The discount rates were based on the weighted average cost of capital, adjusted for a liquidity and a risk premium.

	Pawnee	Blue Chip
Pre-tax discount rates:		
December 31, 2016	30.82%	23.27%
December 31, 2017	27.60%	21.98%

Significant estimates

The Company believes that any reasonably possible change in the key assumptions on which its CGU's recoverable amounts are based would not cause the CGU's carrying amounts to exceed their recoverable amounts. If the future were to adversely differ from management's best estimate of key assumptions, including associated cash flows, the Company could potentially experience future material impairment charges in respect of its goodwill and intangible assets with indefinite lives.

11. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprise:

	December 31, 2017	December 31, 2016
	($ thousands)	
Dividend payable	**$ 1,264**	$ 1,259
Accounts payable	**1,598**	1,099
Sales tax payable	**761**	1,020
Customer deposits and prepayments	**704**	695
Unfunded finance receivables	**5,610**	3,636
Taxes payable	**2,174**	4,600
Payroll related payables and accruals	**1,068**	1,026
Accrued expenses and other liabilities	**1,710**	1,370
Contingent consideration *(a)*	**—**	538
	$ 14,889	$ 15,243

(a) The contingent consideration represented management's estimate of additional consideration payable with respect to the acquisition of EcoHome and Blue Chip in 2015 which was contingent upon the future performance targets of Blue Chip. The estimate of the fair value of contingent consideration required subjective assumptions to be made of various potential operating result scenarios and discount rates. The Company periodically reviewed expected operating results and updated assessments of various probability weighted projected scenarios. As a result of the sale of EcoHome (see Note 5 - *Discontinued Operations*) in February 2016, the $6.0 million contingent consideration associated with Blue Chip and EcoHome's normalized net income before taxes ("NIBT") for 2015 and 2016 became payable within 10 days of the sale of EcoHome.

12. CONVERTIBLE DEBENTURES

On December 12, 2017, the Company exercised its right to redeem the debentures on January 17, 2018. Subsequent to year end, the Company paid, in cash, to the debenture holders $20.0 million in outstanding principal and $60,548 in accrued and unpaid interest up to the redemption date.

The debentures (symbol TSX: CHW.DB), issued in December 2013, were to mature on December 31, 2018, and bore interest at a rate of 6.5% per annum, paid semi-annually. The outstanding principal under the debentures, at the option of the holders, could have been converted into common shares of the Company at a conversion price of $20.19 per share at any time (reduced from $21.25 as a result of the special dividend declared in February 2016).

The Company had the following options to redeem the convertible debentures prior to maturity:

- After December 31, 2016 and prior to December 31, 2017, the Company had the option to redeem the debentures, provided the current market price for the purposes of the debentures was at least 125% of the conversion price of $20.19 (reduced from $21.25 as result of special dividend declared in February 2016).
- Subsequent to December 31, 2017 and prior to December 31, 2018, the Company had the option to redeem the debentures, provided the redemption price was at a price equal to the principal amount including accrued and unpaid interest.

The debentures, per accounting guidelines, had 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 net income or loss. The Company had 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 net income or loss. The fair value of the convertible debentures was based on their trading price on the Toronto Stock Exchange every reporting period.

The convertible debentures balance was composed of:

	December 31, 2017	December 31, 2016
	($ thousands)	
Principal amount recognized on issuance	**$ 20,000**	$ 20,000
Fair value adjustment	**90**	260
Balance, end of year	**$ 20,090**	$ 20,260

	For the year ended **December 31,**	
	2017	2016
	($ thousands)	
Fair value adjustment for the year	**$ 170**	$ (360)
Interest paid during the year	**(1,300)**	(1,300)
Financing costs - convertible debentures	**$ (1,130)**	$ (1,660)

13. BORROWINGS

Borrowings are comprised of:

		December 31, 2017	December 31, 2016
		($ thousands)	
Chesswood credit facility	*(a)*	**$ 200,405**	$ 187,978
Deferred financing costs		**(2,536)**	(2,015)
Borrowings - Chesswood		**197,869**	185,963
Pawnee credit facility	*(b)*	**87,241**	—
Deferred financing costs – Pawnee		**(2,142)**	—
Borrowings – Pawnee		**85,099**	—
Securitization and bulk lease financing facilities - Blue Chip	*(c)*	**129,187**	107,118
		$ 412,155	$ 293,081

Movements in borrowings:	Chesswood credit facility *(a)*	Chesswood deferred financing costs	Pawnee credit facility *(b)*	Pawnee 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	222,219	—	97,097	—	82,209	401,525
Repayments	(196,871)	—	(6,789)	—	(60,140)	(263,800)
Payment of financing costs	—	(1,838)	—	(2,482)	—	(4,320)
Amortization of deferred financing costs	—	1,317	—	265	—	1,582
Foreign currency translation adjustment	(12,921)	—	(3,067)	75	—	(15,913)
Net as of December 31, 2017	**$ 200,405**	**$ (2,536)**	**$ 87,241**	**$ (2,142)**	**$ 129,187**	**$ 412,155**

(a) The Chesswood credit facility allows borrowings of up to U.S.$250.0 million subject to, among other things, certain percentages of eligible gross finance receivables. This credit facility is secured by substantially all of the Company's assets, contains covenants including maintaining leverage and interest coverage ratios, and expires on December 8, 2020. At December 31, 2017, the Company was utilizing U.S.$165.0 million (December 31, 2016 - U.S.$144.3 million) of its credit facility and had approximately U.S.$50.4 million in additional borrowings available under the corporate credit facility. At December 31, 2017 and December 31, 2016, and throughout the periods presented, the Company was in compliance with all covenants. Based on average debt levels, the effective interest rate during the year ended December 31, 2017 was 4.62% (year-ended December 31, 2016 - 3.89%).

(b) In October 2017, Pawnee obtained a U.S.$75 million non-recourse asset-backed facility with Capital One ("Pawnee facility"), through a new subsidiary, Pawnee Receivable Fund I LLC. The Pawnee facility was secured by U.S.$93.6 million in gross receivables from Pawnee's prime portfolio of equipment leases and loans and repayment terms are based on the cash flow of the underlying portfolio. The proceeds were used to pay down Chesswood's existing revolving credit facility. The facility requires Pawnee to mitigate its interest rate risk by entering into interest rate caps for a notional amount not less than 80% of the aggregate outstanding balance (See Note 15(b) - *Interest Rate Derivatives*). Pawnee is to comply with leverage ratio, interest coverage ratio, and tangible net worth covenants. At December 31, 2017 and throughout the period from October to December 2017, Pawnee was in compliance with all covenants. Based on average debt levels, the effective interest rate during the period from October 2017 to December 31, 2017 was 4.87% (2016 - n/a).

(c) Blue Chip has master purchase and servicing agreements with various financial institutions and life insurance companies (referred to collectively as the "Funders"). The Funders make advances to Blue Chip on a tranche-by-tranche basis, with each tranche collateralized by a specific group of underlying finance receivables and any related security provided thereunder. The facilities have limited recourse to other assets in the event that lessees\borrowers fail to make payments when due. Blue Chip either maintains certain cash reserves as credit enhancements or provides letters of guarantee in return for release of the cash reserves. Blue Chip continues to service these finance receivables on behalf of the Funders.

At December 31, 2017, Blue Chip had access to the following committed lines of funding: (i) $60.0 million annual limit from a life insurance company; (ii) $80.0 million rolling limit from a financial institution; and (iii) approved funding from another financial institution with no annual or rolling limit. As at December 31, 2017, Blue Chip had $129.2 million (December 31, 2016 - $107.1 million) in securitization and bulk lease financing facilities debt outstanding, was utilizing $73.6 million (December 31, 2016 - $57.5 million) of their available financing and had access to at least $96.4 million (December 31, 2016 - $92.5 million) of additional financing from the Funders.

Interest rates are fixed at the time of each advance and are based on Government of Canada Bond yields with maturities comparable to the term of the underlying leases plus a premium. Based on average debt levels, the effective interest rate during the year ended December 31, 2017 was 3.15% (for the year ended December 31, 2016 - 3.20%). As at December 31, 2017, Blue Chip had provided $6.6 million in outstanding letters of guarantee through Chesswood's credit facility. Blue Chip must meet certain financial covenants, including leverage ratio, interest coverage ratio, and tangible net worth covenants, to support these securitization and bulk lease financing facilities. As at December 31, 2017 and December 31, 2016, and throughout the periods presented, Blue Chip was in compliance with all covenants.

(d) Restricted funds

Restricted funds represent cash reserve accounts which are held in trust as security for secured borrowings (Pawnee facility in *(b)* above) and cash collection accounts required by the lenders of certain financial assets that can only be used to repay these debts on specific dates.

	December 31, 2017	December 31, 2016
	($ thousands)	
Restricted - cash in collection accounts	**$ 2,939**	$ —
Restricted - cash reserves	**3,032**	—
Restricted funds	**$ 5,971**	$ —

14. CUSTOMER SECURITY DEPOSITS

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

	December 31, 2017	December 31, 2016
	($ thousands)	
Security deposits that will be utilized within one year	**$ 3,492**	$ 4,072
Security deposits that will be utilized in future years	**10,520**	9,531
	$ 14,012	$ 13,603

15. INTEREST RATE DERIVATIVES

Interest rate derivatives, which comprise interest rate swaps and caps, are not considered trading instruments as the Company intends to hold them until maturity. The instruments do not qualify as hedges for accounting purposes, and are therefore recorded as separate derivative financial instruments. Accordingly, the estimated fair values are recorded on the accompanying consolidated statement of financial position. The fair values are based on the estimated net present value of cash flows and represent the consideration the Company would receive (pay) if a derivative was terminated on the reporting date.

Payments made and received pursuant to the terms of the instruments are recorded as an adjustment to interest expense. Fair value adjustments are recorded separately on the statement of income.

(a) Derivative swaps

The Company enters 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 Chesswood's credit facility (see Note 13(a) - *Borrowings*). At December 31, 2017, the fair value of the swaps was a liability of $43,000 (December 31, 2016 - a liability of $850,000).

The following swap agreements were outstanding at December 31, 2017:

Effective Date	Notional Amount U.S.$	Annual Fixed Rate	Maturity Date
August 15, 2016	$20 million	1.985%	August 13, 2020
August 15, 2016	$20 million	2.120%	August 13, 2021

(b) Derivative cap

In October 2017, Pawnee obtained a U.S.$75 million non-recourse asset-backed facility (see Note 13(b) - *Borrowings*) which requires Pawnee to mitigate its interest rate risk by entering into interest rate cap for a notional amount not less than 80% of the aggregate outstanding balance. The interest rate cap is tied to the repayment terms of the underlying finance receivables portfolio supporting the Pawnee facility, through the maturity date of October 13, 2021, with a floating index rate based on USD-LIBOR-BBA, but subject to a capped fixed rate of 2.25%. At December 31, 2017, the fair value of the cap was an asset of $185,000 (2016 - n/a).

16. TAXES

Description and accounting policy

Taxes are accounted for using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax basis.

Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates applicable to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising from investments in subsidiaries that are not expected to reverse in the foreseeable future are not recognized.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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.

Significant estimates and judgments

The Company is subject to income tax laws in the various jurisdictions that it operates in and the complex tax laws are potentially subject to different interpretations by the Company and the relevant tax authority. Management's judgment is applied in interpreting the relevant tax laws and estimating the expected timing and the amount of the provision for current and deferred income taxes. Determining the value of deferred tax assets recognized requires an estimate of the value of tax benefits that will eventually be realized by the Company which utilizes several assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

On December 22, 2017, the U.S. government enacted new tax legislation effective January 1, 2018. However, the legislation makes broad and complex changes to the U.S. tax code and, accordingly, it will take time to assess and interpret the changes. Consequently, the provisional recovery recorded in section (b) below, may change in the future following a more comprehensive review of the legislation, including implementation of the associated rules and regulations and supporting guidance from the Internal Revenue Service and other bodies, and as a result of any future changes or amendments to this legislation.

U.S. federal tax legislation enacted in 2004 addresses perceived U.S. tax concerns over "corporate inversion" transactions. A "corporate inversion" generally occurs when a non-U.S. entity acquires "substantially all" of the equity interests in, or the assets of, a U.S. corporation or partnership, if, after the acquisition, former equity holders of the U.S. corporation or partnership own a specified level (referred to as the "percentage identity") of equity in the non-U.S. entity, excluding equity interests acquired in the acquiring entity in public offerings associated with the acquisition. Adverse U.S. tax consequences are only triggered if:

(i) Pawnee sells or licenses any of its assets as part of its acquisition by the Company, or licenses any assets to a related non-U.S. entity during the subsequent 10 years; or

(ii) If Pawnee does sell or license any such assets, it does not offset its U.S. tax arising from such sales or licenses with loss carry-forwards, foreign tax credits or certain tax amounts with similar attributes.

Management has concluded that neither of these conditions will be triggered.

(a) Tax expense consists of the following:

	For the years ended	
	December 31, 2017	December 31, 2016
	($ thousands)	
Current tax expense	**$ 6,468**	$ 9,580
Deferred tax (recovery) expense	**(4,408)**	1,223
Tax expense	**$ 2,060**	$ 10,803

(b) The table below shows the reconciliation between tax expense reported in the consolidated statements of income and the tax expense that would have resulted from applying the combined Canadian Federal and Ontario tax rate of 26.5% (2016 - 26.5%) to income before income taxes.

		For the years ended	
		December 31, 2017	December 31, 2016
		($ thousands)	
Income from continuing operations before taxes		**$ 27,811**	$ 28,120
Canadian tax rate		**26.5%**	26.5%
Theoretical tax expense		**7,370**	7,452
Tax cost of non-deductible items		**124**	154
Utilization of tax loss carry-forwards		**(22)**	—
Withholding tax on inter-company dividends		**448**	202
Higher effective tax rates in foreign jurisdictions		**3,353**	2,696
Change in substantively enacted tax rates of future periods	*(i)*	**(9,379)**	—
Other		**166**	299
Tax expense		**$ 2,060**	$ 10,803

(i) - The future tax recovery of $9.4 million was a result of the revaluation of the U.S. subsidiaries' net deferred tax liabilities due to the U.S. Tax Cuts and Jobs Act passed on December 22, 2017. The U.S. federal corporate tax rate decreased from 35% to 21%. Chesswood's U.S. subsidiaries' effective tax rate for 2018 and beyond will be comprised of the new, lower federal tax rate plus a blended state tax rate.

(c) Deferred tax balances within the consolidated statements of financial position were comprised of the following:

		December 31, 2017	December 31, 2016
		($ thousands)	
Deferred tax assets *(c)*	*(d)*	**$ 755**	$ 962
Deferred tax liabilities *(d)*	*(e)*	**(21,202)**	(27,006)
Net deferred tax liabilities		**$ (20,447)**	$ (26,044)

Reconciliation of net deferred tax liabilities:

		For the years ended **December 31,**	
		2017	2016
		($ thousands)	
Balance, beginning of year		**$ (26,044)**	$ (25,374)
Deferred tax recovery (expense) in the statements of income	*(a)*	**4,408**	(1,223)
Translation		**1,189**	553
Net change in net deferred tax liabilities during the year		**5,597**	(670)
Balance, end of year		**$ (20,447)**	$ (26,044)

(d) The tax effects of the temporary differences giving rise to the Company's deferred tax assets are as follows:

	December 31, 2017	December 31, 2016
Deferred tax assets:	*($ thousands)*	
Financing costs	**$ 598**	$ 827
Tax losses carried forward	**157**	135
	$ 755	$ 962

Deferred tax assets are recognized to the extent that realization of the related tax benefit through future taxable profits is probable. At December 31, 2017, Case Funding had U.S.$570,000 (2016 - U.S.$957,000) in tax losses carried forward and taxable timing differences of U.S.$570,000 (2016 - $957,000).

The Company has determined that it is probable that all other deferred tax assets will be realized through a combination of future reversals of temporary differences and taxable income.

(e) The tax effects of the significant components of temporary differences giving rise to the Company's net deferred tax liabilities are as follows:

		December 31, 2017		December 31, 2016
		($ thousands)		
Deferred tax assets:				
Leased assets	**$**	**38,425**	$	80,470
Allowance for doubtful accounts		**2,680**		4,438
Tax losses carried forward		**—**		15
Accrued liabilities		**51**		475
		41,156		85,398
Deferred tax liabilities:				
Finance receivables		**59,462**		108,946
Difference in goodwill and intangible asset base		**2,896**		3,458
		62,358		112,404
Deferred taxes liabilities, net	**$**	**21,202**	$	27,006
Deferred taxes liabilities to be realized in the next 12 months	$	9,343	$	12,763

The Company has determined that it is probable that all recognized deferred tax assets will be realized through a combination of future reversals of temporary differences and taxable income.

The Company has not recognized deferred tax liabilities in respect of unremitted earnings in foreign subsidiaries, totaling $17.1 million (2016 - $1.6 million), as it is not considered probable that this temporary difference will reverse in the foreseeable future.

17. MINIMUM PAYMENTS

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

($ thousands)		2018	2019	2020	2021	2022	2023 +	**Total**
Accounts payable and other liabilities		$ 14,889	$ —	$ —	$ —	$ —	$ —	**$ 14,889**
Borrowings	*(i)*	86,790	72,745	256,076	29,016	1,711	576	**446,914**
Customer security deposits	*(ii)*	3,492	3,693	3,812	2,728	1,870	25	**15,620**
Convertible debentures		20,061	—	—	—	—	—	**20,061**
Interest rate swaps		—	—	(8)	51	—	—	**43**
		125,232	76,438	259,880	31,795	3,581	601	**497,527**
Other financial commitments	*(iii)*	843	816	742	555	461	150	**3,567**
Total commitments		$ 126,075	$ 77,254	$ 260,622	$ 32,350	$ 4,042	$ 751	**$ 501,094**

i. Borrowings are described in Note 13, and include the Chesswood credit facility, which is a line-of-credit and, as such, the balance can fluctuate. The amount above includes fixed interest payments on Pawnee and Blue Chip's credit facilities and estimated interest payments on the Chesswood credit facility, assuming the interest rate, debt balance and foreign exchange rate at December 31, 2017 remain the same until December 8, 2020, 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 2020 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. $5.3 million in letters of guarantee. For contingent liabilities and other commitments, refer to Note 18 - *Contingent Liabilities and Other Financial Commitments*.

18. CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

Contingent liabilities
The Company is subject to various claims and legal actions in the normal course of its business, from various customers, suppliers and others. The individual value of each claim and the total value of all claims as at December 31, 2017 and 2016 were not material or a possible outflows are considered remote, additional disclosure is not required.

Other financial commitments
The Company has entered into retention agreements with certain employees whereby such employees shall be entitled to certain retention severance amounts upon the occurrence of events identified in each respective agreement.

19. CAPITAL MANAGEMENT

The Company’s capital consists of shareholders’ equity, which at December 31, 2017 amounted to $161.2 million (December 31, 2016 - $157.9 million). The Company’s objectives when managing capital are to safeguard the Company’s long-term ability to continue as a going concern and to provide adequate returns for shareholders. The Company's share capital is not subject to external restrictions.

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.$250 million credit facility supports growth in finance receivables, provides the Company’s working capital needs and for general corporate purposes. The facility, available in U.S. or Canadian dollars, also improves the Company's financial flexibility by centralizing treasury management and making the provision of capital to individual businesses more efficient. This credit facility is secured by substantially all of the Company’s assets, contains covenants including maintaining leverage and interest coverage ratios, and expires on December 8, 2020. At December 31, 2017 and December 31, 2016, and throughout the periods presented, the Company was in compliance with all covenants.

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

20. COMMON SHARES

		Common shares		Amount
		(# '000s)		*($ thousands)*
Balance, December 31, 2015		16,264	$	101,726
Exercise of restricted share units *(Note 22(b))*		38		466
Exercise of options *(Note 22(a))*		236		2,520
Other		10		100
Repurchase of common shares under issuer bid	*(a)*	(34)		(216)
Balance, December 31, 2016		16,514	$	104,596
Exercise of restricted share units *(Note 22(b))*		38		386
Exercise of options *(Note 22(a))*		23		226
Balance, December 31, 2017		**16,575**	**$**	**105,208**

(a) Normal course issuer bids

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

In August 2016, the Board of Directors approved the repurchase and cancellation of up to 1,078,096 of the Company's outstanding Common Shares for the period commencing August 25, 2016 and ending on August 24, 2017. From August 25, 2016 to 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.

In August 2017, the Board of Directors approved the repurchase and cancellation of up to 1,085,981 of the Company's outstanding Common Shares for the period commencing August 25, 2017 and ending on August 24, 2018. No common shares were repurchased under this normal course issuer bid during the year ended December 31, 2017.

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

Subsequent to year end (up to and including March 8, 2018), the Company repurchased 76,918 of its shares under the normal course issuer bid at an average cost of $10.2128.

21. EXCHANGEABLE SECURITIES

As partial consideration for the acquisition of Pawnee in May 2006, 1,274,601 Class B shares and 203,936 Class C shares of U.S. Acquisitionco were issued ("Exchangeable Securities"). The Exchangeable Securities are non-voting shares of U.S. Acquisitionco and are fully exchangeable for Common Shares of the Company, on a one-for-one basis, for no additional consideration, through a series of steps and entitle the holders to receive the same dividends as the Common Shares. Attached to the Exchangeable Securities are Special Voting Units of the Company which provide the holders of the Exchangeable Securities voting equivalency to Company Shareholders. The Exchangeable Securities are reflected as non-controlling interest. Under IFRS 10, Consolidated Financial Statements, 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. There are no restrictions to the Company's ability to access or use assets and settle liabilities of U.S. Acquisitionco as a result of the non-controlling interest. The non-controlling interest share of the Company's consolidated net assets and net income is presented on the consolidated financial statements.

22. COMPENSATION PLANS

From time to time, the Company compensates certain members of management in the form of share-based compensation. The cost of equity-settled transactions with employees is recognized, together with a corresponding increase in equity, over the period during which the performance and or service conditions are fulfilled and ending on the vesting date at which point the employees become fully entitled to the award. The cumulative expense also takes into account the number of equity instruments that the Company expects will ultimately vest.

The fair-value of option grants are calculated using the Black-Scholes option pricing model and recognized as compensation expense over the vesting period of those grants and a corresponding adjustment is made to Reserves in Shareholders' Equity. Any consideration received on exercise of options together with amounts previously credited to Reserves for these options is credited to Common Shares.

The fair-value of Restricted Share Units ("RSUs") granted is calculated based on the market price of the Common Shares on the day of the grant. RSUs granted are considered to be in respect of future services and are recognized as compensation expense over the vesting period with a corresponding adjustment credited to Reserves in Shareholders' Equity. On exercise of the RSUs the amounts previously credited to Reserves is credited to Common Shares. Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense determined as if the terms had not been modified. Additional expense is recognized for any modification which increases the total fair value of the share-based compensation arrangement, or is otherwise beneficial to the employee at the date of the modification.

When an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation and any expense not yet recognized is recognized immediately.

The dilutive effect of outstanding options is reflected as additional equity in the computation of diluted earnings per share.

(a) Share options

During the year ended December 31, 2017, personnel expenses and the share-based compensation reserve included $532,600 (2016 - $751,800) relating to option expense. In the year ended December 31, 2016, an additional $148,100 in share-based compensation expense is included in income from discontinued operations.

As of December 31, 2017, unrecognized non-cash compensation expense related to the outstanding options was $489,100 (December 31, 2016 - $605,200), which is expected to be recognized over the remaining vesting period.

A summary of the number of options outstanding is as follows:

	For the years ended **December 31,**	
	2017	2016
Balance, beginning of year	**1,837,989**	1,853,917
Granted	**362,500**	395,000
Exercised	**(23,500)**	(235,928)
Forfeited	**(21,000)**	(175,000)
Balance, end of year	**2,155,989**	1,837,989

During the year ended December 31, 2017, 23,500 options were exercised (2016 - 235,928) for total cash consideration of $161,735 (2016 - $2.0 million). On exercise, the fair value of options that had been expensed to date during the vesting period of $64,000 (2016 - $560,400) was transferred from reserve to Common Share capital (Common Share capital was also increased by the cash consideration received upon exercise). For the options exercised in the year ended December 31, 2017, the weighted average share price at the date of exercise was $12.40 (2016 - $10.83).

At December 31, 2017, the weighted average exercise price is $10.24 (December 31, 2016 - $9.82) and the weighted average remaining contractual life for all options outstanding is 6.5 years (December 31, 2016 - 6.9 years). The 1,415,489 options exercisable at December 31, 2017 have a weighted average exercise price of $9.58 (December 31, 2016 - 1,112,239 options at $8.80).

An analysis of the options outstanding at December 31, 2017 is as follows:

Grant date	Number of options outstanding	Vested	Expiry date	Exercise price
April 13, 2010	74,000	74,000	April 13, 2020	$ 4.49
April 25, 2011	197,500	197,500	April 24, 2021	$ 7.79
June 10, 2011	50,000	50,000	June 9, 2021	$ 7.73
December 6, 2011	180,000	180,000	December 6, 2021	$ 6.14
June 25, 2012	178,489	178,489	June 24, 2022	$ 7.45
December 6, 2012	125,000	125,000	December 6, 2022	$ 8.86
April 29, 2014	265,000	265,000	April 29, 2024	$ 14.12
April 16, 2015	193,000	130,000	April 16, 2025	$ 12.53
April 29, 2015	150,000	97,500	April 29, 2025	$ 12.24
August 15, 2016	380,500	118,000	August 15, 2026	$ 10.17
June 19, 2017	362,500	—	June 19, 2027	$ 12.15
	2,155,989	1,415,489		

The option exercise price is equal to the 10-day volume weighted average price of the Shares prior to the day such options were granted. The options vest 30% at the end of the first year, another 35% at the end of the second year, and the remaining 35% at the end of the third year and expire on the 10th anniversary of the grant date.

The value of the options granted during the period was determined using the Black-Scholes Option Pricing model with the following assumptions:

	June 19, 2017	August 15, 2016
Number of options granted	362,500	395,000
Weighted average share price at date	$12.15	$10.17
Expected volatility	30% - 34%	30% - 32%
Expected life (years)	7 - 9	5 - 7
Expected dividend yield	7.48%	7.41%
Risk-free interest rates	1.1%	0.62% - 0.86%
Weighted average fair value of options granted	$1.31	$1.09

The risk free rate was based on the Government of Canada benchmark bond yield on the date of grant for a term equal to the expected life of the options. Expected volatility was determined by calculating the historical volatility of the Company's share price over a period equal to the expected life of the options. The expected life was based on the contractual life of the awards and adjusted, based on management's best estimate and historical redemption rates.

The Black-Scholes Option Pricing Model was developed for use in estimating the fair value of traded options, which have no black-out or vesting restrictions and are fully transferable. In addition, the Black-Scholes Option Pricing Model requires the use of subjective assumptions, including the expected stock price volatility. As a result of the Company's Stock Option Plan having characteristics different from those of traded options, and because changes in the subjective assumptions can have a material effect on the fair value estimates, the Black-Scholes Option Pricing model does not necessarily provide a single measure of the fair value of options granted.

(b) Restricted share units

A summary of the restricted share units ("RSUs") outstanding is as follows:

	For the years ended December 31,	
	2017	2016
Balance, beginning of year	**70,000**	66,000
Granted	**38,000**	42,000
Exercised	**(38,000)**	(38,000)
Balance, end of year	**70,000**	70,000

During the year ended December 31, 2017, personnel expenses and share-based compensation reserve included $433,100 (2016 - $471,900) relating to RSUs. As of December 31, 2017, unrecognized non-cash compensation expense related to non-vested RSUs was $198,300 (December 31, 2016 - $169,700).

During the year ended December 31, 2017, an aggregate of 38,000 (2016 - 42,000) RSUs were granted to directors and expire in ten years. The grantees of such RSUs are not entitled to dividends before the RSUs are exercised. Such RSUs typically vest one year from the date of issue and are to be settled by the issue of Common Shares. RSUs granted are in respect of future services and are expensed over the vesting period. Compensation cost is measured based on the weighted average market price of the Common Shares for the 10 days prior to the date of the grant of the RSUs, which was $12.15 (2016 - $10.17).

During the year ended December 31, 2017, 38,000 RSU's were exercised (2016 - 38,000), upon exercise, the fair value of RSU's that had been expensed during the vesting period of $386,500 (2016 - $466,300) was transferred from reserve to Common Share capital. For the RSUs exercised in the year ended December 31, 2017, the weighted average share price at the date of exercise was $10.41 (2016 - $10.48).

The weighted average remaining contractual life for all RSUs outstanding is 5.8 years (December 31, 2016 - 7.0 years).

An analysis of the RSUs outstanding at December 31, 2017 is as follows:

Grant date	Number of RSUs outstanding	Vested	Expiry date	Value on grant date
April 25, 2011	4,000	4,000	May 16, 2019	$ 7.79
June 25, 2012	6,000	6,000	May 16, 2019	$ 7.45
May 22, 2013	6,000	6,000	May 16, 2019	$ 11.65
May 23, 2014	6,000	6,000	May 16, 2019	$ 14.07
May 25, 2015	6,000	6,000	May 16, 2019	$ 12.27
August 15, 2016	4,000	4,000	May 10, 2020	$ 10.17
June 19, 2017	38,000	—	June 19, 2027	$ 12.15
	70,000	32,000		

23. DIVIDENDS

Under the Chesswood credit facility (see Note 13(a) - *Borrowings*), the maximum amount of cash dividends (and/or cost of any repurchases under normal course issuer bids) that the Company can pay in respect of a month is 1/12 of 90% (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 consolidated financial statements (including its annual consolidated financial statements in respect of a fourth quarter).

In conjunction with the sale of EcoHome, the Company received 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 following dividends were paid to Common Shareholders and Exchangeable Securities holders (included as non-controlling interest) during the year ended December 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	1,260
February 28, 2017	March 15, 2017	$ 0.070	1,260
March 31, 2017	April 17, 2017	$ 0.070	1,260
April 28, 2017	May 15, 2017	$ 0.070	1,260
May 31, 2017	June 15, 2017	$ 0.070	1,263
June 30, 2017	July 17, 2017	$ 0.070	1,263
July 31, 2017	August 15, 2017	$ 0.070	1,263
August 31, 2017	September 15, 2017	$ 0.070	1,264
September 29, 2017	October 16, 2017	$ 0.070	1,263
October 31, 2017	November 15, 2017	$ 0.070	1,264
November 30, 2017	December 15, 2017	$ 0.070	1,264
			$ 15,143

The following dividend was declared but not paid to Common Shareholders and Exchangeable Securities holders during the year-ended December 31, 2017 and was included in accounts payable and other liabilities (Note 11):

Record date	Payment date	Cash dividend per share ($)	Total dividend amount
			($ thousands)
December 29, 2017	January 15, 2018	$ 0.070	$ 1,264

The following dividends were declared before the financial statements were authorized for issue but not recognized during the year ended December 31, 2017:

Record date	Payment date	Cash dividend per share ($)	Total dividend amount
			($ thousands)
January 31, 2018	February 15, 2018	$ 0.070	$ 1,264
February 28, 2018	March 15, 2018	$ 0.070	1,264
			$ 2,528

The following dividends were paid to Common Shareholders and Exchangeable Securities holders (included as non-controlling interest) during the year ended December 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	8,874
February 29, 2016	March 15, 2016	$ 0.065	1,154
March 31, 2016	April 15, 2016	$ 0.065	1,154
April 29, 2016	May 16, 2016	$ 0.065	1,154
May 31, 2016	June 15, 2016	$ 0.065	1,158
June 30, 2016	July 15, 2016	$ 0.065	1,158
July 29, 2016	August 15, 2016	$ 0.065	1,158
August 31, 2016	September 15, 2016	$ 0.065	1,161
September 30, 2016	October 17, 2016	$ 0.065	1,161
October 31, 2016	November 15, 2016	$ 0.065	1,161
November 30, 2016	December 15, 2016	$ 0.070	1,257
			$ 22,857

The following dividend was declared but not paid to Common Shareholders and Exchangeable Securities holders during the year ended December 31, 2016 and was included in accounts payable and other liabilities (Note 11):

Record date	Payment date	Cash dividend per share ($)	Total dividend amount
			($ thousands)
December 30, 2016	January 16, 2017	$ 0.070	$ 1,259

The following dividends were declared before the financial statements were authorized for issue but not recognized during the year-ended December 31, 2016:

Record date	Payment date	Cash dividend per share ($)	Total dividend amount
			($ thousands)
January 31, 2017	February 15, 2017	$ 0.070	$ 1,259
February 28, 2017	March 15, 2017	$ 0.070	1,259
			$ 2,518

24. EARNINGS PER SHARE

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

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

	For the years ended December 31,	
	2017	2016
Weighted average number of common shares outstanding	**16,550,400**	16,345,328
Dilutive effect of options	**428,094**	357,950
Dilutive effect of restricted share units	**67,496**	60,339
Weighted average common shares outstanding for diluted earnings per share	**17,045,990**	16,763,617
Options and convertible debentures excluded from calculation of diluted shares for the year due to their anti-dilutive effect	**1,448,589**	1,605,589

25. 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 years ended December 31,	
	2017	2016
	($ thousands)	
Salaries, fees and other short-term employee benefits	**$ 1,128**	$ 1,144
Share-based compensation	**678**	929
Compensation expense of key management	**$ 1,806**	$ 2,073

c) In February 2016, $6.0 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 was deemed a related party because a former Director of the Company 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 the Company and Blue Chip at the time of the payment. No payments were made in 2017.

d) The Company paid fees to a related party for consulting services subsequent to his resignation as an officer of the Company and Blue Chip. The individual is deemed a related party because he was a Director and owns more than 10% of the outstanding common shares of the Company. The expense incurred during the year ended December 31, 2017 was nil (2016 - $150,000) and is included in other expenses in the consolidated statements of income. The consulting arrangement was completed during 2016 and no further fees are expected.

26. CASH FLOW SUPPLEMENTARY DISCLOSURE

	Note	2017	2016
		For the years ended December 31,	
		($ thousands)	
Other non-cash items included in net income			
Share-based compensation expense	22	**$ 965**	$ 1,224
Amortization of deferred financing costs	13	**1,582**	743
Financing costs - convertible debentures		**1,130**	1,660
Unrealized loss (gain) on investments		**2,869**	(3)
Escrow receivable fair value adjustment		**(52)**	(128)
Contingent consideration reversal		**(538)**	(678)
Unrealized gain on interest rate derivatives		**(1,006)**	(15)
Unrealized loss (gain) on foreign exchange		**118**	(111)
		$ 5,068	$ 2,692
Change in other net operating assets			
Restricted funds		**$ (6,181)**	$ —
Other assets		**(2,579)**	654
Accounts payable and other liabilities		**2,876**	1,719
Customer security deposits		**1,334**	106
		$ (4,550)	$ 2,479
Borrowings – continuing operations			
Draw-downs or proceeds from borrowings	13	**$ 401,525**	$ 242,419
Payments - borrowings	13	**(263,800)**	(199,686)
		$ 137,725	$ 42,733
Non-cash transactions			
Common shares issued on exercise of restricted share units		**$ 386**	$ 466

27. SEGMENT INFORMATION

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

The Company's U.S. Equipment Financing business is located in the United States and is involved in small-ticket equipment leasing and lending to small and medium-sized businesses. 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-sized businesses in Canada and includes Blue Chip.

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

Selected information by segment and geographically is as follows:

	Year ended December 31, 2017				
($ thousands)	**Equipment Financing - U.S.**	**Equipment Financing - Canada**	**Discontinued Operations** *(Note 5)*	**Corporate Overhead - Canada**	**Total**
Interest revenue on leases and loans	$ 68,214	$ 11,479		$ —	$ 79,693
Ancillary finance and other fee income	11,102	4,172		357	15,631
Interest expense	(11,053)	(4,215)		—	(15,268)
Provision for credit losses	(19,758)	(1,326)		—	(21,084)
Finance margin	**48,505**	**10,110**		**357**	**58,972**
Personnel expenses	9,718	2,635		1,439	13,792
Share-based compensation expense	242	17		706	965
Other expenses	8,509	1,550		1,640	11,699
Depreciation - property and equipment	420	21		—	441
Income before undernoted items	**29,616**	**5,887**		**(3,428)**	**32,075**
Amortization - intangible assets, contingent consideration reversal	—	(1,691)		538	(1,153)
Fair value adjustments - convertible debentures and investments	—	—		(3,999)	(3,999)
Unrealized gain on interest rate derivatives	192	—		814	1,006
Unrealized loss on foreign exchange	—	—		(118)	(118)
Income before taxes	**29,808**	**4,196**		**(6,193)**	**27,811**
Tax expense (recovery)	(453)	974		1,539	2,060
Income from continuing operations	**30,261**	**3,222**		**(7,732)**	**25,751**
Loss from discontinued operations	—	—	$ (320)	—	(320)
Net income	**$ 30,261**	**$ 3,222**	**$ (320)**	**$ (7,732)**	**$ 25,431**
Net cash used in operating activities	$ (101,870)	$ (15,957)	$ 1,899	$ (9,038)	$ (124,966)
Net cash used in investing activities	$ (930)	$ (13)	$ —	$ —	$ (943)
Net cash from financing activities	$ 87,826	$ 22,044	$ —	$ 8,554	$ 118,424
Total assets	$ 435,579	$ 192,210	$ 3,371	$ 12,452	$ 643,612
Total liabilities	$ 122,637	$ 139,683	$ —	$ 220,071	$ 482,391
Finance receivables	$ 399,076	$ 151,574	$ —	$ —	$ 550,650
Goodwill and intangible assets	$ 20,266	$ 39,275	$ —	$ —	$ 59,541
Property and equipment expenditures	$ 930	$ 13	$ —	$ —	$ 943

	Year ended December 31, 2016				
($ thousands)	Equipment Financing - U.S.	Equipment Financing - Canada	Discontinued Operations (Note 5)	Corporate Overhead - Canada	Total
Interest revenue on leases and loans	$ 67,033	$ 10,432		$ —	$ 77,465
Ancillary finance and other fee income	9,440	4,259		419	14,118
Interest expense	(6,178)	(3,646)		—	(9,824)
Provision for credit losses	(24,063)	(1,756)		—	(25,819)
Finance margin	**46,232**	**9,289**		**419**	**55,940**
Personnel expenses	8,719	2,611		1,377	12,707
Share-based compensation expense	206	67		951	1,224
Other expenses	8,169	1,553		1,665	11,387
Depreciation - property and equipment	293	19		—	312
Income before undernoted items	**28,845**	**5,039**		**(3,574)**	**30,310**
Amortization - intangible assets, contingent consideration reversal	—	(1,337)		678	(659)
Fair value adjustments - convertible debentures and investments	—	—		(1,657)	(1,657)
Unrealized gain on interest rate derivatives	—	—		15	15
Unrealized gain on foreign exchange	—	—		111	111
Income before taxes	**28,845**	**3,702**		**(4,427)**	**28,120**
Tax expense	8,498	1,032		1,273	10,803
Income from continuing operations	**20,347**	**2,670**		**(5,700)**	**17,317**
Income from discontinued operations	—	—	$ 6,961	—	6,961
Net income	**$ 20,347**	**$ 2,670**	**$ 6,961**	**$ (5,700)**	**$ 24,278**
Net cash used in operating activities	$ (26,048)	$ (12,772)	$ (2,600)	$ (5,223)	$ (46,643)
Net cash from investing activities	$ (844)	$ —	$ —	$ 24,964	$ 24,120
Net cash from in financing activities	$ —	$ 14,623	$ (1,703)	$ 5,436	$ 18,356
Total assets	$ 330,549	$ 172,073	$ 5,903	$ 19,412	$ 527,937
Total liabilities	$ 39,655	$ 117,734	$ —	$ 212,654	$ 370,043
Finance receivables	$ 300,269	$ 130,779	$ —	$ —	$ 431,048
Goodwill and intangible assets	$ 21,691	$ 40,988	$ —	$ —	$ 62,679
Property and equipment expenditures	$ 844	$ —	$ —	$ —	$ 844

28. SUBSEQUENT EVENTS

Subsequent to year end:
a) On January 17, 2018, the Company redeemed its $20.0 million convertible debentures. See Note 12 - *Convertible Debentures*.
b) On February 16, 2018, the Company received $2.5 million upon the maturity of the Dealnet convertible note receivable. See Note 6 - *Other Assets*.
c) In 2018 (up to and including March 8, 2018), the Company repurchased 76,918 of its shares under the normal course issuer bid at an average cost of $10.2128. See Note 20 - *Common Shares*.

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.

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

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

David Obront
Director
President, Carpool Two Ltd.

Robert Day
Director
Former Chairman, Pawnee Leasing Corporation

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

Executive Team

Barry Shafran
President & C.E.O.

Lisa Stevenson
Chief Financial Officer

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