CHESSWOOD GROUP LIMITED

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

MARCH 31, 2014

CHESSWOOD GROUP LIMITED

NOTICE TO READERS

Accompanying this notice are the unaudited condensed consolidated interim financial statements of Chesswood Group Limited for the three months ended March 31, 2014. These statements have been prepared by, and are the responsibility of, the Company's management.

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

Chesswood Group Limited

FOR THE THREE MONTHS ENDED MARCH 31, 2014

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FOR THE THREE MONTHS ENDED MARCH 31, 2014

TO OUR SHAREHOLDERS

Our results for the first quarter of the year have improved over the first quarter of last year, giving us a strong start to 2014.

We're pleased to see our new working capital business, Windset Capital, have such a strong start in only its first six months of operations. At March 31st Windset's gross receivables were approximately U.S.$9.5 million and credit quality has exceeded expectations. While we know that charge-offs from this first six months' originations will certainly occur in the coming months, the performance of the portfolio has been excellent to date.

While Pawnee's originations were softer in this quarter compared to Q1 last year, due to the early signs of market irrationality that we noted in the second half of last year, the combined results of Pawnee and Windset have outpaced last year's performance.

Case Funding had steady growth throughout last year which has continued in 2014. In Q1 of this year, Case Funding generated $430,000 of earnings for Chesswood, more than double the prior year's first quarter.

Acura Sherway has been working through and around construction, as the store undergoes an extensive re-imaging. Notwithstanding this, it posted its best first quarter in its history - an impressive achievement and a credit to our hard-working team.

We're very pleased to have had a strong start to 2014 and we look forward to the balance of an exciting year, in which each of our businesses has significant initiatives underway.

Barry Shafran
President & CEO

COMPANY PROFILE

Chesswood Group Limited ("Chesswood" or the "Company") is an Ontario corporation and is the successor to Chesswood Income Fund (the "Fund") following the "conversion" of the Fund under a plan of arrangement which became effective on January 1, 2011.

Through its interest in Pawnee Leasing Corporation ("Pawnee"), Chesswood is involved in the business of micro and small-ticket equipment finance to small businesses in the start-up and "B" credit market in the lower 48 states of the United States. Through its interest in Windset Capital Corporation ("Windset"), Chesswood is in the business of providing working capital loans to small businesses in the United States. Through its interest in Case Funding Inc. ("Case Funding"), Chesswood is involved in the business of providing financing to plaintiffs and attorneys and the purchase of medical liens that form part of litigation throughout the United States. Through its interest in Sherway LP ("Sherway"), Chesswood is involved in selling, servicing and leasing Acura automobiles in the Province of Ontario. Through its interest in Lease-Win Limited ("Lease-Win"), Chesswood owned and operated cars4U.com. In addition, on January 31, 2014, the Company acquired Northstar Leasing Corporation ("Northstar"), which is a non-prime commercial equipment finance company in Ontario, Canada.

The Company's annual report and annual information form for the year-ended December 31, 2013 are available on SEDAR at www.sedar.com, and provide additional information on Chesswood and its operating companies.

The Company's common shares are listed on the Toronto Stock Exchange under the symbol CHW. The Company's debentures issued on December 16, 2013 are listed on the Toronto Stock Exchange under the symbol CHW.DB.

PAWNEE LEASING CORPORATION

Pawnee is an equipment finance company that provides financing on micro and small-ticket business equipment. Pawnee focuses on small businesses (with a particular focus in the start-up and "B" credit segment of the U.S. equipment finance market), servicing the lower 48 states through a network of approximately 550 independent brokers. As of March 31, 2014, Pawnee administered 9,724 leases and loans in its portfolio, with remaining scheduled payments of approximately U.S.$173.5 million over the next five years.

Pawnee finances equipment where generally:

(i) the equipment is fundamental to the core operations of the lessee/borrower's business;

(ii) the cost of the equipment usually does not exceed U.S.$75,000;

(iii) a personal guarantee of at least the major shareholder/owner is obtained; and

(iv) all scheduled payments are required to be paid by direct debit out of the lessee's/borrower's account.

Pawnee's business does not involve financing of consumer goods. Pawnee funds only commercial equipment.

A key aspect of Pawnee's business is managing potential risks in order to limit defaults to the greatest extent possible. Pawnee has developed a number of risk management tools and processes which it continually monitors and improves to address changes in its market and in the equipment finance industry.

Management believes that Pawnee is a leading micro and small-ticket funding source available to equipment financing brokers in the start-up equipment finance market in the U.S. and is a well-recognized player in the "B" credit market. Pawnee's success in these higher risk niche markets is due to Pawnee's ability to select creditworthy businesses through its proprietary credit analysis matrix and process, to price for higher risk, and its efficient servicing and collection processes.

Pawnee has traditionally provided funding to two very similar micro and small-ticket commercial financing markets - the start-up market and the "B" credit market. The creditworthiness of start-up businesses does not fall into traditional credit categories because of their lack of business credit history. Pawnee defines "start-up" businesses to be those businesses with less than two years of operating history. "B" credit businesses are those that have two or more years of operating history and have some unique aspect to their overall credit profile such that they are not afforded an "A" rated credit score and/or that the business owner(s) do not have an "A" rated personal credit history.

The start-up and "B" credit segments of the micro and small-ticket equipment finance market have historically been, and continue to be, more sensitive to monthly lease/loan payment amounts than to the effective rates of interest charged.

Pawnee added a new product offering to its broker network in late 2008. This additional "B" market product, now offered to all of Pawnee's brokers, referred to as "B+", complements Pawnee's long standing core "B" product, by offering funding to lessees that have stronger credit profiles than Pawnee had considered in the past.

Assessed as lower risk business than Pawnee's traditional "B" business, "B+" borrowers receive funding based on rates that typically range from 14-30%. At March 31, 2014, approximately 65% of Pawnee's lease and loan receivables consisted of the "B+" product.

Pawnee's business model is different from many other leasing, equipment finance, consumer, sub-prime mortgage and finance companies in a number of important respects, including the following:

- Pawnee does not sell its leases and loans, but rather retains its leases and loans for their full term,
- Pawnee's revenues are derived directly from its leases and loans, and are not derived from (and therefore, and more importantly, Pawnee's revenues are not dependent upon) fees from the sale of its portfolio of leases and loans, and
- not only is there significant geographic diversification (within the United States) within Pawnee's portfolio of leases and loans, there is also significant diversification in terms of the equipment funded and the industries in which Pawnee's lessees and borrowers operate. At March 31, 2014:
    - no state represented more than 11.0% of the number of Pawnee's total active leases and loans, with the exception of California which represented 12.6%;

- Pawnee financed over 70 equipment categories, with its five largest categories by volume being restaurant, auto repair, titled trucks and trailers, medical and computer equipment, which combined accounted for 51.1% of the number of active leases and loans;
- its lessees and borrowers operated in over 85 different industry segments, with no industry concentration accounting for more than 16.2% of its number of active leases and loans;
- no lessee/borrower accounted for more than 0.01% of its total lease and loan portfolio; and
- its largest source of originations accounted for 4.6% of its gross lease and loan receivable, and its ten largest origination sources accounted for 31.5% of its gross lease and loan receivable.

Pawnee's revenues and fundings are not dependent upon continuously finding third party buyers for its lease and loan portfolio (where demand is driven by factors such as prevailing interest rates and the quality of other available portfolios and other available investments). Rather, Pawnee has a continuing lending facility.

As of March 31, 2014, Pawnee employed approximately 41 full-time equivalent employees, over one-third of whom are dedicated to collection and default remediation.

CASE FUNDING INC.

On June 10, 2011, Chesswood acquired the shares of Case Funding, a newly incorporated and organized corporation which acquired the tangible and intangible assets required to carry on the going forward business of Quick Cash Inc. ("Quick Cash"), a provider of legal financing to plaintiffs and attorneys throughout the United States from offices in New York and Reno.

The entire team of Quick Cash joined Case Funding, combining their legal finance experience with Chesswood's specialty finance expertise and financial resources to build a growth-oriented legal finance business. Quick Cash has been in the legal finance business since 2003.

The Legal Funding Market - Overview

The legal finance market is a large underserved market that has been growing rapidly over the last decade. Case Funding provides litigators with loans based on their credit profile and a percentage of the value of their contingent fees (as determined by Case Funding) and provides legal funding for plaintiffs based on Case Funding's views of the strength of their lawsuits.

Legal funding provides contingency fee based law firms with working capital for operations and case costs and to supplement their uneven cash flow, and individual plaintiffs with funds for living and lawsuit related medical expenses while they pursue the case. Conventional lenders such as banks and commercial lenders generally avoid these markets due to its relative complexity, leaving law firms and plaintiffs at a disadvantage when seeking a fair settlement against deep pocketed defendants and insurance companies.

In the United States, legal funding improves fairness in the legal process by permitting a person lacking the required funds to continue pursuing a claim against a defendant. Legal funding provides an alternative funding option for plaintiffs who are in financial need (due to inability to work, medical issues or otherwise), while their case is being litigated.

Many plaintiffs are unable to afford fee-based attorneys and are forced to seek out contingency attorneys who are willing to represent them on a percentage-of-settlement basis. Contingency based attorneys typically only pursue cases they feel have merit and can generate significant fees. Because of the delays in the litigation process, plaintiffs and their law firms still have a strong need for funds to see them through until the full settlement of their cases.

Before legal funding, plaintiffs suffered a distinct disadvantage as they often had to wait years for their cases to be resolved. This delay caused many plaintiffs to prematurely settle potentially valuable claims at a substantial discount to their true value. The industry does not generally provide funding, unless an action has already commenced.

While legal funding markets in the U.K. and Australia are quite mature, legal funding is an emerging industry in the U.S., and is highly fragmented.

Internationally, there are several firms engaged exclusively in legal financing that are publicly listed in foreign markets. These listed firms are primarily centered on corporate litigation with a focus on insolvency or commercial litigation.

In most states throughout the United States, it is illegal for lawyers to share contingency fees with non-lawyers, thereby prohibiting non-lawyers from becoming equity investors in law firms. To add to the difficulties presented to lawyers when financing their practices, banks in the United States do not generally lend to professional service businesses that do not have significant balance sheets. This situation leads to a fragmented, capital-hungry industry where no one law firm owns a significant percentage of the market for any type of tort claim in their primary state of practice.

Lawyers in the United States are limited in the way they can leverage their businesses. Larger, fee-based law firms doing corporate and defense work have long been able to obtain bank financing by pledging their receivables. However, subrogation and other contingency fee-based law firms have limited ability to access working capital financing from traditional banks. These firms are often forced to refer their cases out to larger trial firms and accept relatively small referral fees for their origination services because of their limited capital.

Attorney Loans

Like all specialty finance businesses, Case Funding's attorney loans are structured and administered with a focus on risk management.

In order to mitigate the potential for loss, an attorney loan made by Case Funding will always be in an amount significantly less than the contingency fees that Case Funding expects, after its own independent evaluation, the attorney is likely to earn from the basket of existing cases against which the advance is made. Case Funding's advance rate is a maximum of 15% of the expected total fees. Only cases already in progress are eligible for inclusion in a basket of collateral.

Repayment of Case Funding's attorney loans is required by contract to be made on a priority basis, meaning that a significant portion of attorney fees resulting from settlements of cases from the basket are usually required to be used first to repay the loan, further reducing the potential for loan losses. In cases where Case Funding deems the law firm to be creditworthy, revolving arrangements can be negotiated where such law firms pay on each recovery from an identified case and Case Funding re-advances funds against new cases in an amount that fits within its risk and "loan-to-value" guidelines. This generates additional income opportunities from known clients.

In the case of attorney loans, lending terms generally include; guarantees of the law firm, guarantees of the partners (often joint and several), registered liens against all of the firm's assets, a direction that requires the trust accounts to repay Case Funding upon receipt of proceeds and that all proceeds are to be held in escrow when received; generous effective annual rates of interest (18% - 40%) of which a portion is paid monthly, and the balance is paid upon receipt of legal fees; underwriting and origination fees; requirement to report on an ongoing basis the status of cases in the basket; provision of the firm's monthly bank statements; and notice provisions for all settled cases including copies of all remittance cheques and periodic on-site audits.

Case Funding primarily uses in-house lawyers to evaluate new applications for loans and advances. Case Funding's lawyers review the case files of cases being offered by the attorneys, and arrive at their own assessment of expected fees for the entire basket. These lawyers also assist in our ongoing administration as it relates to the assessment of changes to any significant cases in each basket, including a formal review three times a year.

Because these loans often function as lines of credit for the attorneys, where amounts are repaid and then advanced again, against additional (and collateralized) cases, cash flow with respect to principal repayment is "lumpy" and the term is generally longer.

Plaintiff Advances

Plaintiff advances are made based on the timing and probability of success, and potential claim size, not the plaintiff's credit score. The standard for this industry is that advances are made on a non-recourse, at-risk basis where the funder forfeits its entire advance and any related fees if the plaintiff is not successful in the lawsuit. 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.

Commercial banks in the United States have traditionally been unwilling to advance funding to plaintiffs or lawyers based on a contingent recovery, and lawyers are generally prohibited under state law from providing financial assistance to their clients. While the United States landscape is open to the use of plaintiff legal funding, the key issues of acceptability include rights of access to justice, lending and usury laws, legal ethics, champerty and maintenance restrictions, public policy and perception issues.

Plaintiff advances are made in smaller amounts and can therefore provide Case Funding with “smoother” cash flow and a diversification of risk.

As of March 31, 2014, Case Funding employed 9 full-time equivalent employees.

WINDSET CAPITAL CORPORATION

Chesswood launched Windset, its new working capital loan business, in late September 2013. Windset provides working capital loans up to $250,000 to tenured small businesses throughout the United States.

More than ever before, small business owners in the United States find that banks either will not consider them for working capital loans or the process of applying for a bank loan may take too long and the outcome is less than certain. Many U.S. banks can no longer afford to consider loans under $250,000 due to their high internal administration and regulatory costs. While the working capital loan market is a newer market that sprung primarily from the financial crisis, the significant demand for this product has been clearly demonstrated, as billions of dollars of loans have been originated since 2008. Payments are processed automatically and deducted every business day from the borrowers' bank account. The terms of these loans can range from 3 months to 18 months but are typically 9-10 months on average, and extensions are common for those borrowers that have been in good standing during the initial term of the loan.

Windset leverages off of the equipment finance business expertise of Pawnee, and uses Pawnee's experience, processes and broker channel to offer this new product to small businesses throughout the U.S. Windset also is assisted by Pawnee's documentation, collection and administrative departments that provide "back-office" support to Windset, under the terms of a managed services agreement between the two businesses.

Capital for Windset's initial portfolio growth has been provided by making use of a modest portion of Pawnee's unused credit facility, allocated to Windset by agreement with Pawnee's lenders. Notwithstanding the $250,000 limit on Windset loans, initial expectations are for loans that average $30,000 to $40,000.

Management believes that Windset provides Chesswood with the ability to expand its specialty finance business by generating superior risk adjusted returns, utilizing some of Pawnee's existing infrastructure and providing equipment finance brokers and independent sales organizations (generally, these are brokers of financial products other than equipment finance) with a working capital funder that understands their unique marketplace and needs.

At March 31, 2014, Windset had approximately U.S.$9.5 million in gross loan receivables outstanding.

SHERWAY LP

Sherway, through its Acura Sherway dealership, sells new Acura brand vehicles and related automobile services and products, and also sells used vehicles of various brands. Sherway had 47 employees at March 31, 2014.

NORTHSTAR LEASING CORPORATION

On January 31, 2014, Chesswood purchased of all of the outstanding shares of Northstar, a long-standing non-prime commercial equipment finance company, located in Barrie, Ontario. Chesswood now has a North-American small ticket platform and can offer its products and services to brokers and their customers, regardless of which country they operate in. Northstar has decades of experience and management believes that this experience coupled with Pawnee’s expertise, will allow the businesses to leverage the strengths of one another. See Note 11 - *Business Acquisition*. At March 31, 2014, Northstar had 838 leases, $13.5 million of gross lease receivables (excluding residual receivable) and 7 employees.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") is a review of the financial condition and financial performance of Chesswood Group Limited ("Chesswood" or the "Company") for the three months ended March 31, 2014. This discussion should be read in conjunction with the audited consolidated financial statements and accompanying notes of the Company for the year ended December 31, 2013 set forth in the Company's 2013 Annual Report. The fiscal year of the Company ends on December 31. The date of this MD&A is May 2, 2014. All dollar amounts in this MD&A are Canadian dollars, unless otherwise indicated.

Through its interest in Pawnee Leasing Corporation ("Pawnee"), Chesswood is involved in the business of micro and small-ticket equipment finance to small businesses in the start-up and "B" credit market in the lower 48 states of the United States. Through its interest in Windset Capital Corporation ("Windset"), Chesswood is in the business of providing working capital loans to small businesses in the United States. Through its interest in Case Funding Inc. ("Case Funding"), Chesswood is involved in the business of legal financing to plaintiffs and attorneys and the purchase of medical liens that form part of litigation throughout the United States. Through its interest in Sherway LP ("Sherway"), Chesswood is involved in selling, servicing and leasing Acura automobiles in the Province of Ontario. Through its interest in Lease-Win Limited ("Lease-Win"), Chesswood owned and operated cars4U.com. In addition, on January 31, 2014, the Company acquired Northstar Leasing Corporation ("Northstar"), which is a non-prime commercial equipment finance company in Ontario, Canada.

The Company prepares its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") as set out in The Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011.

This discussion contains forward-looking statements. Please see "Forward-Looking Statements" for a discussion of the risks, uncertainties and assumptions relating to these statements. This discussion makes reference to certain non-GAAP measures to assist in assessing the Company's financial performance. Non-GAAP measures do not have any standard meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. See "Non-GAAP Measures" for the definition of and reconciliation to GAAP measures of EBITDA and Adjusted EBITDA.

Our annual information form in respect of the fiscal year ended December 31, 2013 is available on SEDAR at www.sedar.com, and provides additional information and should be read in conjunction with this report, management's discussion and analysis, consolidated financial statements and notes thereto.

FORWARD-LOOKING STATEMENTS

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

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

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

- continuing access to required financing;

- continuing access to products to allow us to hedge our exposure to changes in interest rates;
- risks of increasing default rates on leases, loans and advances;
- our provision for credit losses;
- increasing competition (including without limitation, more aggressive risk pricing by competitors);
- increased governmental regulation of the rates and methods we use in financing and collecting on our equipment leases or loans, on the legal funding business generally and on our working capital loans;
- dependence on key personnel; and
- general economic and business conditions.

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

KEY PERFORMANCE INDICATORS – PAWNEE

Management regularly evaluates and analyzes key performance indicators, including the following, to more effectively operate Pawnee's business:

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

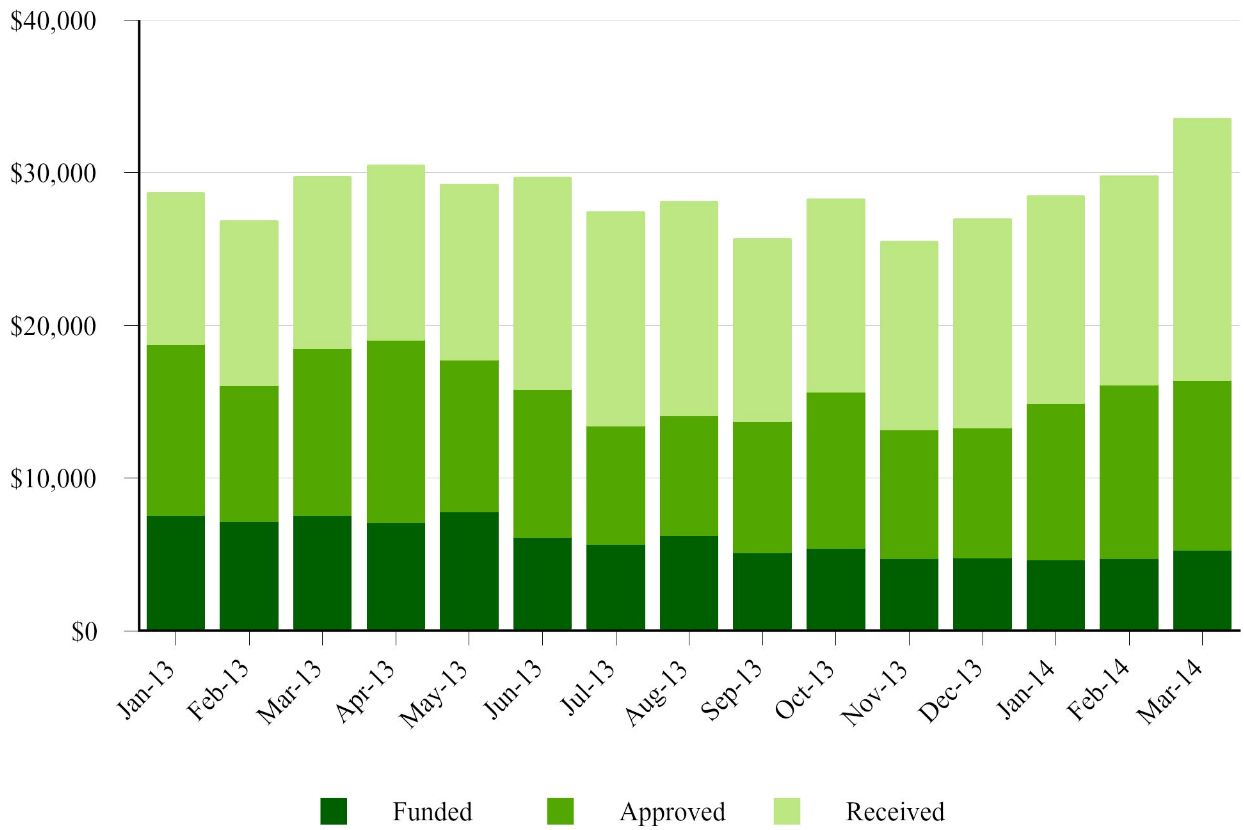
	June 30 2012	Sep 30 2012	Dec 31 2012	Mar 31 2013	June 30 2013	Sep 30 2013	Dec 31 2013	Mar 31 2014
Number of leases and loans outstanding (#)	8,625	8,701	9,009	9,348	9,670	9,753	9,761	9.724
Gross lease and loan receivable ("GLR") (1)	$140,605	$141,971	$150,125	$163,311	$173,092	$175,208	$174,491	$173,487
Residual receivable	$17,258	$17,546	$18,015	$18,552	$18,646	$18,379	$18,013	$17,396
Net investment in leases and loans receivable, before allowance (4)	$115,074	$117,121	$123,497	$133,212	$140,510	$141,150	$141,670	$140,444
Security deposits (nominal value)(4)	$11,854	$12,074	$12,378	$12,669	$12,770	$12,635	$12,321	$11,891
Allowance for doubtful accounts – IFRS	$2,259	$2,629	$2,950	$3,098	$3,128	$3,522	$3,450	$3,665
Over 31 days delinquency (% of GLR) (2)	1.64%	1.98%	2.23%	1.99%	1.99%	2.12%	2.05%	2.22%
Net charge-offs for the three-months ended (3)	$945	$1,017	$1,295	$1,287	$1,079	$1,553	$1,610	$1,547
Provision for credit losses for the three-months ended – IFRS	$1,238	$1,431	$1,635	$1,515	$1,370	$1,832	$1,578	$1,889

Notes:
(1) Excludes residual receivable.
(2) Over 31-days delinquency includes non-accrual gross lease and loan receivables. Pawnee ceases to accrue interest income on leases and loans after they become 94 days contractually past due unless information indicates that an earlier cessation of income is warranted and charges-off leases and loans when they become 154 days contractually past due, unless information indicates that an earlier charge-off is warranted.
(3) Excludes the "charge-offs" of interest revenue on finance leases and loans on non-accrual leases recognized under IFRS.
(4) Excludes adjustment for discounting security deposits and increasing unearned income for interest savings on security deposits.

Lease and Loan Application, Approval and Origination Volume

Management regularly reviews lease and loan application, approval and origination volumes, for trends that may indicate changes in the economic or competitive landscape and that may necessitate adjustments in Pawnee's approach to doing business in its market segments. Pawnee also uses this data in its forecasting and budgeting process. Management reviews application approval data to analyze and predict shifts in the credit quality of Pawnee's applicants, and looks at individual broker approval rates to determine whether a broker is submitting applications that meet Pawnee's credit criteria. Pawnee refers to total originations as a percentage of leases and loans funded as the "closing ratio". Pawnee tracks and reviews the closing ratio to aid management in determining the efficiency and effectiveness of Pawnee's origination processes. Significant changes in any of these key metrics, as well as other less significant metrics, usually results in a more detailed review, which may include, amongst other things, a review of broker, industry or equipment type, equipment cost, or geographic areas for specific results.

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



Asset Quality

Pawnee is a niche specialty finance company that is focused on doing business with commercial enterprises that are not usually considered by conventional financing sources and that generally have a higher risk profile. This exposes the firm to a greater risk level; however management has built an operating model that is based on managing this risk. As a result, Pawnee has been able to generate greater margins with lower volume than many typical finance companies.

Risk management begins with carefully selecting which independent brokers Pawnee does business with. Brokers must have personal credit profiles acceptable to Pawnee, industry references and preferably have been active in the equipment finance industry for a minimum of one year. Regional marketing managers are responsible for training and for developing a knowledge base with new and existing brokers regarding Pawnee's underwriting policies and procedures. This training process is very important in ensuring that neither the broker nor Pawnee spend extraordinary time in reviewing and handling applicants that can't meet Pawnee's basic qualifications. The managers are also responsible for monitoring the brokers for credit application review and closing efficiencies, including applications submitted, approved and ultimately funded.

The Pawnee credit process is not the automated scoring procedure typical of high volume equipment finance companies. A credit analyst reviews each application and completes a proprietary credit matrix which is used as a guide for reaching a prudent credit decision. The matrix is designed to ensure that all of Pawnee's analysts are consistent in their review of applications. Analysts are available to directly assist brokers submitting applications and communicate credit decisions, including what would make an applicant more likely to be approved. Pawnee applies several basic principles for all credit decisions on new leases and loans, including the requirement that all business owners personally guarantee the lease/loan and must therefore submit their personal credit information for consideration, and all scheduled payments must be paid through direct debit. All leases and loans assigned to Pawnee, must be approved by Pawnee in accordance with the same criteria used in originating its own leases and loans.

Pawnee's credit matrix undergoes continual review by management, in addition to periodic assessment by outside professionals with statistical expertise.

Operating Efficiency

Pawnee manages operating performance using, in addition to other tools, a comprehensive budgetary review process. Included in this review are line-item-level comparisons of revenues and expenses to budget and trend data for the period then ended. If management finds there is a significant or unusual variance from budget or expectations, management will review the variance in detail and take corrective action, if necessary. Management focuses its attention on significant changes from projections and takes appropriate action, as necessary.

Pawnee's static pool loss analysis measures lease/loan loss performance by identifying a finite pool of lease/loan originations and segmenting this pool into quarterly or annual vintages according to when the leases and loans were originated. Poorly performing brokers, geographic areas, equipment types and industries are reviewed in more detail to determine if there is a systematic or other identifiable cause on which corrective action can be taken. For example, if management determines that Pawnee has unusually high losses on leases/loans for a particular type of equipment, management may raise the minimum required credit matrix score for those leases/loans to be approved or stop originating leases/loans of that equipment type altogether.

Collections

The ability to efficiently service and collect on leases and loans is critical in achieving appropriate profit margins and stable cash flows. Management of Pawnee recognizes the importance of the ability to collect on leases/loans and, as such, a great deal of emphasis is placed on the employment and retention of experienced collection personnel. Over one-third of Pawnee's personnel dedicate their activities to the collections process. Pawnee's collections department is structured to systematically and quickly resolve delinquent leases and loans whenever possible, mitigate losses and collect post-default recovery dollars.

Pawnee's collections activities begin when a lease/loan initially becomes delinquent. An account is recognized as troubled if for any reason the direct debit payment is not successfully received on the required due date - the account is immediately considered delinquent. When the lease/loan becomes 31 days past due, or earlier if the collector recognizes that the problem is something more significant than a past due payment, the lease/loan is referred to the appropriate negotiation, repossession/remarketing, bankruptcy or legal specialist on the Advanced Collection team. Pawnee regularly remediates a high percentage of leases/loans that go initially past due.

The Advanced Collection team's objective is to minimize Pawnee's loss through a combination of collecting payments, writing forbearances, repossessing and selling financed equipment, initiating lawsuits and, most importantly, negotiating settlements. After 154 days of delinquency, or earlier if the Advanced Collection team determines the account is uncollectible, the lease/loan is charged off.

After an account is charged off, it may continue to be handled internally when collection prospects for recovery through a personal guarantor or other remedy are considered good. If not, it is normally assigned to an independent collection agency for additional collection efforts. At this stage in the collections process, the primary sources of recovery are payments on restructured accounts, settlements with guarantors, equipment sales, litigation and bankruptcy court distributions.

Throughout the collections process, Pawnee's repossession/remarketing specialists perform a wide variety of functions, including acting on repossession requests from any collector, managing third-party vendors that perform repossession activities, working with remarketers to establish and approve the selling price on all repossessed equipment, and selling equipment on behalf of Pawnee.

KEY PERFORMANCE INDICATORS – WINDSET

Given the very recent launch of this business in late 2013, Windset currently relies on just a few key markers to assess portfolio performance and composition, including delinquency, loan size, time-in-business, credit profile and proprietary matrix score.

KEY PERFORMANCE INDICATORS – CASE FUNDING

Case Funding monitors the collection of attorney interest payments (generally made monthly by ACH) and activity in the borrower's trust accounts, as two key steps out of a number of control measures, that provide effective monitoring tools of the borrower's payment history and settlement activity. There are a variety of other controls and processes in place to monitor these loans, including regularly scheduled updates from the borrowers, on the status of their cases.

Plaintiff advances are also subject to regularly scheduled updates from the plaintiff's attorney as to the status of the case and any changes that may have taken place since the last update. The plaintiff portfolio is also periodically examined for the aging of the advances and concentration by case types, amongst other metrics.

KEY PERFORMANCE INDICATORS – SHERWAY

Management monitors and analyzes a number of key indicators of the Sherway dealership's operations, by profit centre/department. One key indicator for each department is the level of gross margins being generated - on a per unit and total volume basis. This measure, along with other metrics that may vary amongst departments, as applicable, is monitored daily, weekly and monthly. The analyses of these various metrics allows management to respond quickly to trends, concerns and opportunities in each department, on a daily, weekly and/or monthly basis.

NON-GAAP MEASURES

The Company provides non-GAAP measures as supplementary information. Management believes EBITDA and Adjusted EBITDA are useful measures in evaluating the performance of the Company and in determining whether to invest in Common Shares. 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. Investors are cautioned that EBITDA and Adjusted EBITDA should not be construed as an alternative to net income (loss) determined in accordance with GAAP as indicators of performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. Among other items, Adjusted EBITDA reverses non-cash gains or losses during the reference period on the Company's $20.0 million of convertible debentures issued in December 2013, and instead reflects the interest payable on such debentures during the reference period.

Definitions of EBITDA and Adjusted EBITDA

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

"Adjusted EBITDA" is defined as EBITDA adjusted for (i) interest on leasing and vehicle credit lines, (ii) non-cash gain (loss) on interest rate swaps and convertible debentures, (iii) non-cash unrealized gain (loss) on foreign exchange, (iv) non-cash share-based compensation expenses, (v) non-cash fair value adjustments on other liabilities, (vi) the non-cash loss on sale of property and equipment, (vii) any unusual and material one-time expenses (such as the convertible debenture issue costs in December 2013) and (viii) actual interest attributable to the period in respect of the convertible debentures.

Management references to operating income in the MD&A means income before undernoted items as presented on the consolidated statement of income.

ADJUSTED EBITDA [1]

For the quarter-ended	2012			2013				2014
($ thousands)	Q2	Q3	Q4 [4]	Q1	Q2	Q3	Q4 [6]	Q1
Net income	$ 2,307	$ 1,558	$ 3,223	$ 2,994	$ 3,329	$ 2,872	$ 1,710	$ 3,129
Interest expense	928	918	906	929	1,046	1,076	1,127	1,209
Provision for taxes	1,863	1,677	2,100	2,146	2,577	2,146	1,963	2,424
Amortization	172	164	160	165	89	47	61	51
EBITDA [1]	**$ 5,270**	**$ 4,317**	**$ 6,389**	**$ 6,234**	**$ 7,041**	**$ 6,141**	**$ 4,861**	**$ 6,813**
Interest expense	(928)	(918)	(906)	(929)	(1,046)	(1,076)	(1,127)	(1,209)
Share-based compensation expense	329	334	346	365	416	289	275	240
Contingent consideration [4]	47	48	(863)	—	—	—	—	—
Financing costs & unrealized loss - conv deb [6]	—	—	—	—	—	—	2,035	20
Interest expense on conv deb	—	—	—	—	—	—	(53)	(325)
Foreign exchange loss (gain)	(240)	338	(208)	(204)	166	22	(462)	69
Unrealized loss (gain) – interest rate swaps	203	169	(218)	(260)	(730)	(47)	(376)	(19)
Adjusted EBITDA [1]	**$ 4,681**	**$ 4,288**	**$ 4,540**	**$ 5,206**	**$ 5,847**	**$ 5,329**	**$ 5,153**	**$ 5,589**

SELECTED FINANCIAL INFORMATION

As at and for the quarter-ended	2012			2013				2014
($ thousands, except per share figures)	Q2	Q3	Q4 [4]	Q1	Q2	Q3	Q4 [6]	Q1
Revenue [5]	$23,142	$21,474	$22,806	$19,778	$24,354	$24,935	$25,672	$25,865
Gross margin before expenses [5]	8,633	8,228	8,358	8,980	10,138	9,766	10,196	10,932
Income before tax, and gain (loss) on interest rate swaps, conv deb and fx	4,180	3,790	4,034	4,676	5,342	4,993	4,870	5,623
Income before tax	4,170	3,235	5,323	5,140	5,906	5,018	3,673	5,553
Provision for taxes	1,863	1,677	2,100	2,146	2,577	2,146	1,963	2,424
Net income	$2,307	$1,558	$3,223	$2,994	$3,329	$2,872	$1,710	$3,129
Basic earnings per share [2][3]	$0.20	$0.14	$0.29	$0.26	$0.30	$0.25	$0.15	$0.27
Diluted earnings per share [2][3]	$0.20	$0.13	$0.28	$0.25	$0.28	$0.23	$0.13	$0.25
Total assets	163,214	153,742	161,395	174,446	190,371	187,782	216,521	243,142
Long-term financial liabilities	89,302	83,220	86,381	96,170	112,170	107,335	134,899	155,449
Other Data								
Adjusted EBITDA [1]	$4,681	$4,288	$4,540	$5,206	$5,847	$5,329	$5,153	$5,589
Dividends declared [3]	1,809	1,867	1,869	1,983	2,047	2,057	2,175	2,251
Dividends declared per share [2][3]	$0.16	$0.165	$0.165	$0.175	$0.18	$0.18	$0.19	$0.195

(1) Adjusted EBITDA and EBITDA are non-GAAP measures. See "Non-GAAP Measures" for the definition of Adjusted EBITDA and EBITDA.

(2) Based on weighted average shares outstanding during period.
(3) Includes dividends on Exchangeable Securities (non-controlling interest as described below under "Statement of Financial Position").
(4) While Case Funding continued to grow and show promise, the projected results were less than the original forecasts used as a basis for the contingent consideration. It was determined that the estimated probability that Chesswood would have to pay the contingent consideration and bonus in June 2014 is extremely low. The $850,000 accrual at September 30, 2012, relating to the contingent consideration ($680,000) and bonus ($170,000) was reversed in Q4 2012. While management believes the $399,000 deferred tax asset at Case Funding will be realized, given the uncertainty of forecasting the growth of Case Funding, the timing of the utilization of the tax losses was not certain and thus the deferred tax asset established in Q4 2011 was reversed in Q4 2012. Previously disclosed quarterly Adjusted EBITDA amounts did not consider contingent consideration and bonus, the calculation of quarterly Adjusted EBITDA was updated in Q4 2012.
(5) The Canadian automotive business represents approximately 50% of the Company's total revenue, however only represents approximately 14% of the Company's gross margin before expenses. The automotive revenue can significantly fluctuate throughout the year and year-to-year based on seasonality, sales volumes and market conditions with little effect to the Company's gross margin before expenses.
(6) During Q4 2013, the Company issued $20.0 million of convertible debentures. Management has designated the entire convertible debenture (and all the embedded derivatives) as a combined financial liability and for accounting purposes value it at fair value, with changes in fair value recorded through profit or loss. The fair value of the convertible debentures is based on the trading price on the Toronto Stock Exchange each reporting period, as a result, there may be increased volatility in net income. At December 31, 2013, the fair value adjustment resulted in a loss of $680,000 in financing costs on the Statement of Income. As a result of this election, the $1.4 million expenses related to issuing the convertible debenture were also expensed in Q4 2013 and not over the life of the debentures. An additional $20,000 of fair value adjustment in financing costs was recorded in the Statement of Income in the first quarter of 2014.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013

The U.S. dollar results for the three months ended March 31, 2014 were converted at approximately 1.1033, which was the average exchange rate for the three month period. The U.S. dollar results for the three months ended March 31, 2013 were converted at approximately 1.0083, which was the average exchange rate for the corresponding period.

Please see Note 26 - *Segment Information* in the notes to the Company's condensed consolidated interim financial statements for a breakdown of operating results and other information by industry segment and geographic location.

For the three months ended March 31, 2014, the Company reported consolidated net income of $3.1 million compared to $3.0 million in the same period in the prior year, an increase of $135,000 year-over-year.

For the three months ended March 31, 2014, the Company reported consolidated operating income ("income before undernoted items") of $5.6 million compared to $4.7 million in the prior year, an increase of $947,000 or 20.3% year-over-year.

The $947,000 increase in operating income for the three month period year-over-year was the result of:

- An increase in operating income of $710,000 from Pawnee and Windset ($586,900) and Northstar ($123,100) in the three month period compared to the prior year, predominantly from a $1.8 million increase in finance income due to an increased average net finance receivable outstanding year-over-year offset by a $556,000 increase in provision for credit losses and a $644,000 increase in personnel and other expenses compared to the prior year. Amortization expense decreased $121,000 year-over-year in the three month period as Pawnee's broker network intangible asset was fully depreciated by the end of April 2013, seven years after the acquisition of Pawnee. In the three month period, Pawnee's actual net charge-offs increased by U.S.$259,800 year-over-year consistent with the growth in the portfolio.

- Case Funding's operating income for the three month period increased $239,000 year-over-year and totaled $439,000. The increase in finance revenue of $403,000 in the three month period year-over-year reflects the growth in the portfolio year-over-year.

- Automotive operations income increased $183,000 year-over-year reflecting an increase in income from Sherway of approximately $154,000 and a $29,000 reduction in net expenses from Lease-Win. New vehicle sales at Sherway increased by 51 vehicles in Q1 2014 compared to the same period in the prior year and contributed to the increase in Sherway's operating income. Automotive operations income for the three month period includes $25,300 expense relating to the tent housing the dealership showroom and administrative and sales staff during the renovation currently underway at the dealership which cannot be capitalized as part of the renovation costs.

- Corporate overhead before foreign exchange increased by $185,000 year-over-year, predominantly from a $264,000 increase in general and administrative expenses offset by a $51,000 decrease in personnel expenses due to timing of bonus accruals in the prior year, and a $28,000 decrease in share-based compensation expense. General and administrative expenses include $167,000 of costs incurred relating to the acquisition of Northstar.

The provision for taxes for the three months ended March 31, 2014 totaled $2.4 million compared to $2.1 million in the same period of the prior year. The $2.4 million provision for taxes for the three months ended March 31, 2014 is comprised of $2.1 million in current tax expense, $140,200 in withholding tax on inter-company dividends and future tax expense of $176,000.

STATEMENT OF FINANCIAL POSITION

Total consolidated assets of the Company at March 31, 2014 were $243.1 million, an increase of $26.6 million from December 31, 2013. The exchange rate on March 31, 2014 was 1.1053 compared to 1.0636 at December 31, 2013. The change in the foreign exchange rate increased assets by $7.2 million, thus total assets excluding the foreign exchange impact increased by $19.4 million from December 31, 2013. The $9.9 million increase in working capital loans, equipment finance agreements and legal finance receivables (excluding foreign exchange impact) and $7.2 million increase in assets as a result of the acquisition of Northstar accounted for the majority of the increase in assets since December 31, 2013.

Cash totaled $18.2 million at March 31, 2014 compared to $22.7 million at December 31, 2013, a decrease of approximately $4.5 million.

Accounts receivable totaled $1.6 million at March 31, 2014 compared to $1.2 million at December 31, 2013. The accounts receivable balance principally relates to Sherway includes amounts due from the manufacturer for financing contracts in transit, which are typically collected within seven to ten days, and are usually at their highest levels at month end. Vehicle receivable balances fluctuate throughout the year based on seasonality, and sales volumes of the industry.

Inventory totaled $8.4 million at March 31, 2014 compared to $7.8 million at December 31, 2013, an increase of $602,000. Vehicle inventory balances at dealerships fluctuate throughout the year based on seasonality, sales volumes and market conditions.

Prepaid expenses and other assets totaled $1.0 million at March 31, 2014, a decrease of $845,000 from December 31, 2013. Tax receivable decreased $1.0 million from December 31, 2013 as tax installments paid in prior year were allocated to 2014 tax installments and accounted for the majority of the decrease in prepaid expenses and other assets.

Finance receivables consist of the following:

	March 31, 2014	December 31, 2013
	($ thousands)	
Net investment in leases - Pawnee	**$ 128,978**	$ 127,145
Net investment in leases - Northstar	**6,708**	—
Net investment in leases - pledged - Northstar	**6,160**	—
Equipment financing agreements ("loans") - Pawnee	**21,044**	18,773
Working capital loans - Windset	**9,100**	2,422
Legal finance receivables - Case Funding	**13,168**	10,961
	$ 185,158	$ 159,301

Pawnee's lease originations in the first quarter of 2014 continued to be impacted by competition that began in the third quarter of 2013 to aggressively price risk at levels below the risk-adjusted price levels which Pawnee believes are appropriate for its lessees/

borrowers. This competitive behavior has been regularly demonstrated in the past as the cycle of the leasing industry enters a time of increasing capital availability, just as it is today, once again. While in Canadian dollars, Pawnee's net investment in leases increased due to the increase in foreign exchange rates, in U.S.$ Pawnee's net investment in leases was down U.S.$2.85 million from December 31, 2013. Increases in equipment financing agreements at Pawnee and working capital loans at Windset in the same period more than offset the decrease in net investment in leases at Pawnee.

The $172.0 million in net investment in leases and loans (excluding the $13.2 million in legal finance receivables, discussed below) is net of $4.6 million in allowance for doubtful accounts compared to $3.7 million in allowance for doubtful accounts at December 31, 2013. 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.

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 the charge-offs are made before the subject leases/loans reach 154 days contractually past due. As only a small percentage of the total lease and loan receivable portfolio have monthly payments that are past due at any one reporting date, the portion of the receivables that shows observable objective evidence of impairment at any one reporting date is quite small, despite long-term historical experience that indicates that future charge-offs with respect to the current lease and loan receivable will typically exceed the level of observable impairment, in a matter of months. At Northstar, management reviews each outstanding receivable, on an individual basis, for collectability and for reserve requirements, if any. Windset had only a few delinquent loans at March 31, 2014 and thus no allowance for doubtful accounts was recorded.

Unlike certain other equipment finance companies, Pawnee does not sell any of its lease or loan receivables. All receivables originated by Pawnee and Windset are retained for their full term. Pawnee and Windset funds their leases and loans through a floating rate facility offered by a banking syndicate, (as discussed below) and through the provision of capital, in the form of debt or equity from Chesswood.

Northstar sells some of their financing leases through securitization transactions and retains servicing responsibilities. Northstar retains the right to a portion of the future cash flows arising after investors in the securitization trust have received the return for which they contracted. The investors and the securitization trust have no recourse to Northstar’s other assets for failure of debtors to pay when due. Northstar’s retained interests are subordinate to the investors’ interests. Their value is subject to credit, prepayment, and interest rate risks on the transferred receivables. The securitization transactions do not result in the transfer of substantially all the risks and rewards of ownership of the leases, as required by IAS 39, *Financial Instruments: Recognition and Measurement*, and therefore the receivables have not been derecognized. The securitization agreement operates as a flow through, whereby Northstar retains the contractual right to collect the cash flows but assumes a contractual obligation to pay the cash flows to the securitization trust. Northstar retains substantially all the risks of ownership of the transferred leases because the Company is exposed to fluctuations in the fair value of the unguaranteed residual and to credit losses caused by lease defaults.

Legal finance receivables consist of funds advanced to plaintiffs, attorneys, and for the purchase of medical liens relating to plaintiff cases. At March 31, 2014, there were 665 advances and loans outstanding (December 31, 2013 - 605 advances and loans). The advances and loans are due when the underlying cases are settled. However, attorney borrowers do make partial monthly interest payments that are generally equal to at least half of the interest accruing on the loan. These payments are collected through automatic monthly debits to the borrowers' bank accounts.

Interest income is recognized for accounting purposes by estimating the collection date and thus total funds to be collected, from which income can be determined on an effective interest basis.

# of days outstanding (**)	1day -> 90 days	91 days -> 180 days	181 days -> 365 days	366 days ->	Total
# of loans & advances	124	115	133	293	665
$ thousands	$2,016	$1,985	$3,151	$6,016	$13,168

(**)The advances and loans are due when the underlying cases are settled. The number of days the receivable is outstanding does not necessarily indicate the likelihood of impairment. It is normal for receivables in this industry to be outstanding anywhere from 6 months to 48 months.

Under IFRS, an allowance for the collectability of the legal finance receivables can only be set up if there is objective evidence that the impairment has already occurred; potential losses expected as a result of future events, no matter how likely based on past historical evidence or known uncertainties with this type of receivable, are not allowed to be recognized.

The collectability of loans and/or advances made by Case Funding depends on litigation outcomes in the form of judgments and/or settlements. Once an advance/loan is made, the timing of the collection cycle is out of Case Funding's control. Therefore, the timing of actual collections will be irregular. At March 31, 2014, Case Funding was not aware of any situation where the collection of a receivable was doubtful and thus there was no observable objective evidence of impairment and therefore no basis for establishing an allowance for doubtful accounts under IFRS; however historical experience and the uncertainties involved would indicate that Case Funding will not collect 100% of the loans and advances. Case Funding's pricing to the markets it serves reflects this fact.

Net additions to property and equipment totaled $61,000 for the three months ended March 31, 2014. Approximately $35,300 of the property and equipment additions in 2014 relates to architect and other preliminary costs associated with Sherway's re-imaging upgrade of the dealership. The current estimate of costs for the project is between $2.5 million and $3.0 million. Initial funding for the re-imaging upgrade will be funded by Sherway's bank facility and/or Chesswood's excess capital. Once complete, a large portion of the costs will be reimbursed by Acura Canada. The construction began in March 2014. At March 31, 2014, approximately $240,000 of the property and equipment was not being amortized as it relates to renovation costs still in progress.

Intangible assets totaled $7.3 million at March 31, 2014 compared to $7.0 million at December 31, 2013. The increase in intangible assets is the result of the change in foreign exchange rates. The significant intangible assets of broker relationships and trade names do not require any outlay of cash to be maintained, as the creation of lease and loan receivables does not require an outlay of cash, other than commissions, which are separately expensed over the term of the lease and loan receivable.

Goodwill totaled $19.6 million at March 31, 2014 compared to $14.7 million at December 31, 2013. The valuation report for the Northstar acquisition has not been finalized. The allocation between intangible assets and goodwill will be adjusted once the report is finalized. The movement in the foreign exchange rate resulted in an increase of $475,700 in goodwill during the three months ended March 31, 2014. Goodwill is typically tested annually for impairment unless certain circumstances arise that would require an assessment prior to an annual review. The Company completed its annual goodwill impairment test as at December 31, 2013 and 2012 and determined that no impairment had occurred.

Accounts payable and other liabilities totaled $6.7 million at March 31, 2014 compared to $7.1 million at December 31, 2013, a decrease of $416,000. See Note 12 - *Accounts Payable and Other Liabilities* for more detail on the balances that comprise accounts payable and other liabilities.

Vehicle inventory is financed through vehicle financing credit facilities, of which $8.0 million was outstanding at March 31, 2014 compared to $6.4 million at December 31, 2013, leaving $470,000 of inventory that was self-financed as at March 31, 2014 compared to $1.5 million self-financed at December 31, 2013. Vehicle inventory balances at dealerships fluctuate throughout the year based on seasonality, sales volumes and market conditions.

Pawnee enters into interest rate swap agreements with its principal lender under its banking facility that provides for payment of an annual fixed rate, in exchange for a LIBOR based floating rate amount. Pawnee's bank has the option to terminate the swaps typically one year prior to the maturity date. The interest rate swaps are intended to offset a portion of the variable interest rate risk on the credit facility. At March 31, 2014, the mark-to-market adjustment is a cumulative loss of approximately $1.2 million compared to a loss of approximately $1.2 million at December 31, 2013 and is shown as a liability on the statement of financial position.

The following interest rate swaps were outstanding at March 31, 2014:

Effective Date	Notional Amount U.S.$	Annual Fixed Rate	Maturity date
March 2012	$15 million	4.00%	March 2015
April 2013	$15 million	0.96%	April 2016
March 2014	$15 million	1.33%	March 2017
March 2015	$15 million	1.56%	March 2017
April 2015	$15 million	2.12%	March 2019
April 2016	$15 million	2.11%	March 2018
March 2017	$15 million	2.88%	March 2018
March 2017	$15 million	3.23%	March 2019

Pawnee's interest rate swaps are not considered trading instruments as it intends to hold them until maturity. Nonetheless, the interest rate swaps do not qualify as a hedge for accounting purposes, and are therefore recorded as a separate derivative financial instrument. Accordingly, the estimated fair value of the interest rate swaps is recorded as a liability on the accompanying condensed consolidated interim statement of financial position. Payments made and received pursuant to the terms of the interest rate swaps and adjustments to the fair value of the interest rate swaps are recorded as gain or loss on interest rate swaps. The fair value of interest rate swaps is based upon the estimated net present value of cash flows. The amount the Company would have to pay to settle the interest rate swaps outstanding at March 31, 2014 is $1.2 million and is shown on the condensed consolidated interim statement of financial position as a liability.

Borrowings totaled $96.1 million at March 31, 2014 compared to $77.3 million at December 31, 2013. Pawnee was utilizing U.S. $81.7 million of its credit facility at March 31, 2014 compared to U.S.$73.2 million at December 31, 2013. The U.S.$8.5 million increase in the borrowings reflects the final 2013 and January to March 2014 dividend payments to Chesswood and corresponding withholding taxes being paid in March 2014.

In July 2012, Pawnee renewed and expanded its credit facility. The credit facility limit was increased by U.S.$30.0 million to U.S. $85.0 million, while the accordion feature of the loan agreement has been increased to U.S.$115.0 million from U.S.$85.0 million. Pawnee's borrowings under the credit facility are subject to, among other things, adhering to certain percentages of eligible gross lease/loan receivables, and the maintenance of a minimum debt to tangible net worth ratio. This credit facility is secured by substantially all of Pawnee's assets, contains negative covenants including the maintaining of leverage and interest coverage ratios, requires Pawnee to mitigate its interest rate risk by entering interest rate swaps for a notional amount not less than 50% of the outstanding amount, and matures on July 24, 2016. Pawnee was in full compliance with all its bank covenants during the period.

In November 2013, Pawnee's syndicate of lenders approved amendments to Pawnee's credit facility so as to provide Windset with access to a maximum of U.S.$5.0 million of capital from Pawnee's credit facility. No significant changes were made to Pawnee's covenants under the credit facility as a result of this new availability. In the first quarter of 2014, Pawnee's syndicate of lenders approved amendments to Pawnee's credit facility so as to provide Windset with access to another U.S.$5.0 million in capital to a maximum of U.S.$10.0 million of capital from Pawnee's credit facility. In conjunction with this amendment, Chesswood contributed U.S.$1.75 million of additional capital to Windset to support its growth. At March 31, 2014, Windset was utilizing U.S.$5.5 million of the available U.S.$10.0 million available.

In the first quarter of 2014, Northstar securitized a tranche of leases under their $10.0 million securitization facility and received proceeds of $952,000, a portion of which applied to their line of credit. At March 31, 2014 , Northstar was not utilizing their $3.5 million line of credit with their bank. Northstar was in full compliance with all its bank covenants during the period.

The $12.5 million (December 31, 2013 - $11.8 million) in customer security deposits relates to security deposits held by Pawnee and Northstar. Pawnee's primary contracts requires that the lessee/borrower provide two payments as security deposit (not advance payments), which are held for the full term of the lease and then returned or applied to the purchase option of the equipment at the lessee's request, unless the lessee has previously defaulted (in which case the deposit is applied against the lease receivable). Historically, a very high percentage of lessees' deposits are either applied to the purchase option of the leased equipment at the end of the lease term or used to offset charge-offs. Approximately $520,800 of the increase in security deposits is the result of the acquisition of Northstar, $452,100 of the increase is the result of the change in the foreign exchange rate at Pawnee offset by a U.S.$430,000 decrease in actual security deposits (before discounting adjustment) due to the decrease in leases outstanding at Pawnee from December 31, 2013.

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

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

- After December 31, 2016 and prior to December 31, 2017, the Company has the option to redeem the debentures provided the current market price, as defined for purposes of the debentures, is at least 125% of the conversion price of $21.25.
- Subsequent to December 31, 2017 and prior to December 31, 2018, the Company has the option to redeem the debentures provided the redemption price at a price equal to the principal amount including accrued and unpaid interest.

The convertible debentures have several embedded derivative features which were determined to not meet the criteria for treatment as equity components and would otherwise be required to be recognized as separate financial instruments, measured at fair value through profit or loss. The Company has elected under *IAS 39.11A* to designate the entire convertible debentures (and all the embedded derivatives) as a combined financial liability at fair value through profit or loss. The fair value of the convertible debentures is based on its trading price on the Toronto Stock Exchange every reporting period; as a result, there may be increased volatility in the reported net income. At March 31, 2014, the fair value adjustment resulted in a loss of $20,000 on the Statement of Income.

Future taxes payable at March 31, 2014 totaled $24.9 million compared to $23.9 million at December 31, 2013, an increase of $1.0 million. The increase in future taxes payable is the result of a future tax expense of approximately $85,100 and a $914,700 increase as a result of the change in the foreign exchange rate. Tax at Pawnee is provided for using the asset and liability method of accounting. This method recognizes future tax assets and liabilities that arise from differences between the accounting basis of the subsidiary's assets and liabilities and their corresponding tax basis.

At March 31, 2014, there were 10,253,132 Common Shares outstanding (excluding the shares issuable in exchange for the Exchangeable Securities, as defined below) with a book value of $47.4 million. Including the Exchangeable Securities, Chesswood would have had 11,731,669 Common Shares outstanding.

In August 2012, the Board of Directors approved the repurchase and cancellation of up to 658,943 of the Company's outstanding Common Shares for the period commencing August 25, 2012 and ending on August 24, 2013. From January 2013 to August 24, 2013, no Common Shares had been repurchased under this normal course issuer bid. In August 2013, the Board of Directors approved the repurchase and cancellation of up to 688,614 of the Company's outstanding Common Shares for the period commencing August 25, 2013 and ending on August 24, 2014. During the period ended March 31, 2014, no Common Shares had been repurchased under the renewed normal course issuer bid. Decisions regarding the timing of purchases are based on market conditions and other factors.

Non-controlling interest is comprised of the 1,274,601 Class B common shares and 203,936 Class C common shares ("the Exchangeable Securities") of Chesswood U.S. Acquisitionco Ltd. ("U.S. Acquisitionco"), which were issued as partial consideration for the acquisition of Pawnee and are fully exchangeable at any time for Common Shares, on a one-for-one basis, through a series of steps. Attached to the Exchangeable Securities are Special Voting Shares of the Company which provide the holders of the Exchangeable Securities voting equivalency to holders of Common Shares. Under *IAS 27*, 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 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 the Fund converted to a corporation), per IFRS, the value attributed to the non-controlling interest was just the fair value of the equivalent Common Shares (closing value of Fund Units on the Toronto Stock Exchange on December 31, 2010) as the Exchangeable Securities are fully exchangeable into Common Shares. Their portion of the cumulative income and dividends from May 2006 to January 1, 2011 was not allocated to non-controlling interest; however, their portion of income and dividends has since been allocated to non-controlling interest.

Reserve represent the accumulated share-based compensation expensed over the vesting term for options and restricted share units unexercised at March 31, 2014.

Accumulated other comprehensive loss is the cumulative translation difference between the exchange rate on January 1, 2010, the IFRS adoption date and the exchange rate on March 31, 2014 of self-sustaining foreign operations net assets.

LIQUIDITY AND CAPITAL RESOURCES OVERVIEW

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

The Company raised net funds of $18.6 million through the issuance of convertible debentures in December 2013 to fund acquisitions and growth of existing operating subsidiaries. In January 2014, the Company used a portion of those funds to acquire Northstar for approximately $10.6 million, including costs. See Note 11 - *Business Acquisition* for more details.

The Company's subsidiaries' objective is to maintain low cash balances, investing any free cash in their operations as needed and using any excess to pay down debt on various financing facilities. The subsidiaries fund working capital needs, lease and loan originations and growth using advances under credit facilities available when operating cash flow is not sufficient. At March 31, 2014, the Company's operating units had $7.1 million in additional borrowings available under various credit facilities to fund business operations.

The Company itself does not have any credit facility. The subsidiaries' respective credit facilities are used to provide funding for the subject subsidiary's operations (i.e. to provide financing for the purchase of assets which are to be the subject of leases and loans or to acquire vehicle inventory and support working capital), other than Case Funding which is in the process of seeking a banking partner and Windset which has access to up to U.S.$10.0 million of bank borrowings. The credit facilities are not intended to directly fund dividends by the Company (and these facilities generally limit the amount which can be distributed to the Company to the net income of the subject subsidiary).

Chesswood's newly launced working capital loan business Windset has experienced strong growth which has been funded by equity from Chesswood as well as by debt provided by Pawnee's banking syndicate. We believe it likely that Chesswood may deploy as much as U.S.$12.0 million of its excess capital in support of Windset's originations through 2014, after having first made use of the U.S.$10.0 million made available by the banking syndicate.

Sherway has finalized its plans for a re-imaging upgrade of its dealership. The current estimated costs for the project are between $2.5 million and $3.0 million. Initial funding for the re-imaging upgrade will be funded by Sherway's bank facility or through the use of Chesswood's excess cash resources. Once complete, a large portion of the costs will be reimbursed by Acura Canada. The construction began in March 2014. During the first quarter of 2014, Sherway signed an extension of their premise lease which expires in June 2024.

The following are the contractual principal payments and maturities of financial liabilities and other commitments:

($ thousands)	2014	2015	2016	2017	2018	2019 +	Total
Accounts payable and other liabilities	$ 6,605	$ 29	$ 31	$ 15	$ —	$ —	**$6,680**
Vehicle financing	7,968	—	—	—	—	—	**7,968**
Interest rate swaps	—	642	176	308	(6)	109	**1,229**
Borrowings (a)	—	—	96,099	—	—	—	**96,099**
Customer security deposits (b)	2,879	3,462	3,272	1,866	1,059	—	**12,538**
Convertible debentures	—	—	—	—	20,000	—	**20,000**
	$17,452	$4,133	$99,578	$2,189	$21,053	$109	**$144,514**
Other financial commitments (c)	722	839	621	490	486	2,671	**5,829**
Total commitments	$18,174	$4,972	$100,199	$2,679	$21,539	$2,780	**$150,343**

a. Pawnee's financing credit facility is a line-of-credit; as such the balance can fluctuate. The credit facility matures in 2016. The interest rate has a floating component, thus the interest payments are dependent on the balance of the line of credit and the interest rate at any point of time.

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

c. The Company and its subsidiaries are committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, expiring in 2015 and 2024.

The Company has no material "off-balance sheet" financing obligations, except for long-term premises lease agreements. Other commitments are disclosed in Note 30 - *Contingent liabilities and other financial commitments* of the 2013 annual consolidated financial statements.

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 year. Cash flows in foreign currencies have been translated at the average rate for the period. Cash flow from operating activities comprises net income (loss) adjusted for non-cash items, changes in working capital and operational net assets. Receipts and payments with respect to tax are included in cash from operating activities. The Company considers vehicle financing as an operational liability as it is short-term in nature and directly relates to changes in accounts receivable and inventory. The changes are shown in cash flows from operating activities and interest revenue and interest expenses are included in operating activities and not investing or financing activities. Cash flow from investing activities comprises payments relating to the acquisition of companies and property and equipment and changes in finance receivable and customer security deposits. Cash flow from financing activities comprises changes in borrowings, payment of dividends, proceeds from stock issues, and the purchase and sale of treasury stock.

During the first quarter of 2014, the Company moved changes in finance receivables and customer security deposits to investing activities on the Statement of Cash Flows and the change in borrowings was moved to financing activities to be comparable to other specialty finance companies, to reflect the longer-term nature of the receivables and borrowings, to better reflect the Company's decision to self-finance its finance receivables from excess funds and not necessarily cash from current operating activities.

For the three months ended March 31, 2014

The Company's operations generated cash flow from operations of $7.6 million during the three months ended March 31, 2014 compared to $4.7 million in the prior year, an increase of $2.9 million due to improved cash based earnings and a $1.5 million reduction in net taxes paid year-over-year.

The Company's investing activities included cash utilization of $9.9 million to fund the increase in finance receivables during the three months ended March 31, 2014 compared to $13.0 million in the same period in the prior year, a decrease of $3.1 million (see Note 21 - *Cash Flow Supplementary Disclosure* for a break down by finance receivable type).

The Company used $10.6 million to acquire Northstar during the three-months ended March 31, 2014, see Note 11 - *Business Acquisition.* Capital expenditures totaled $61,000 (2013 - $285,000) during the three months ended March 31, 2014.

Cash from the increase in borrowings during the three months ended March 31, 2014 totaled $9.1 million compared to $6.7 million in the same period in the prior year, reflects that fact Chesswood received the 2013 final dividend payment and the January to March 2014 dividend payment from Pawnee in the first quarter of 2014 compared to receiving the 2012 dividend payment in the second quarter of 2013.

The Company paid dividends to the holders of Common Shares and Exchangeable Securities in the amount of $2.2 million during the three months ended March 31, 2014 compared to $1.9 million in the prior year; an increase of $308,000 due to a higher number of shares outstanding and higher dividend per share amounts year-over-year. The Company received $1.5 million (2013 - $56,000) from the exercise of options by employees during the three months ended March 31, 2014.

In the three months ended March 31, 2014, there was a decrease in cash of $4.5 million compared to a decrease of $3.5 million in the prior year.

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 facilities. Chesswood may require additional funds to finance future acquisitions and support significant internal growth initiatives such as Case Funding's operations and originations and Pawnee's portfolio growth. It will seek such additional funds, if necessary, through public or private equity or debt financings from time to time, as market conditions permit.

Financial Covenants, Restrictions and Events of Default

The Company's operating subsidiaries are subject to bank and/or manufacturer covenants relative to leverage and/or working capital, other than Case Funding and Lease-Win, which either have no banking facility or no longer has or needs a banking facility.

Pawnee funds its business primarily through variable rate borrowings and has a revolving credit facility for up to U.S.$85.0 million which can, subject to certain conditions, be extended to U.S.$115.0 million. As of March 31, 2014, Pawnee had used approximately U.S.$81.7 million of its available borrowing under this facility (U.S.$73.2 million as of December 31, 2013). Pawnee's ability to access funding at competitive rates through various economic cycles enables it to maintain the liquidity necessary to manage its business, and its ability to continue to access funding is an important condition to its future success. Pawnee is required to purchase fixed interest rate hedges for at least 50% of the outstanding balance under its credit facility, and as of March 31, 2014, Pawnee has hedged U.S.$45.0 million, representing approximately 55.1% of the U.S.$81.7 million outstanding under the credit facility.

In November 2013, Pawnee's syndicate of lenders approved amendments to the current banking agreement that provide Windset with access to a maximum of U.S.$5.0 million of capital from Pawnee's credit facility. No significant changes were made to Pawnee's covenants under the credit facility, as a result of this new availability. In early 2014, Pawnee's syndicate of lenders approved amendments to the current banking agreement that provide Windset with access to another U.S.$5.0 million in capital to a maximum of U.S.$10.0 million of capital from Pawnee's credit facility. In conjunction with this amendment, Chesswood contributed U.S.$1.75 million of additional capital to Windset to support its growth.

Pawnee's secured borrowing agreement has financial covenants and other restrictions with which Pawnee and U.S. Acquisitionco must comply in order to obtain continued funding and avoid default. Events of default under these arrangements include a change in control without lender-approval.

Advances on the revolving facility may be drawn at any time, subject to compliance with borrowing base calculations and compliance with the covenants set out therein. As of March 31, 2014, U.S.$81.7 million was outstanding under the facility and Pawnee had capacity to draw up to and in excess of the U.S.$85.0 million commitment and remain within the borrowing base under the facility.

Pawnee is restricted in its ability to merge, acquire companies or be acquired, or incur additional debt without lender approval. Furthermore, dividends are limited to compliance with all bank covenants and may not exceed 95% of U.S. Acquisitionco's consolidated net income, as determined in accordance with U.S. GAAP, with a few adjustments, including mark-to-market adjustments for interest rate swaps.

Pawnee is subject to the risk of increases in interest rates as the credit facility used to fund the business operations has a variable interest rate component, while the yields on its equipment leases and loans are fixed. Pawnee seeks to mitigate that risk through the use of swap agreements that effectively convert floating rate debt to fixed rates.

Pawnee's current funding agreement expires on July 24, 2016. Pawnee has successfully renewed its funding facility on numerous occasions.

Dividends to Shareholders

The Company declared cash dividends during the three months ended March 31, 2014 as follows:

Shareholder Record Date	Per Share
January 31, 2014	$ 0.065
February 28, 2014	$ 0.065
March 31, 2014	$ 0.065
	$ 0.195

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).

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

OUTLOOK

We have many growth initiatives underway at Chesswood, as each of our businesses focuses on the opportunities its market presents.

Pawnee has seen some indications that the general market it serves - small business across America - may be starting to engage in more capital activities, after many years of muted behavior. The volume of applications was very strong during the quarter. Approval rates and funding rates, while lower than in the past due to the competitive irrationality we have noted, have been rising in each of the first three months of 2014 in dollar terms, reflecting these increased application volumes.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Understanding the Company's accounting policies is essential to understanding the results of the Company's operations and financial condition. The Company's significant accounting policies are described in Note 3 - *Significant Accounting Policies* to the Company's consolidated financial statements for the year ended December 31, 2013. and further described in Note 3 in the Company's condensed consolidated interim financial statements. The preparation of these 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 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. Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties and the most significant of which are described below.

Net Investment in Leases

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 the risks and rewards of legal ownership of the asset 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.

Net Investment in Leases - Pledged

The Company securitizes a portion of its finance lease receivables at Northstar by transferring the receivables to a securitization trust in which neither the Company nor its subsidiaries are beneficiaries. The securitization agreement operates as a flow through, whereby Northstar retains the contractual right to collect the cash flows but assumes a contractual obligation to pay the cash flows to the securitization trust. Northstar retains substantially all the risks of ownership of the transferred leases because the Company is exposed to fluctuations in the fair value of the unguaranteed residual and to credit losses caused by lease defaults. Therefore, the transfers do not result in substantially all the risks and rewards of legal ownership being transferred to the securitization trust. Therefore, the transferred lease receivables are presented separately on the Company's consolidated statement of financial position and the proceeds received are presented as a liability.

Northstar sells financing leases through securitization transactions and retained servicing responsibilities. Northstar retains the right to a portion of the future cash flows arising after investors in the securitization trust had received the return for which they contracted. The investors and the securitization trust have no recourse to Northstar's other assets for failure of debtors to pay when due.

At Northstar, management reviews each outstanding receivable, on an individual basis, for collectability and for reserve requirements, if any.

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.

Pawnee's lease receivables and EFAs are each composed of a large number of homogenous leases and loans (EFAs are classified as loans for accounting purposes), with relatively small balances made to inherently risky borrowers. Pawnee charges-off leases and EFAs 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 EFAs value that is over 30 days delinquent, plus any leases or loans identified as impaired less than 30 days delinquent and approximately 10% of the 1-30 day delinquent leases (those considered most likely to fall into the over 30 days delinquent category by the next month).

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 Pawnee's 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 Pawnee's actual and projected net credit losses and the related allowance for doubtful accounts.

At Northstar, management reviews each outstanding receivable, on an individual basis, for collectability and for reserve requirements, if any.

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 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 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 in value is recognized based on the effective interest method and recognized into finance income, any changes in fair value are recorded in other comprehensive income until realized.

Under IFRS, an allowance for the collectability of the legal finance receivables can only be set up if there is objective evidence that the impairment has already occurred; potential losses expected as a result of future events, no matter how likely based on past historical evidence or known uncertainties with this type of receivable, are not allowed to be recognized. The collectability of loans and/or advances made by Case Funding depends on litigation outcomes in the form of judgments and/or settlements. Once an advance/loan is made, the timing of the collection cycle is out of Case Funding's control. Therefore, the timing of actual collections will be irregular. At March 31, 2014, Case Funding is not aware of any situation where the collection of a receivable is doubtful and thus there is no observable objective evidence of impairment and therefore no basis for establishing an allowance for doubtful accounts under IFRS; however historical experience and the uncertainties involved would indicate that Case Funding will not collect 100% of the loans and advances.

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 and Bonus

Contingent consideration and bonus relates to the Incentive Payment Amount (as defined below) on the acquisition of Case Funding. The consideration is payable in the event that Case Funding's normalized net income ("NNI") for the 25th through 36th months following the Acquisition Date (June 10, 2011) achieves the targeted amount of approximately U.S.$4.7 million (the "Targeted Amount"), whereby an amount of U.S.$1.4 million (the "Incentive Payment Amount") (or an identical percentage adjusted portion of the Incentive Payment Amount if NNI is less than, but at least 90% of, the Targeted Amount) will be paid no later than the 38th month. It was determined at March 31, 2014 that the probability that the Targeted Amount would be reached was minimal.

The estimate of the fair value of contingent consideration and bonus payable requires very subjective assumptions to be made of various potential operating result scenarios and discount rates. Although the Company believes that there will be no Incentive Payment Amount due in June 2014, it will continue to periodically review NNI results and an updated assessment of various probability weighted projected NNI scenarios. If circumstances change and the Company determines that an earn-out payment may be due, such future revisions may materially change the estimate of the fair value of contingent consideration and therefore materially affect the Company's future financial results.

Convertible Debentures

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

Share-based Payments

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

Interest Rate Swaps

Hedge 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.

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

Taxes

Pawnee and Northstar 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 Northstar account for their lease arrangements as operating leases for federal tax reporting purposes. This results in temporary differences between financial and tax reporting for which deferred taxes have been provided.

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

FUTURE ACCOUNTING CHANGES

Financial Liabilities: Measurement

In October 2010, the IASB issued IFRS 9 *Financial Instruments*, which represents the completion of the first part of a three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement* with a new standard. As per the new standard, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income or loss section of the entity's statement of comprehensive loss, rather than within profit or loss. Additionally, IFRS 9 includes revised guidance related to the de-recognition of financial instruments. The Company plans to adopt these new standards when they become effective and is currently assessing the impact of this standard.

Financial Instruments (Classification and Measurement)

IFRS 9, *Financial Instruments* will replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9.

The effective date of IFRS 9 has been tentatively set for the Company's December 31, 2018 fiscal year.

Operating segments

The amendments to IFRS 8, *Operating Segments* issued in December 2013, require an entity to disclose the judgments made by management in applying the aggregation criteria for reportable segments. The amendments will only affect disclosure and are effective for annual periods beginning on or after July 1, 2014.

Certain new accounting standards and interpretations have been published by the IASB or the IFRIC that are not mandatory for the December 31, 2013 reporting period. The following standards are not expected to have any material impact on the Company's consolidated financial statements:

IAS 28 (as revised in 2003) and IAS 31
IAS 19 *Employee Benefits* (amended in 2011)
IAS 28 *Investments in Associates and Joint Ventures* (amended in 2011)
IFRIC 21 *Levies*

RISK FACTORS

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

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

Dependence on Key Personnel

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

Relationships with Brokers and Other Origination Sources

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

Similarly, the business models of Windset, Case Funding and Northstar depend to a large extent on referral relationships.

Risk of Future Legal Proceedings

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

Interest Rate Fluctuations

Our operating companies (and, in particular, Pawnee Windset and Northstar) are exposed to fluctuations in interest rates under their borrowings. Increases in interest rates (to the extent not mitigated by interest hedging arrangements) may have a material adverse impact on our businesses, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

The leases and loans are written at fixed interest rates and terms. The operating companies generally, finances their activities using both fixed rate and floating rate funds. To the extent the operating companies finance fixed rate leases and loans with floating rate funds, they are exposed to fluctuations in interest rates such that an increase in interest rates could narrow or eliminate the margin between the yield on a lease and loan and the effective interest rate paid by the borrower. While Pawnee enters into interest rate swaps to mitigate rate fluctuation risk, there can be no assurances that these arrangements will be sufficient to fully protect Pawnee against interest rate risks, or that Pawnee will be able to maintain such arrangements on a continuing basis.

Portfolio Delinquencies; Inability to Underwrite Lease and Loan Applications

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

In addition, since defaulted leases and loans and certain delinquent leases and loans cannot be used as collateral under its variable rate financing facilities, higher than anticipated lease defaults and delinquencies could adversely affect Pawnee's liquidity by reducing the amount of funding available to it under these financing arrangements. Furthermore, increased rates of delinquencies or loss levels could result in adverse changes to the terms of future financing arrangements, including increased interest rates payable to lenders and the imposition of more burdensome covenants and increased credit enhancement requirements.

Analogous risks are faced by Windset, Northstar and Case Funding in their business.

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

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

In addition, the leasing and working capital loan industries generally may be affected by changes in accounting treatment for leases and loans, and negative publicity with respect to, among other things, fraud or deceptive practices by certain participants in the industry. Greater governmental scrutiny is also a risk, especially as to the tax treatment of certain transaction structures or other aspects of these transactions that, if changed, could result in additional tax, fee or other revenue to that governmental authority. Any of these factors may make leasing less attractive or diminish the profitability of the existing financing alternatives offered by our operating companies.

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

Losses from Leases and Loans

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

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

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

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

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

External Financing

Our operating subsidiaries depend and will continue to depend on the availability of credit from external financing sources to continue to finance new leases/loans, refinance existing leases/loans and satisfy their other working capital needs. The operating subsidiaries may be unable to obtain additional financing on acceptable terms or at all. If any or all of their funding sources become unavailable on acceptable terms or at all, or if any of their credit facilities are not renewed or re-negotiated upon expiration of their terms, the operating subsidiaries may not have access to the financing necessary to conduct their respective businesses, which would limit their ability to finance their operations.

Although Chesswood is providing Case Funding with funds for its initial financing, and the initial financing for Windset is being accessed through Pawnee's credit facilities, the long-term success of Case Funding and Windset will require that each obtains external financing on acceptable terms, and a significant amount of the portion of Pawnee's facility which can be used for Windset has already been used as a result of Windset's greater than expected rate of growth. There can be no assurance that external financing will be available. Among other factors, potential changes in U.S. banking regulation or regulatory policy or in U.S. bank lending practices may impact upon the availability of financing from U.S. regulated financial institutions.

"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, and the ability to generate future advance originations.

Defenses to Enforcement of a Significant Number of Leases and Loans

Certain defenses and recovery impediments are more common in micro and small-ticket equipment finance transactions than with respect to equipment finance providers in other segments of the equipment finance industry. Management believes that certain of these risks are sufficiently addressed in Pawnee's existing documentation and related business practices. However, there are other risks that Pawnee has not addressed for various reasons, including that certain of these risks are not susceptible to being addressed either at all, or without incurring cost inefficiencies or taking other measures deemed unacceptable by Pawnee's management based on a risk-reward assessment. Pawnee has never experienced any material occurrence of these risks nor have these risks historically had a material adverse impact on Pawnee. However, there is no assurance that these risks will not have a material adverse impact on Pawnee's business, financial condition and results of operations in the future.

Origination, Funding and Administration of Transactions

Our operating companies' origination, funding and transaction administration practices could result in certain vulnerabilities in its enforcement rights. For example, certain leases and loans are assignments of transactions already documented by its brokers. Acquiring leases/loans by this "indirect" process subjects our operating companies to various risks, including risks that might arise by reason of the broker's insolvency, administrative inadequacies or fraudulent practices, as well as any third party claims against the broker or its rights with respect to the assigned lease or loan. Any of these broker related risks can impair our operating companies' rights with respect to recovering the rents and/or property under its leases and loans. Pawnee has not been involved in any claims or litigation in relation to such risks and Pawnee does not conduct lien searches in the name of, require lien releases from, or file financing statements against the lease broker.

If the lessee/borrower or broker is the party to whom the vendor of the equipment has agreed to sell the property at the time of its delivery, then under applicable commercial law, the lessee/borrower or broker, as applicable, may be deemed to have acquired title to the property prior to Pawnee's having funded the transaction. It has not been Pawnee's practice to ensure that the title to the leased property has not already passed or to obtain assurances that it is acquiring good title to that property free of liens and other third party claims. The manner in which Pawnee purchases the equipment is typical in this market segment, especially with respect to similarly situated equipment financing providers. Pawnee has not yet faced any meaningful challenge or adverse consequence from this practice, but there can be no assurance that such a challenge or consequence will not occur in the future.

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

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

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

A change in laws applicable to tort claims may reduce the availability of appropriate cases for Case Funding to underwrite.

Licensing Requirements

If an applicable court or regulatory authority were to make an adverse finding or otherwise take adverse action with respect to our operating companies based on their failure to have a finance lender's or other license or registration required in the applicable state, our operating companies would have to change business practices and could be subject to financial or other penalties.

Fees, Rates and Charges

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

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

Possible Acquisitions

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

Insurance

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

Lessor Liability

There is a risk that a lessor, such as Pawnee or Northstar, 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 Northstar requires its lessees to deliver evidence of compliance with same as a condition to funding but has no assurance that a lessee will take the appropriate actions during the lease term to address any use, maintenance or compliance issues which may arise. A lessee's conduct (or lack thereof) could subject Pawnee or Northstar, 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 Northstar (in connection with those leases where the lessee is not obligated to either purchase the equipment or guarantee the residual value of the equipment at the end of the term of the lease) is unable to accurately estimate or realize the residual values of the leased equipment subject to their leases, the amount of recorded assets on its statement of financial position will have been overstated.

Competition From Alternative Sources of Financing

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

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

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

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

Similarly, competition from a variety of other funding sources may result in a decrease in demand for Case Funding's, Windset's and Northstar's financing products.

Fraud by Lessees, Borrowers, Vendors or Brokers

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

Case Funding may face similar risks with respect to information provided to it by attorneys and plaintiffs.

Protection of Intellectual Property

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

Uncertainty of Outcome of Cases

The returns on loans and/or advances made by Case Funding, and thus the returns for Chesswood, depend on litigation outcomes in the form of judgments or settlements. Litigation of individual cases entails a large degree of uncertainty, including (1) the legal liability of the defendant, (2) the level of actual or perceived damages assessed by a judge or a jury, (3) the ability of the defendant, or the defendant's insurance company, to pay a settlement or judgment, (4) the abilities of plaintiff's counsel, (5) the assessment of fault and causation, (6) the legal nature of the claim, and (7) the amount of monetary damages ultimately awarded. 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. If an attorney fails to perform his or her duties effectively, the outcome of the case could be negatively impacted, which could have a material adverse effect on Case Funding's level of returns. Any negative event, including but not limited to those described above, may prevent Case Funding from realizing expected returns. While Case Funding undertakes to review the capabilities, experience and track records of the attorneys litigating cases it is considering for its loans, there is no guarantee that the actual outcome of a case will be in line with the expected outcome of that case, and Case Funding will not have any right to control, influence or manage the litigation or settlement of a case. Although Case Funding will seek to weigh such uncertainties in the due diligence conducted before making a funding decision, and intends 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. Once an advance/loan is made, the collection cycle is out of Case Funding's control. Therefore, there is no assurance as to collection times, and collections will likely be irregular. Also, there is no guarantee that Case Funding will be able to achieve results that will permit it to generate any particular rates of return in any given period. Case Funding may experience significant fluctuations in its operating results and cash flows from period to period due to a number of factors, including the changes in value of the advances/loans that it makes, and the collection and recognition of recoveries of its loans and returns. This may affect the amount of funds available each quarter for dividend payments.

Case Funding May Have Difficulty Collecting on its Investments

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

Limited Underwriting Experience or Underwriting Errors

Case Funding and Windset have a limited history of precedents upon which to base its case and loan evaluation. While the Company believes that its management and underwriters have the experience to evaluate borrowers, plaintiffs, cases, and attorney loans, Case Funding and Windset are newer entities and thus has limited history in underwriting upon which shareholders may rely. There is no guarantee that Case Funding and Windset will be able to successfully assess the merits of all loans and cases for which it provides funding, which, in turn, could adversely affect the financial results and cash flows of the business and/or Chesswood.

Case Funding and Windset may fail to correctly apply their own underwriting standards for a loan and/or advance, or may fail to account for or identify a material risk factor which could impact the success or value of a loan and/or advance thereby impacting the value of the Company's interests in such a loan and/or an advance.

Case Funding may be Unable to Obtain Key Information about Cases

Case Funding's need for information about a case during its due diligence review may potentially result in an adverse outcome on the examined case. In general, communications between a client and the client's attorney are privileged. However, Case Funding requires certain information to assess the case. Case Funding keeps such information and communications confidential, but a court may determine that the disclosure of such communications to Case Funding amounts to a waiver by the client of the privilege attached to such information or documents. If this were to occur, the defendant may have the right to discover such communications and use them against the plaintiff in the course of the lawsuit. Alternatively, the prospect of a waiver of privilege may cause the plaintiff or the plaintiff's attorney to withhold key information about the case from Case Funding in order to preserve the privilege. Therefore, the inability of Case Funding to obtain the information it needs to assess the case, or the possibility that privileged information could be discoverable by the defendants and used against the plaintiff, may increase the likelihood of negative outcomes on a loan and/or advance in that case.

Ethics and Legal Restrictions Vary by State

There have traditionally been legal and professional ethics restrictions on legal financing in the United States. These include the general prohibition from purchasing claims from plaintiffs (known as maintenance, as well as a form of maintenance called champerty), restrictions on assignment of certain kinds of claims, and ethical restrictions on participating in a lawyer's contingent fee interests (including ethical rules against sharing fees with non-lawyers). Maintenance prohibits the maintaining, supporting, promoting or assisting of another person's lawsuit, with money or otherwise. Champerty makes it illegal for a stranger to acquire a party's right to sue. States impose different rules regarding champerty and mainenances. If Case Funding were to be found in violation of a state's maintenance or champerty laws it could have a material adverse effect on the results of its loans and/or advances. Courts in any or all of the jurisdictions in which the loans and/or advances are made may conclude that Case Funding's loans and/or advances constitute "champerty" or "maintenance." Such a conclusion could make agreements with plaintiffs voidable, subject to fines or other sanctions, or otherwise negatively impact results. Due to these and similar rules, a number of states will not permit loans and/or advances like those Case Funding would typically make, and therefore Case Funding is limited in which states it may make loans and/or advances, which reduces the available funding opportunities. In other states, the funding of legal claims has not been considered by the courts or ethics authorities, nor specifically addressed by statute. In these situations, Case Funding may rely only on its own analysis as to the legality of loans and/or advances in these jurisdictions. Regardless of its analysis as to such legality, in jurisdictions where no legal or ethical guidance is available, Case Funding's loans and/or advances may be open to challenge, a reduction in value, or even cancellation, which would adversely impact financial results and the cash flow.

United States federal or state governmental bodies may enact laws limiting the rights of injured victims to sue or be compensated under some or all circumstances. Any such action could substantially limit or prevent entirely future funding opportunities for Case Funding. Changes in law or ethical rules in jurisdictions where restrictions on the types of loans and/or advances made by Case Funding currently do not apply could further reduce or limit opportunities for Case Funding to make loans and/or advances, or could result in the diminution or elimination of the value of the loans and/or advances already made by Case Funding in those jurisdictions.

Evaluation and Disclosure of Cases and Case Performance

Details of actual cases that Case Funding has funded in or intends to fund in will not be disclosed on a named basis to Shareholders, and in any event not all information relevant to the evaluation of any case will be permitted by law or professional ethics codes of conduct to be made available to Case Funding or the Shareholders. In particular, any sharing with Case Funding or the Shareholders of confidential information protected by attorney-client privilege or by attorney work-product doctrine could waive all protection of that information. Such waiver could severely damage the value of the underlying claim by giving the opponent access to sensitive information. Any agreement to share with Shareholders any information and evidence related to the case could preclude the plaintiff from entering into confidentiality agreements with co-plaintiffs in the same matter. Such sharing could also make discovery from the adverse party problematical as most discovery is covered by court-issued protective orders that ensure the confidentiality of all parties. A breach of a protective order could subject a party to serious sanctions that would impact the value of the underlying claim. In some instances, case settlements and case prospects will be confidential and/or subject to lawyer-client privilege. Accordingly, Shareholders will not have an opportunity to evaluate for themselves cases in which Case Funding intends to or does fund, and therefore Shareholders will be dependent upon the judgment and ability of Case Funding. The valuation of each potential loan or advance will be subject to policies adopted by Case Funding and may not reflect the actual financial prospects of such loan or advance at any given time.

Concentration Risk

Certain loans may represent a significant proportion of Case Funding's total assets. As a result, the impact on Case Funding's performance and the potential returns will be more adversely affected if any one of those loans were to perform badly, than would be the case if Case Funding's portfolio of loans were more diversified.

Failure of Computer and Data Processing Systems

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

Competition in the Automobile Retailing Industry

The automobile retailing industry is competitive. In large metropolitan areas, consumers have a number of choices in deciding where to purchase a new or used vehicle and where to have such vehicle serviced.

Manufacturers' Control Over Dealerships and the Acura Framework Agreement

Automobile dealerships operate pursuant to dealer agreements with automobile manufacturers. Through the terms and conditions of these dealer agreements, automobile manufacturers exert considerable influence over the operations of dealerships.

The success of an automobile dealership is highly dependent upon the overall success of the line of vehicles that each dealership sells. Sherway's business is affected to varying degrees by the demand for its manufacturer's vehicles, and by the financial condition, management, marketing, production and distribution capabilities of such manufacturers. In addition, the timing, structure and amount of manufacturer incentives may impact the timing and profitability of sales transactions. Events such as labour disputes and other production disruptions that may adversely affect a manufacturer may also adversely affect Sherway. Similarly, the delivery of vehicles from manufacturers later than scheduled or diminished availability to Sherway of popular makes, models and/or accessories, which may occur particularly during periods of new product introductions, can lead to reduced sales during such periods. Moreover, any event that causes adverse publicity involving such manufacturers may have an adverse effect on Sherway.

Security Risks

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

Cyclicality and Seasonality

Sales of motor vehicles, particularly new vehicles, historically have been subject to cyclical and seasonal variations. Management believes that the industry is affected by many factors, including general economic conditions, consumer confidence, and the level of personal discretionary spending, interest rates and credit availability. There can be no assurance that the industry will not experience sustained periods of decline in vehicle sales, particularly new vehicle sales, in the future.

Imported Products

A significant portion of the new vehicle business of Sherway involves the sale of vehicles, parts or vehicles composed of parts that are manufactured outside North America. As a result, the operations of Sherway are subject to customary risks of selling imported merchandise, including fluctuations in the value of currencies, changes in import duties, exchange controls, trade restrictions, work stoppages and general political and economic conditions in foreign countries.

Environmental Matters

Sherway is subject to a wide range of federal, provincial and local environmental laws and regulations, including those governing discharges to the air and water, the storage of petroleum substances and chemicals, the handling and disposal of wastes and the remediation of contamination arising from spills and releases. As with automobile dealerships generally, and parts, service and collision service centre operations in particular, Sherway's business involves the generation, use, handling and disposal of hazardous or toxic substances or wastes.

Environmental laws and regulations have become very complex and it has become very difficult for businesses that routinely handle hazardous and non-hazardous wastes to achieve and maintain full compliance with all applicable environmental laws. From time to time, Sherway can be expected to experience incidents and encounter conditions that will not be in compliance with environmental laws and regulations.

However, Sherway has not been subject to any material environmental liabilities in the past and it is not anticipated that any material environmental liabilities will be incurred by it in the future. In addition, to minimize the risk of environmental liability related to acquired dealerships, Sherway intends to obtain environmental studies on such dealerships as a condition to their acquisition.

Environmental laws and regulations and their interpretation and enforcement are changed frequently and the trend of more expansive and stricter environmental legislation and regulations is likely to continue. Hence, there can be no assurance that compliance with environmental laws or regulations or the future discovery of unknown environmental conditions will not require additional expenditures or that such expenditures would not be material.

Risks Related to our Structure and Exchange Rate Fluctuations

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

Unpredictability and Volatility of Share Price

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

Leverage, Restrictive Covenants

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

Restrictions on Potential Growth

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

Canadian Income Tax Matters

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

United States Income Tax Matters

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

RELATED PARTY TRANSACTIONS

1) Pawnee leases a 10,800 square foot office facility. The lessor is a related party because of common ownership between itself and the holders of the Class B and C common shares of U.S. Acquisitionco (the subsidiary through which the Company holds its interest in Pawnee). Minimum lease payments are U.S. $212,890 per annum, triple net. The lease expires on April 30, 2016, and contains an option to renew for an additional five year term. The expense is included in general and administrative expense and is translated at the average exchange rate for the period. At March 31, 2014 and December 31, 2013 there was no amount payable in respect of the lease.

2) Case Funding provides Quick Cash Inc. ("Quick Cash"), an entity controlled by a director of Case Funding and the CEO of Case Funding, with personnel and facilities to manage the portfolio of existing loans managed by Quick Cash and required origination and placement services in respect of future loans (Quick Cash is prohibited from making loans, other than those which Case Funding does not wish to make and Quick Cash is responsible for all out-of-pocket third party fees and expenses relating to its business).

Payments received for services provided will be as follows:

Months	Amount per month *($ thousands)*
January 2012 – June 2012	$16
July 2012 – June 2013	$4
July 2013 – June 2014	$1

This revenue is recorded in Ancillary finance and other fee income. The amounts were determined at the time of Case Funding's acquisition and reflect negotiated market terms and the expected level of administrative services that will be provided to Quick Cash over the term of the agreement.

CONTROLS & PROCEDURES

Chesswood's Chief Executive Officer and Director of Finance evaluated, or caused an evaluation under their supervision, of the design and operating effectiveness of the Company's disclosure controls and procedures (as defined in National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings) as at March 31, 2014 and have concluded that the disclosure controls and procedures were appropriately designed and have been effective, subject to the weaknesses described below.

Chesswood has also established internal controls over financial reporting (as defined in National Instrument 52-109) ("ICFR") to provide reasonable assurance regarding the reliability of the Company's financial reporting and preparation of its financial statements for external purposes in accordance with GAAP. The Company's Chief Executive Officer and Director of Finance assessed, or caused an assessment under their supervision, of the design and operating effectiveness of the Company's ICFR as at March 31, 2014 using the Committee of Sponsoring Organizations Internal Control - Integrated Framework. Based on that assessment, it was determined that the Company's ICFR was designed appropriately and was effective with the below noted exceptions.

The Company's audit committee is working with management on its independent review regime and monitoring the implementation of the other control enhancement steps envisioned below.

Weakness of Controls

Based on management's evaluation of controls, it was concluded that the Company's disclosure controls and procedures and its ICFR had some weaknesses. A material weakness is defined as a deficiency, or a combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis. The weaknesses in disclosure controls and procedures and ICFR, and the additional processes undertaken to address such weaknesses, can be summarized as follows:

1) Segregation of Duties

Given the Company's size, it has limited resources within the finance department at head office to adequately segregate duties and to permit or necessitate the comprehensive documentation of all policies and procedures that form the basis of an effective design of ICFR. As a result, the Company is reliant on the knowledge of a limited number of employees and on the performance of mitigating procedures during its financial close process to ensure that the consolidated financial statements are presented fairly in all material respects. Although the finance department of Pawnee has staffing levels which the Company's management believes is appropriate in the context of the scope of Pawnee's operations, and although the individuals comprising the members of the Company's management and Pawnee's management responsible for financial reporting are considered to have appropriate proficiency and experience to effectively perform their respective duties, the nature and size of the Company's operations are such that the duties are performed by a small number of persons. While management of the Company believes that the flow of information and degree of consultation with the finance personnel of Pawnee is significant, in order to mitigate the risk of material misstatement in the consolidated financial statements, the Company implemented additional review and monitoring controls at head office on a monthly basis, and at Pawnee on a quarterly basis, beginning in the second quarter of 2009. In addition, further steps to cross train existing personnel have been undertaken where possible.

2) Information Technology Controls

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

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

3) Anti-fraud controls

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

No changes were made to the design of the Company's ICFR during the quarter ended March 31, 2014 that would have materially affected or would be reasonably likely to materially affect the Company's ICFR.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been 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) the impact 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.

MARKET FOR SECURITIES

The Company's convertible debentures due December 31, 2018 are traded on the Toronto Stock Exchange under the symbol CHW.DB. Trading in the convertible debentures commenced on December 16, 2013.

Convertible debentures - 2014	High	Low	Average Daily Volume
January	$104.00	$102.00	31,727
February	$103.00	$102.00	24,421
March	$104.00	$102.75	21,762
	$104.00	$102.00	26,113

The Common Shares are traded on the Toronto Stock Exchange under the symbol CHW. The following table summarizes the high and low sales prices of the Common Shares and the average daily trading volume for each month in the period ended March 31, 2014, as reported by the Toronto Stock Exchange.

Common shares - 2014	High	Low	Average Daily Volume
January	$19.44	$15.59	32,298
February	$18.49	$16.20	10,404
March	$18.33	$14.14	57,866
	$19.44	$14.14	34,249

ADDITIONAL INFORMATION

Additional information about Chesswood is available:

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

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

	Note	**March 31, 2014** *(unaudited)*	December 31, 2013 *(audited)*
ASSETS			
Cash		**$ 18,158**	$ 22,659
Accounts receivable		**1,556**	1,199
Inventories		**8,438**	7,836
Prepaid expenses and other assets	*5*	**955**	1,800
Finance receivables	*6*	**185,158**	159,301
Deferred tax assets		**741**	832
Property and equipment		**1,240**	1,215
Intangible assets		**7,267**	7,026
Goodwill	*11*	**19,629**	14,653
TOTAL ASSETS		**$ 243,142**	$ 216,521
LIABILITIES			
Accounts payable and other liabilities	*12*	**$ 6,680**	$ 7,096
Vehicle financing		**7,968**	6,368
Interest rate swaps	*13*	**1,229**	1,201
Borrowings	*14*	**96,099**	77,305
Customer security deposits		**12,538**	11,830
Convertible debentures	*15*	**20,700**	20,680
Deferred tax liabilities		**24,883**	23,883
		170,097	148,363
SHAREHOLDERS' EQUITY			
Common shares		**47,443**	45,169
Non-controlling interest		**10,508**	10,114
Reserve - share-based compensation		**3,362**	3,909
Accumulated other comprehensive income		**2,947**	953
Retained earnings		**8,785**	8,013
		73,045	68,158
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 243,142**	$ 216,521

Please see notes to the condensed consolidated interim financial statements.

CHESSWOOD GROUP LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013
(in thousands of dollars, except per share amounts, unaudited)

	Note	2014	2013
Finance revenue			
Interest revenue on finance leases and loans		**$ 11,234**	$ 8,682
Ancillary finance and other fee income		**1,395**	1,430
		12,629	10,112
Finance expenses			
Interest expense		**1,175**	873
Provision for credit losses		**2,087**	1,528
		3,262	2,401
Finance margin		**9,367**	7,711
Revenue - automotive operations		**13,236**	9,666
Cost of sales - automotive operations			
Change in inventories		**(602)**	(1,225)
Automobiles, parts, and other costs		**12,239**	9,566
Interest expense		**34**	56
		11,671	8,397
Automotive gross margin		**1,565**	1,269
Gross margin before expenses		**10,932**	8,980
Expenses			
Personnel expenses		**2,836**	2,562
Other expenses		**2,422**	1,577
Amortization - property and equipment		**51**	39
Amortization - intangible assets		**—**	126
		5,309	4,304
Income before undernoted items		**5,623**	4,676
Unrealized loss on convertible debentures	*15*	**(20)**	—
Unrealized gain on interest rate swaps		**19**	260
Unrealized gain (loss) on foreign exchange		**(69)**	204
Income before taxes		**5,553**	5,140
Provision for taxes		**(2,424)**	(2,146)
Net income		**$ 3,129**	$ 2,994
Attributable to:			
Common shareholders		**$ 2,735**	$ 2,604
Non-controlling interest		**$ 394**	$ 390
Basic earnings per share	*20*	**$ 0.27**	$ 0.26
Diluted earnings per share	*20*	**$ 0.25**	$ 0.25

Please see notes to the condensed consolidated interim financial statements.

CHESSWOOD GROUP LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013
(in thousands of dollars, unaudited)

	2014	2013
Net income	**$ 3,129**	$ 2,994
Other comprehensive income:		
Unrealized gain on translation of foreign operations	**2,282**	881
Comprehensive income for the period	**$ 5,411**	$ 3,875
Attributable to:		
Common shareholders	**$ 4,729**	$ 3,370
Non-controlling interest	**$ 682**	$ 505

Please see notes to the condensed consolidated interim financial statements.

CHESSWOOD GROUP LIMITED
CONDENDSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013
(in thousands of dollars, unaudited)

	Note	Common shares	Common shares	Non-controlling interest	Share-based compensation reserve	Accumulated other comprehensive income	Retained earnings	2014 Total
		(# '000s)						
Shareholders' equity - January 1, 2014		**9,970**	**$ 45,169**	**$ 10,114**	**$ 3,909**	**$ 953**	**$ 8,013**	**$ 68,158**
Net income		**—**	**—**	**394**	**—**	**—**	**2,735**	**3,129**
Dividends declared		**—**	**—**	**(288)**	**—**	**—**	**(1,963)**	**(2,251)**
Share-based compensation		**—**	**—**	**—**	**240**	**—**	**—**	**240**
Exercise of restricted share units	*18(b)*	**6**	**40**	**—**	**(40)**	**—**	**—**	**—**
Exercise of options	*18(a)*	**277**	**2,234**	**—**	**(747)**	**—**	**—**	**1,487**
Unrealized gain on translation of foreign operations		**—**	**—**	**288**	**—**	**1,994**	**—**	**2,282**
Shareholders' equity - March 31, 2014		**10,253**	**$ 47,443**	**$ 10,508**	**$ 3,362**	**$ 2,947**	**$ 8,785**	**$ 73,045**

	Note	Common shares	Common shares	Non-controlling interest	Share-based compensation reserve	Accumulated other comprehensive income (loss)	Retained earnings	2013 Total
		(# '000s)						
Shareholders' equity - January 1, 2013		9,843	$ 44,215	$ 9,357	$ 3,160	$ (1,883)	$ 5,706	$ 60,555
Net income		—	—	390	—	—	2,604	2,994
Dividends declared		—	—	(259)	—	—	(1,724)	(1,983)
Share-based compensation		—	—	—	365	—	—	365
Exercise of options	*18(a)*	25	138	—	(82)	—	—	56
Unrealized loss on translation of foreign operations		—	—	115	—	766	—	881
Shareholders' equity - March 31, 2013		9,868	$ 44,353	$ 9,603	$ 3,443	$ (1,117)	$ 6,586	$ 62,868
Net income		—	—	1,018	—	—	6,893	7,911
Dividends declared		—	—	(813)	—	—	(5,466)	(6,279)
Share-based compensation		—	—	—	980	—	—	980
Exercise of restricted share units		46	340	—	(340)	—	—	—
Exercise of options		56	476	—	(174)	—	—	302
Unrealized gain on translation of foreign operations		—	—	306	—	2,070	—	2,376
Shareholders' equity - December 31, 2013		**9,970**	**$ 45,169**	**$ 10,114**	**$ 3,909**	**$ 953**	**$ 8,013**	**$ 68,158**

Please see notes to the condensed consolidated interim financial statements.

CHESSWOOD GROUP LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013
(in thousand of dollars, unaudited)

	Note	2014	2013
OPERATING ACTIVITIES			
Net income		**$ 3,129**	$ 2,994
Costs associated with investing activities included in net income		**167**	—
Non-cash items included in net income			
Amortization		**51**	165
Provision for credit losses		**3,078**	2,111
Share-based compensation expense		**240**	365
Provision for taxes		**2,424**	2,146
Other non-cash items	*21*	**135**	(423)
Cash from operating activities before change in net operating assets		**9,224**	7,358
Change in net operating assets	*21*	**(846)**	(405)
Cash from operating activities before income tax refunds and payments		**8,378**	6,953
Income tax refund received		**—**	20
Income taxes paid		**(790)**	(2,323)
Cash from operating activities		**7,588**	4,650
INVESTING ACTIVITIES			
Acquisition costs	*11*	**(10,567)**	—
Finance receivables - net increase	*21*	**(9,897)**	(13,027)
Customer security deposits		**20**	307
Purchase of property and equipment		**(61)**	(285)
Cash used in investing activities		**(20,505)**	(13,005)
FINANCING ACTIVITIES			
Borrowings - net	*21*	**9,106**	6,698
Proceeds from exercise of options	*18(a)*	**1,487**	56
Cash dividends paid	*19*	**(2,233)**	(1,925)
Cash from financing activities		**8,360**	4,829
Unrealized foreign exchange gain (loss) on cash		**56**	29
Net decrease in cash		**(4,501)**	(3,497)
Cash, beginning of period		**22,659**	5,591
Cash, end of period		**$ 18,158**	$ 2,094

Please see notes to the condensed consolidated interim financial statements.

TABLE OF NOTES

1. NATURE OF BUSINESS AND BASIS OF PREPARATION

Chesswood Group Limited (the "Company") is incorporated under the laws of the Province of Ontario. The Company's head office is located at 4077 Chesswood Drive, Toronto, Ontario, M3J 2R8.

The Company holds all of the limited partnership units of Chesswood Holding LP ("Holding LP"). Holding LP holds a 100% interest in Chesswood Holdings Ltd. and substantially all of the limited partnership units of Sherway LP ("Sherway"). Chesswood Holdings Ltd. owns 100% of the shares of the operating company, Northstar Leasing Corporation ("Northstar"), Lease-Win Limited ("Lease-Win"), 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.

As partial consideration for the acquisition of Pawnee in May 2006, 1,274,601 Class B shares and 203,936 Class C shares of a subsidiary (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 appropriately shown on the consolidated financial statements.

Through its interest in Pawnee, the Company is involved in the business of micro and small-ticket equipment financing to small businesses in the start-up and "B" credit market in the lower 48 states of the United States. Through its interest in Windset, the Company is involved in the business of providing working capital loans to small businesses in many of the lower 48 states of the United States. Through its interest in Case Funding, the Company is involved in the legal finance business in the United States. Through its interest in Sherway LP, the Company is involved in selling, servicing and leasing Acura automobiles in the Province of Ontario. Through its interest in Northstar, the Company is involved in non-prime commercial equipment financing to small businesses in Canada. Through its interest in Lease-Win, Chesswood owned and operated cars4U.com, prior to December 31, 2013.

The consolidated financial statements have been prepared on the going concern and historical cost bases, except for derivative financial instruments, liabilities held for trading and hybrid financial liabilities designated as at fair value through net income or loss, which have been measured at fair value. In order to improve clarity, certain items have been combined on the statements of financial position with detail provided separately in the notes.

The reporting currency is the Canadian dollar. The financial statements are presented in thousands of Canadian dollars except per share amounts and as otherwise noted. The functional currency of the Company, Holding LP, Chesswood Holdings Ltd., Sherway LP, Northstar, and Lease-Win is the Canadian dollar. The functional currency of U.S. Acquisitionco, Pawnee, Windset and Case Funding is the United States dollar. The statements of income and cash flows of the subsidiaries located in the United States have been translated using the average rate for the three months ended March 31, 2014 and 2013. The statements of financial position have been translated using the rate on the date of the statements of financial position and the exchange difference is included in other comprehensive income.

The U.S. dollar exchange rates, which have a material impact on the Company's financial statements, are as follows:

Closing Rate As At		Average Rate For three months ended	
March 31, 2014	December 31, 2013	March 31, 2014	March 31, 2013
1.1053	1.0636	**1.1033**	1.0083

The Company's consolidated financial statements were authorized for issue on May 2, 2014 by the Board of Directors.

2. CONSOLIDATION

The consolidated financial statements 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 incurred in connection with business combinations are expensed as incurred.

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"); all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") mandatory for the fiscal years 2014 and 2013 are also applied.

3. SIGNIFICANT ACCOUNTING POLICIES

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting,* on a basis consistent with the accounting policies disclosed in the audited consolidated financial statements for the year ended December 31, 2013.

The condensed interim financial statements should be read in conjunction with the company's most recently issued Annual Report which includes information necessary or useful to understanding the Company's businesses and financial reporting.

The condensed consolidated interim financial statements are unaudited. Financial information in this report reflects any adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for a fair statement of results for the interim periods in accordance with IFRS.

The results reported in these condensed consolidated interim financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

The Company's significant accounting policies were presented as Note 3 - *Significant Accounting Policies* to the Consolidated Financial Statements for the fiscal year ended December 31, 2013 included in that report, and have been consistently applied in the preparation of these interim financial statements except for the following.

Net investment in leases - pledged

The Company securitizes a portion of its finance lease receivables at Northstar by transferring the receivables to a securitization trust in which neither the Company nor its subsidiaries are beneficiaries. The securitization agreement operates as a flow through, whereby Northstar retains the contractual right to collect the cash flows but assumes a contractual obligation to pay the cash flows to the securitization trust. Northstar retains substantially all the risks of ownership of the transferred leases because the Company is exposed to fluctuations in the fair value of the unguaranteed residual and to credit losses caused by lease defaults. Therefore, the transfers do not result in substantially all the risks and rewards of legal ownership being transferred to the securitization trust. Therefore, the transferred lease receivables are presented separately on the Company's consolidated statement of financial position and the proceeds received are presented as a liability.

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 period. 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 (loss) 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. The Company considers vehicle financing as a short-term operational liability and the change is shown in cash flows from operating activities.

Cash flow from investing activities comprises payments relating to business acquisitions, investment in finance receivables 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.

During the first quarter of 2014, the Company moved changes in finance receivables and customer security deposits to investing activities on the Statement of Cash Flows and the change in borrowings was moved to financing activities to be comparable to other specialty finance companies, to reflect the longer-term nature of the receivables and borrowings, to better reflect the Company's decision to self-finance its finance receivables from excess funds and not necessarily cash from current operating activities.

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Financial Liabilities: Measurement

In October 2010, the IASB issued *IFRS 9 Financial Instruments*, which represents the completion of the first part of a three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement* with a new standard. As per the new standard, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income or loss section of the entity's statement of comprehensive loss, rather than within profit or loss. Additionally, IFRS 9 includes revised guidance related to the de-recognition of financial instruments. The Company plans to adopt these new standards when they become effective and is currently assessing the impact of this standard.

Financial Instruments (Classification and Measurement)

IFRS 9, *Financial Instruments* will replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9.

The effective date of IFRS 9 has been tentatively set for the Company's December 31, 2018 fiscal year.

Operating Segments

The amendments to IFRS 8, *Operating Segments* issued in December 2013, require an entity to disclose the judgments made by management in applying the aggregation criteria for reportable segments. The amendments will only affect disclosure and are effective for annual periods beginning on or after July 1, 2014.

Certain new accounting standards and interpretations have been published by the IASB or the IFRIC that are not mandatory for the December 31, 2013 reporting period. The following standards are not expected to have any material impact on the Company's consolidated financial statements:

IAS 28 (as revised in 2003) and IAS 31
IAS 19 *Employee Benefits* (amended in 2011)
IAS 28 *Investments in Associates and Joint Ventures* (amended in 2011)
IFRIC 21 *Levies*

5. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets comprise:

	March 31, 2014	December 31, 2013
	($ thousands)	
Property tax receivable	**$ 293**	$ 325
Tax receivable	**45**	1,070
Other prepaid expenses and current assets	**537**	277
Sales tax receivable	**37**	86
Deposits – premises	**43**	42
	$ 955	$ 1,800

Prepaid expenses and other assets typically have maturities of less than one year, except for the deposits on the premises.

6. FINANCE RECEIVABLES

Finance receivables comprise:

	Note	March 31, 2014	December 31, 2013
		($ thousands)	
Net investment in leases	7	**$ 135,686**	$ 127,145
Net investment in leases - pledged	7	**6,160**	—
Equipment financing agreements and working capital loans	8	**30,144**	21,195
Legal finance receivables	10	**13,168**	10,961
		$ 185,158	$ 159,301

7. NET INVESTMENT IN LEASES

(a) Net investment in leases include the following:

	March 31, 2014	December 31, 2013
	($ thousands)	
Total minimum lease payments for leases	**$ 171,371**	$ 160,363
Residual values of leased equipment	**19,890**	19,159
	191,261	179,522
Unearned income, net of initial direct costs of lease acquisition	**(51,219)**	(48,804)
Net investment in leases before allowance for doubtful accounts	**140,042**	130,718
Allowance for doubtful accounts (b)	**(4,356)**	(3,573)
Net investment in leases	**$ 135,686**	127,145
Net investment in leases - pledged	**6,160**	—
	141,846	127,145
Current portion	**50,679**	47,143
Net investment in leases – long-term portion	**$ 91,167**	$ 80,002

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

	For the three months ended	
	March 31, 2014	March 31, 2013
	($ thousands)	
Balance, beginning of period	**$ 3,573**	$ 2,891
Provision for credit losses	**1,953**	1,524
Impact of change in foreign exchange rates	**140**	61
Allowance of acquired company	**459**	—
Charge-offs	**(2,740)**	(1,932)
Recoveries	**971**	583
Balance, end of period	**$ 4,356**	$ 3,127

8. EQUIPMENT FINANCING AGREEMENTS AND WORKING CAPITAL LOANS

Equipment Financing Agreements ("EFAs") and Working Capital Loans ("WCLs") are deemed to be financial instrument assets as they represent contractual rights to receive cash from another entity and are classified as loans and receivables for accounting purposes, based on an evaluation of all the terms and conditions of the contracts. Loans and receivables are accounted for at amortized cost using the effective interest rate method.

	March 31, 2014	December 31, 2013
	($ thousands)	
Equipment financing agreements	**$ 21,298**	$ 18,947
Working capital loans	**9,100**	2,422
Allowance for doubtful accounts (a)	**(254)**	(174)
Equipment Financing Agreements and Working Capital Loans	**$ 30,144**	$ 21,195
Current portion	**12,985**	7,755
EFAs and WCLs – long-term portion	**$ 17,159**	$ 13,440

(a) Pawnee's underwriting requirements and standards for EFAs are the same as those required for leases. At March 31, 2014 there were no delinquent WCLs. The activity in the allowance for doubtful accounts is as follows:

	For the three months ended	
	March 31, 2014	March 31, 2013
	($ thousands)	
Balance, beginning of period	**$ 174**	$ 42
Provision for credit losses	**132**	4
Impact of foreign exchange rates	**7**	1
Charge-offs	**(79)**	(33)
Recoveries	**20**	—
Balance, end of period	**$ 254**	$ 14

9. FINANCE RECEIVABLES PAST DUE

Pawnne's lease receivables and EFAs and Windset's WCLs are each composed of a large number of homogenous receivables respectively, with relatively small balances. The evaluation of the allowance for credit losses is performed collectively for each portfolio.

At Northstar, management reviews each outstanding receivable by lessee on an individual basis for collectability and for reserve requirements, if any. As lessees may have securitized and non-securitized leases, the allowance and impairment analysis is done for both and, included in table below.

The following aging represents the full carrying value of the leases, EFAs and WCLs and not just the payments that are past due. The balances presented exclude the $12.5 million (December 31, 2013 - $11.8 million) of security deposits received from borrowers and the collateral held (including potential proceeds from repossessed vehicles and equipment, and potential recoveries from personal guarantees) that would offset any charge-offs. An estimate of the fair value for the collateral and personal guarantees cannot reasonably be determined.

					As of March 31, 2014
($ thousands)	**Current**	**1-30 days**	**31 - 60 days**	**61 - 90 days**	**Over 90 days**
Equipment lease receivables	**$ 139,667**	**$ 4,253**	**$ 611**	**$ 892**	**$ 779**
EFA's & WCLs	**29,833**	**251**	**137**	**—**	**177**
	169,500	**4,504**	**748**	**892**	**956**
Impaired	**528**	**341**	**711**	**583**	**956**
Past due but not impaired	**$ —**	**$ 4,163**	**$ 37**	**$ 309**	**$ —**

					As of December 31, 2013
($ thousands)	Current	1-30 days	31 - 60 days	61 - 90 days	Over 90 days
Equipment lease receivables	$ 123,676	$ 4,086	$ 1,369	$ 505	$ 1,082
EFA's & WCLs	20,927	329	23	4	86
	144,603	4,415	1,392	509	1,168
Impaired	183	208	263	146	1,168
Past due but not impaired	$ —	$ 4,207	$ 1,129	$ 363	$ —

10. LEGAL FINANCE RECEIVABLES

Legal finance receivables consist of:

	March 31, 2014	December 31, 2013
	($ thousands)	
Attorney loans and medical liens	**$ 5,545**	$ 4,642
Plaintiff advances	**7,623**	6,319
Legal finance receivables	**13,168**	10,961
Current portion (i)	**4,057**	5,322
Legal finance receivables – long-term portion	**$ 9,111**	$ 5,639

At March 31, 2014 and December 31, 2013, there was no indication of impairment of attorney loans and medical liens. No allowance has been recognized.

(i) The contracts are deemed to have fixed or determinable payments, with the payments due when the underlying cases are settled. The date of settlement cannot be known and is therefore estimated. Plaintiff advances are made on a non-recourse basis, and repayment depends on the success and potential size of respective claims. The current portion of legal finance receivables is subject to estimation.

11. BUSINESS ACQUISITION

On January 31, 2014, the Company completed the acquisition of all of the outstanding shares of Northstar Leasing Corporation ("Northstar") for $10.4 million in cash. Northstar is a long-standing non-prime commercial equipment finance company, located in Barrie, Ontario. The acquisition enables the Company to expand the geographical coverage of its North American small ticket platform, leveraging the experience and expertise of Pawnee's presence in the U.S. to complement that of Northstar. These synergistic benefits to the Group are not recognizable intangible assets and are included in the goodwill amount for financial reporting purposes.

Chesswood has engaged an independent valuation firm to assist in determining the fair value of the assets acquired, liabilities and provisions assumed, and related deferred income tax impact. The valuation is in progress due to the proximity of the acquisition to the period end date and will be completed within the year.

The following preliminary purchase price allocation to the fair value of assets and liabilities acquired, as presented below, includes estimates and is subject to change, based on external valuation. The allocation between goodwill and intangible assets is subject to change.

	January 31, 2014
	($ thousands)
Cash	$ 12
Net investment in leases-pledged	6,127
Net investment in leases	6,969
Prepaid expenses and other assets	120
Property and equipment	20
Goodwill and intangible assets	4,500
Total assets	$ 17,748
Accounts payable and other liabilities	$ 231
Securitization debt	6,142
Lease financing	434
Customer security deposits	541
Total liabilities	$ 7,348
Net assets acquired	$ 10,400
Consideration - cash	$ 10,400

None of the goodwill is expected to be deductible for tax purposes.

Northstar has the following other commitments:

($ thousands)	2014	2015	2016	Total
Other financial commitments	$ 33	$ 44	$ 30	$ 107

Included in the condensed consolidated interim statement of income are revenue of $339,000 and net income of $76,000 related to Northstar for the period February 1 to March 31, 2014. Transaction costs relating to this acquisition of $167,000 were expensed during the three months ended March 31, 2014 and are included in other expenses. In addition, $88,000 in transaction costs relating to this acquisition were expensed in the year ended December 31, 2013.

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprise:

		March 31, 2014		December 31, 2013
		($ thousands)		
Dividends payable	**$**	**763**	$	744
Accounts payable		**743**		388
Sales tax payable		**828**		850
Customer deposits and prepayments		**153**		161
Unfunded leases and EFAs		**1,432**		1,359
Taxes payable		**837**		39
Payroll related payables and accruals		**682**		1,012
Accrued liabilities		**835**		1,677
Property taxes payable on equipment leases		**311**		298
Withholding taxes payable		**—**		466
Deferred lease incentive		**96**		102
	$	**6,680**	$	7,096

All amounts are due within one year, except for the deferred lease incentive which is being amortized over the remaining term of the leases which expire in 2024.

13. INTEREST RATE SWAPS

Pawnee enters into interest rate swap agreements under its banking facility, 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.

Pawnee's interest rate swaps are not considered trading instruments as Pawnee intends to hold them until maturity. The interest rate swaps do not qualify as a hedge for accounting purposes, and are therefore recorded as separate derivative financial instruments. The estimated fair value of the interest rate swaps of $1.2 million are recorded as a liability on the accompanying consolidated statement of financial position. Payments made and received pursuant to the terms of the interest rate swaps are recorded as an adjustment to interest expense. Adjustments to the fair value of the interest rate swaps are recorded as fair value adjustments on the statement of income. The fair value of interest rate swaps is based upon the estimated net present value of cash flows.

During the first quarter of 2014, the Company entered into two interest rate swaps effective March 2017. The following swap agreements were outstanding at March 31, 2014:

Effective Date	**Notional Amount U.S.$**	**Annual Fixed Rate**	**Maturity Date**
March 2011	$15 million	3.12%	March 2014
March 2012	$15 million	4.00%	March 2015
April 2013	$15 million	0.96%	April 2016
March 2014	$15 million	1.33%	March 2017
March 2015	$15 million	1.56%	March 2017
April 2015	$15 million	2.12%	March 2019
April 2016	$15 million	2.11%	March 2018
March 2017	$15 million	2.88%	March 2018
March 2017	$15 million	3.23%	March 2019

14. BORROWINGS

Borrowings are comprised of:

		March 31, 2014		December 31, 2013
		($ thousands)		
Pawnee credit facility	**$**	**90,264**	$	77,887
Deferred financing costs – Pawnee		**(579)**		(582)
Borrowings – Pawnee and Windset (a)	**$**	**89,685**	$	77,305
Securitization debt (b)		**6,414**		—
	$	**96,099**	$	77,305

(a) Pawnee's credit facility allows borrowings of up to U.S.$85.0 million (December 31, 2013 - U.S.$85.0 million) subject to, among other things, certain percentages of eligible gross lease receivables, of which U.S.$81.7 million was utilized at March 31, 2014 (December 31, 2013 - U.S.$73.2 million). The facility can be extended, subject to certain conditions, to U.S.$115.0 million (December 31, 2013 - U.S.$115.0 million). This credit facility is secured by substantially all of Pawnee's assets, contains negative covenants including maintaining leverage and interest coverage ratios, requires Pawnee to mitigate its interest rate risk by entering interest rate swaps for a notional amount not less than 50% of the outstanding amount, and matures on July 24, 2016. At March 31, 2014 and December 31, 2013, Pawnee was in compliance with all covenants. Based on monthly average debt levels, the effective interest rate paid during the period was 4.45% (2013 - 5.00%).

During the first quarter of 2014, Pawnee's syndicate of lenders approved amendments to the current banking agreement that provide Windset with access to a maximum of U.S.$10.0 million (December 31, 2013 - U.S.$5.0 million) of capital from Pawnee's credit facility.

(b) The securitization trust receives the return for which they have contracted in the securitization agreement. The loan is secured by the associated pledged investment in leases, Note 7 - *Net Investment in Leases*. The securitization trust has no recourse to Northstar's other assets in the event that lessees fail to make payments when due. The committed facility is $10.0 million.

In addition to the securitization facility, Northstar has an overdraft facility, to help fund net investment in leases between securitization tranches, with a maximum credit available of $3.5 million less the balance of any overdraft, standby letters of guarantee and bankers' acceptances outstanding. The demand operating facility bears interest at prime plus 1.15%. At March 31, 2014, Northstar was not utilizing this facility and was in compliance with all covenants at March 31, 2014.

As security, Northstar has provided a general security agreement, assignment of risk insurance and indemnity regarding letters of guarantee. The letter of guarantee is for $1.1 million.

15. CONVERTIBLE DEBENTURES

The debentures mature on December 31, 2018, and bear interest at a rate of 6.5% per annum, payable semi-annually. The outstanding principal under the debentures may, at the option of the holders, be converted into common shares of the Company at a conversion price of $21.25 per share at any time. After the Company exercises its redemption right and prior to the date specified for redemption, each holder has the ability to convert their convertible debentures to common shares. Upon a holder's election to convert debentures, the Company may elect to pay the holder cash in lieu of delivering shares. The Company also has the right to satisfy its payment obligations under the debentures (subsequent to obtaining any required regulatory approvals) by issuing common shares (based on a deemed issue price of 95% of the current market value).

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

- After December 31, 2016 and prior to December 31, 2017, the Company has the option to redeem the debentures, provided the current market price for the purposes of the debentures is at least 125% of the conversion price of $21.25.
- Subsequent to December 31, 2017 and prior to December 31, 2018, the Company has the option to redeem the debentures, provided the redemption price is at a price equal to the principal amount including accrued and unpaid interest.

The convertible debentures balance at the end of the year is comprised of:

	March 31, 2014	December 31, 2013
	($ thousands)	
Principal amount recognized on issuance	**$ 20,000**	$ 20,000
Fair value adjustment	**700**	680
Balance, end of period	**$ 20,700**	**$ 20,680**

	For the three months ended	
	March 31, 2014	March 31, 2013
	($ thousands)	
Fair value adjustment for the period	**$ 20**	$ —
Financing costs - convertible debentures	**$ 20**	**$ —**

16. MINIMUM PAYMENTS

The following are the contractual principal payments and maturities of financial liabilities and other commitments:

($ thousands)		2014	2015	2016	2017	2018	2019 +	Total
Accounts payable and other liabilities		$ 6,605	$ 29	$ 31	$ 15	$ —	$ —	**$ 6,680**
Vehicle financing		7,968	—	—	—	—	—	**7,968**
Interest rate swaps		—	642	176	308	(6)	109	**1,229**
Borrowings	*(i)*	—	—	96,099	—	—	—	**96,099**
Customer security deposits	*(ii)*	2,879	3,462	3,272	1,866	1,059	—	**12,538**
Convertible debentures		—	—	—	—	20,000	—	**20,000**
		$ 17,452	$ 4,133	$ 99,578	$ 2,189	$ 21,053	$ 109	**$144,514**
Other financial commitments	*(iii)*	722	839	621	490	486	2,671	**5,829**
Total commitments		$ 18,174	$ 4,972	$100,199	$ 2,679	$ 21,539	$ 2,780	**$150,343**

i. *Pawnee's financing credit facility is a line-of-credit and, as such, the balance can fluctuate. The credit facility matures in 2016.*

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

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 2015 and 2024.*

For other commitments, refer to Note 17 - *Contingent Liabilities and Other Financial Commitments*.

17. CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

(a) Contingent liabilities

The Company is subject to various claims and legal actions in the normal course of business, from various customers, suppliers and others. Since the individual value of each claim and the total value of all claims as at March 31, 2014 and December 31, 2013 were not material, additional disclosure is not required.

(b) Other financial commitments

(i) 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. Included in the retention agreement of Chesswood's Chief Executive Officer is an award of 125,000 options. See Note 28 - *Subsequent Event*, these options were granted subsequent to March 31, 2014.

(ii) Incentive Payment Amount on the acquisition of Case Funding - The consideration is payable in the event that Case Funding's normalized net income ("NNI") for the 25th through 36th months following the Acquisition Date (June 10, 2011) achieves the targeted amount of approximately U.S.$4.7 million (the "Targeted Amount"), whereby an amount of U.S.$1.4 million (the "Incentive Payment Amount") (or an identical percentage adjusted portion of the Incentive Payment Amount if NNI is less than, but at least 90% of, the Targeted Amount) will be paid no later than the 38th month.

18. COMPENSATION PLANS

(a) Share options

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

	For the three months ended	
	March 31, 2014	March 31, 2013
Balance, beginning of period	**1,431,628**	1,522,900
Exercised	**(276,750)**	(24,909)
Balance, end of period	**1,154,878**	1,497,991

During the three months ended March 31, 2014, personnel expenses and the share-based compensation reserve included $113,000 (2013 - $275,000) relating to option expense. As of March 31, 2014, unrecognized non-cash compensation expense related to the outstanding options was $256,800 (2013 - $911,800), which is expected to be recognized over the remaining vesting period.

During the three months ended March 31, 2014, 276,750 options were exercised (2013 - 24,909) for total cash consideration of $1,487,500 (2013 - $56,600). On exercise, the fair value of options that had been expensed to date during the vesting period of $746,500 (2013 - $81,700) was transferred from reserve to Common Share capital. For the options exercised in 2014, the weighted average share price at the date of exercise was $15.67 (2013 - $9.70).

An analysis of the options outstanding at March 31, 2014 is as follows:

Grant date	Number of options outstanding	Vested	Expiry date	Exercise price
May 10, 2006	35,000	35,000	May 9, 2016	$ 10.00
June 23, 2009	73,900	73,900	June 22, 2019	$ 2.06
April 13, 2010	116,728	116,728	April 13, 2020	$ 4.49
April 25, 2011	246,000	147,125	April 24, 2021	$ 7.79
June 10, 2011	123,750	71,250	June 9, 2021	$ 7.73
December 6, 2011	200,000	130,000	December 6, 2021	$ 6.14
June 25, 2012	229,500	66,750	June 24, 2022	$ 7.45
July 9, 2012	5,000	1,500	July 8, 2022	$ 7.42
December 6, 2012	125,000	37,500	December 6, 2022	$ 8.86
	1,154,878	679,753		

At March 31, 2014, the weighted average exercise price is $6.91 (2013 - $6.64) and the weighted average remaining contractual life for all options outstanding is 7.23 years (2013 - 7.76 years). The options exercisable at March 31, 2014 have a weighted average exercise price of $6.42 (2013 - 630,400 options at $5.39). See Note 28 - *Subsequent Event* for the information about the grant of options after March 31, 2014.

(b) Restricted share units

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

	Three months ended	
	March 31, 2014	March 31, 2013
Balance, beginning of period	**75,000**	69,000
Exercised	**(6,500)**	—
Balance, end of period	**68,500**	69,000

During the three months ended March 31, 2014, personnel expenses and share-based compensation reserve included $127,800 (2013 - $90,000) relating to RSUs. As of March 31, 2014, unrecognized non-cash compensation expense related to non-vested RSUs was $71,600 (2013 - $77,200).

On exercise of the 6,500 RSUs during the three months ended March 31, 2014 (2013 - nil), the value of the RSUs of $40,300 (2013 - $nil) that had been expensed during the vesting period was transferred from reserve to Common Share capital. For the 6,500 RSUs exercised in 2014, the weighted average share price at the date of exercise was $14.51 (2013 - nil shares at $nil).

An analysis of the RSUs outstanding at March 31, 2014 is as follows:

Grant date	Number of RSUs outstanding	Vested	Expiry date	Value on Grant date
April 13, 2010	13,500	13,500	April 12, 2020	$ 4.49
April 25, 2011	5,000	5,000	April 24, 2021	$ 7.79
June 25, 2012	6,000	6,000	June 24, 2022	$ 7.45
May 22, 2013	44,000	—	May 21, 2023	$ 11.65
	68,500	24,500		

The weighted average remaining contractual life for all RSUs outstanding is 8.3 years (December 31, 2013 - 8.35 years).

19. DIVIDENDS

The following dividends were paid to Common Shareholders and Exchangeable Securities holders during three months ended March 31, 2014 and 2013:

Record date	Payment date	Cash dividend per share ($)	Total dividend amount
			($ thousands)
December 31, 2013	January 15, 2014	$ 0.065	$ 744
January 31, 2014	February 18, 2014	$ 0.065	744
February 28, 2014	March 17, 2014	$ 0.065	745
			$ 2,233

Record date	Payment date	Cash dividend per share ($)		Total dividend amount	
				($ thousands)	
December 31, 2012	January 15, 2013	$	0.055	$	623
January 31, 2013	February 15, 2013	$	0.055		623
February 28, 2013	March 15, 2013	$	0.065		679
				$	**1,925**

20. EARNINGS PER SHARE

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

	For the three months ended	
	March 31, 2014	March 31, 2013
Weighted average number of common shares outstanding	**10,016,188**	9,846,909
Dilutive effect of options	**912,425**	455,845
Dilutive effect of RSUs	**75,000**	69,000
Weighted average common shares outstanding for diluted earnings per share	**11,003,613**	10,371,754

Convertible debentures, issued on December 16, 2013, convertible into 941,176 common shares, and options to purchase nil common shares (2013 - 100,000) were outstanding during the year but were not included in the calculation of diluted earnings per share due to their anti-dilutive effect for the year.

21. CASH FLOW SUPPLEMENTARY DISCLOSURE

	For the three months ended			
	March 31, 2014		March 31, 2013	
	($ thousands)			
Non-cash items included in net income - other				
Amortization of deferred financing costs	**$**	**65**	$	41
Unrealized loss on convertible debentures		**20**		—
Unrealized gain on interest rate swaps		**(19)**		(260)
Unrealized gain on foreign exchange		**69**		(204)
	$	**135**	$	(423)
Finance receivables – change in				
Net investments in leases – pledged	**$**	**(348)**	$	—
Net investments in leases		**555**		(8,155)
Equipment finance agreements		**(1,756)**		(3,635)
Working capital loans		**(6,571)**		—
Legal finance receivables		**(1,777)**		(1,237)
	$	**(9,897)**	$	(13,027)

	For the three months ended March 31, 2014	March 31, 2013
	($ thousands)	
Borrowings – change in		
Line-of-credit – Pawnee and Windset – net	**$ 9,268**	$ 6,698
Line-of-credit – Northstar – net	**(434)**	—
Proceeds from securitization of leases - net	**272**	—
	$ 9,106	$ 6,698
Net operating assets - change in		
Accounts receivable	**$ (357)**	$ (1,104)
Inventories	**(602)**	(1,225)
Prepaid and other assets	**1,023**	(116)
Accounts payable and other liabilities	**(2,510)**	(395)
Vehicle financing	**1,600**	2,435
	$ (846)	$ (405)
Non-cash transactions		
Common shares issued on exercise of restricted share units	**$ 40**	$ —

22. FINANCIAL INSTRUMENTS

(a) Categories and measurement hierarchy

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

(i) Level 1 Inputs - quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;

(ii) Level 2 Inputs - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

(iii) Level 3 Inputs - techniques which use inputs which have a significant effect on the recorded fair value for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

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

	Category	Level 1	Level 2	Level 3	March 31, 2014 Carrying Value
					($ thousands)
ASSETS					
Cash *(iii)*	L&R	$ 18,158	$ —	$ —	$ 18,158
Accounts receivable *(iii)*	L&R	—	1,556	—	1,556
EFAs & WCLs *(i)*	L&R	—	30,144	—	30,144
Attorney loans and medical liens *(i)*	L&R	—	5,545	—	5,545
Plaintiff advances *(c)*	AFS	—	—	7,623	7,623
LIABILITIES					
Accounts payable (iii*)*	L&B		(6,680)	—	(6,680)
Vehicle financing *(ii)*	L&B		(7,968)	—	(7,968)
Interest rate swaps *(iv)*	HFT	—	(1,229)	—	(1,229)
Borrowings *(ii)*	L&B		(96,099)	—	(96,099)
Customer security deposits	L&B		(12,538)		(12,538)
Convertible debentures *(v)*	FVTP	(20,700)	—	—	(20,700)
Total net assets (liabilities) classified as financial instruments		$ (2,542)	$ (87,269)	$ 7,623	$ (82,188)

	Category	Level 1	Level 2	Level 3	December 31, 2013 Carrying Value
					($ thousands)
ASSETS					
Cash *(iii)*	L&R	$ 22,659	$ —	$ —	$ 22,659
Accounts receivable *(iii)*	L&R	—	1,199	—	1,199
EFAs & WCLs *(i)*	L&R	—	21,195	—	21,195
Attorney loans and medical liens *(i)*	L&R	—	4,642	—	4,642
Plaintiff advances *(c)*	AFS	—	—	6,319	6,319
LIABILITIES					
Accounts payable (iii*)*	L&B	—	(7,096)	—	(7,096)
Vehicle financing *(ii)*	L&B	—	(6,368)	—	(6,368)
Interest rate swaps *(iv)*	HFT	—	(1,201)	—	(1,201)
Borrowings *(ii)*	L&B	—	(77,305)	—	(77,305)
Customer security deposits	L&B	—	(11,830)	—	(11,830)
Convertible debentures *(v)*	FVTP	(20,680)	—	—	(20,680)
Total net assets (liabilities) classified as financial instruments		$ 1,979	$ (76,764)	$ 6,319	$ (68,466)

(i) There is no organized market for the legal 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 vehicle financing and borrowings approximates fair values, as the interest rates attached to these instruments are representative of current market rates, for loans with similar terms, conditions and maturities.

(iii) Carrying amounts are expected to be reasonable approximations of fair value for cash and for financial instruments with short maturities, including accounts receivable and accounts payable.

(iv) The Company determines the fair value of its interest rate swap under the income valuation technique using a discounted cash flow model. Significant inputs to the valuation model include the contracted notional amount, LIBOR rate yield curves and the applicable credit-adjusted risk-free rate yield curve. The Company's interest rate derivative is included in the Level 2 fair value hierarchy because all the significant inputs are directly or indirectly observable. For the rates on the interest rate swaps, see Note 13 - *Interest Rate Swaps*.

(v) The convertible debentures have several embedded derivative features which were determined to not meet the criteria for treatment as equity components and would otherwise be required to be recognized as separate financial instruments, measured at fair value through profit or loss. The Company has elected under IAS 39.11A to designate the entire convertible debentures (and all the embedded derivatives) as a combined financial liability at fair value through profit or loss. The fair value of the convertible debentures is based on their trading price on the Toronto Stock Exchange every reporting period; as a result, there may be increased volatility in the reported net income. The $1.4 million of costs related to the issuance of the convertible debenture were expensed when incurred; thus no transaction costs are capitalized in the fair value of the convertible debentures.

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 prior year.

(b) Reconciliation of Level 3 Financial Instruments

The following table sets forth a summary of changes in the carrying value of plaintiff advances:

	For the three months ended			
	March 31, 2014		March 31, 2013	
	($ thousands)			
Balance, beginning of period	**$**	**6,319**	$	3,349
Originations		**1,031**		776
Fair value accretion (i)		**672**		374
Losses		**(3)**		—
Collections		**(646)**		(661)
Foreign exchange impact (ii)		**250**		73
Balance, end of period	**$**	**7,623**	$	3,911

(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 period. The fair value accretion on plaintiff advances is included in interest revenue on finance leases and loans on the statement of income.
(ii) Difference between year-end foreign exchange rate and average exchange rate; the amount is included in other comprehensive income.

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. At March 31, 2014, the average size of a plaintiff advance is U.S.$11,513 (December 31, 2013 - U.S.$10,861). 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 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.

(c) Gains and losses on financial instruments

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

	For the three months ended	
	March 31, 2014	March 31, 2013
	($ thousands)	
Loans and receivables:		
Provision for credit losses	**$ (2,087)**	$ (1,528)
Designated as at fair value through net income or loss:		
Convertible debentures	**(20)**	—
Held for trading:		
Interest rate swaps	**19**	260
Net loss	**$ (2,088)**	$ (1,268)

(d) Financial Risk Management

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

There have been no changes in the Company's objectives, policies or processes for managing or for measuring any of the risks to which it is exposed since the previous year end.

23. CAPITAL MANAGEMENT

The Company's capital consists of shareholders' equity which at March 31, 2014 comprised $73.0 million (2013 - $68.2 million) and convertible debentures. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in the long-term and to provide adequate returns for shareholders.

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

There have been no changes in the Company's objectives, policies or processes for managing capital during the period.

24. RELATED PARTY TRANSACTIONS

The Company has no parent or other ultimate controlling party.

The Company had the following transactions and balances with related parties:

(a) Pawnee, a U.S. subsidiary of the Company, leases a 10,800 square foot office facility from an entity that is controlled by the holders of the Class B and Class C shares of U.S. Acquisition Co Ltd, a non-operating subsidiary of the Company. Minimum lease payments are U.S.$212,890 per annum, triple net. The lease expires on April 30, 2016, and contains an option to renew for an additional five year term. The expense is included in other expense and is translated at the average exchange rate for the period. At March 31, 2014 and December 31, 2013 there was no amount payable in respect of the lease.

(b) Case Funding provides Quick Cash Inc. ("Quick Cash"), an entity controlled by a director of Case Funding and the CEO of Case Funding, with personnel and facilities to manage the portfolio of existing loans managed by Quick Cash and required origination and placement services in respect of future loans (Quick Cash is prohibited from making loans, other than those which Case Funding does not wish to make and Quick Cash is responsible for all out-of-pocket third party fees and expenses relating to its business). Payments received and committed for services provided are as follows:

Months	Amount per month
	($ thousands)
January 2012 – June 2012	$16
July 2012 – June 2013	$4
July 2013 – June 2014	$1

This revenue is recorded in Ancillary finance and other fee income. The amounts were determined at the time of Case Funding's acquisition and reflect negotiated market terms and the expected level of administrative services that will be provided to Quick Cash over the term of the agreement.

(c) Compensation of key management

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

	For the three months ended	
	March 31, 2014	March 31, 2013
	($ thousands)	
Salaries, fees and other short-term employee benefits	**$ 192**	$ 265
Share-based compensation	**180**	208
Compensation expense of key management	**$ 372**	$ 473

25. SEASONAL OPERATIONS

The Company's automotive business follows a seasonal pattern, with revenue and net income based on past experience being significantly lower in the first quarter than in other quarterly periods.

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.

26. 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 three reportable segments: Equipment Financing, Legal Financing, and Automotive Operations.

Chesswood's Equipment Financing segment is located in the United States (and in Canada since the acquisition of Northstar on January 31, 2014) and is involved in small-ticket equipment leasing and lending to small businesses in the start-up and "B" credit markets in the lower 48 states. Our Automotive Operations segment sells and services predominantly Acura automobiles and leases Acura and other brand automobiles in the province of Ontario, Canada. Our Legal Financing segment is located in the United States and is a provider of legal financing to plaintiffs and attorneys throughout the United States. At March 31, 2014, Windset and Northstar information is aggregated with Equipment Financing segment.

Segment information is prepared in conformity with the accounting policies adopted for the Company's financial statements.

The role of the "chief operating decision maker" with respect to resource allocation and performance assessment is embodied in the position of Chief Executive Officer. The performance of the Equipment Financing, Legal Financing, and Automotive Operations segments is measured on the basis of net income or loss before tax. Net assets, which are defined as total segment assets less total segment liabilities, are used as the basis of assessing the allocation of resources.

When compared with the last annual financial statements, there are no differences in the basis of segmentation or in the basis of measuring segment results.

Selected information by segment and geographically is as follows:

	For the three months ended March 31, 2014 ($ thousands)				
	Equipment Financing	Legal Financing – U.S.	Automotive operations - Canada	Corporate overhead - Canada	Total
Interest revenue on finance leases and loans	$ 10,183	$ 1,051	—	$ —	$ 11,234
Ancillary finance and other fee income	1,335	60	—	—	1,395
Interest expense *(a)*	(1,175)	—	—	—	(1,175)
Provision for credit losses	(2,084)	(3)	—	—	(2,087)
Finance margin	**8,259**	**1,108**	**—**	**—**	**9,367**
Revenue - automotive operations	—	—	13,236	—	13,236
Cost of sales – automotive operations	—	—	(11,671)	—	(11,671)
Gross margin before expenses	**8,259**	**1,108**	**1,565**	**—**	**10,932**
Personnel expenses	1,262	420	672	242	2,596
Share-based compensation expense	35	16	9	180	240
Other expenses	1,202	228	530	462	2,422
Amortization	28	5	17	1	51
Income before undernoted items	**5,732**	**439**	**337**	**(885)**	**5,623**
Unrealized loss on convertible debentures	—	—	—	(20)	(20)
Unrealized gain on interest rate swaps	19	—	—	—	19
Unrealized loss on foreign exchange	—	—	—	(69)	(69)
Income before taxes	**5,751**	**439**	**337**	**(974)**	**5,553**
Provision for (recovery of) taxes	2,277	—	6	141	2,424
Net income	**$3,474**	**$439**	**$331**	**$(1,115)**	**$3,129**
Net cash from (used in) operating activities	$ 8,354	$ 134	$ 921	$ (1,821)	$ 7,588
Net cash used in investing activities	$ (8,104)	$ (1,799)	$ (35)	$ (10,567)	$ (20,505)
Net cash used in financing activities	$ 9,106	$ —	$ —	$ (746)	$ 8,360
Total Assets	$ 196,038	$ 14,774	$ 14,437	$ 17,893	$ 243,142
Total Liabilities	$ 139,458	$ 344	$ 8,574	$ 21,721	$ 170,097
Finance receivables	$ 171,990	$ 13,168	$ —	$ —	$ 185,158
Goodwill	$ 16,388	$ 721	$ 2,520	$ —	$ 19,629
Intangible assets	$ 5,969	$ 409	$ 889	$ —	$ 7,267
Property and equipment expenditures	$ 4	$ 22	$ 35	$ —	$ 61

(a) includes $148,550 in non-cash interest expense, based on the imputed interest savings on the customer security deposits, interest revenue on leases on loans is higher by the same amount.

	For the three months ended March 31, 2013 ($ thousands)				
	Equipment Financing – U.S.	Legal Financing – U.S.	Automotive operations - Canada	Corporate overhead - Canada	Total
Interest revenue on finance leases and loans	$ 8,036	$ 646	$ 0	$ —	$ 8,682
Ancillary finance and other fee income	1,371	59	—	—	1,430
Interest expense (a)	(873)	—	0	—	(873)
Provision for credit losses	(1,528)	—	—	—	(1,528)
Finance margin	7,006	705	0	—	7,711
Revenue - automotive operations	—	—	9,666	—	9,666
Cost of sales – automotive operations	—	—	(8,397)	—	(8,397)
Gross margin before expenses	7,006	705	1,269	—	8,980
Personnel expenses	991	293	620	293	2,197
Share-based compensation expense	86	39	32	208	365
Other expenses	758	172	449	198	1,577
Amortization	149	1	14	1	165
Income before undernoted items	5,022	200	154	(700)	4,676
Unrealized gain on interest rate swaps	260	—	—	—	260
Unrealized gain on foreign exchange	56	—	—	148	204
Income before taxes	5,338	200	154	(552)	5,140
Provision for (recovery of) taxes	2,049	—	(8)	105	2,146
Net income	$ 3,289	$ 200	$ 162	$ (657)	$ 2,994
Net cash from (used in) operating activities	$ 5,583	$ 266	$ (106)	$ (1,093)	$ 4,650
Net cash used in investing activities	$ (11,645)	$ (1,259)	$ (93)	$ (8)	$ (13,005)
Net cash used in financing activities	$ 6,698	$ —	$ —	$ (1,869)	$ 4,829
Total Assets	$ 149,021	$ 8,427	$ 15,659	$ 1,339	$ 174,446
Total Liabilities	$ 101,293	$ 218	$ 9,166	$ 901	$ 111,578
Finance receivables	$ 130,822	$ 7,008	$ —	$ —	$ 137,830
Goodwill	$ 10,923	$ 663	$ 2,520	$ —	$ 14,106
Intangible assets	$ 5,526	$ 376	$ 889	$ —	$ 6,791
Property and equipment expenditures	$ 162	$ 22	$ 93	$ 8	$ 285

(a) includes $160,200 in non-cash interest expense, based on the imputed interest savings on the customer security deposits, interest revenue on leases on loans is higher by the same amount.

27. COMPARATIVE FIGURES

Certain prior period amounts have been reclassified to conform to the current period's presentation.

During the first quarter of 2014, the Company moved changes in finance receivables and customer security deposits to investing activities on the Statement of Cash Flows and the change in borrowings was moved to financing activities to be comparable to other specialty finance companies, to reflect the longer-term nature of the receivables and borrowings, to better reflect the Company's decision to self-finance its finance receivables from excess funds and not necessarily cash from current operating activities.

28. SUBSEQUENT EVENT

In April 2014, the board of directors approved the grant of 285,000 options at a grant price of $14.12. The option exercise price is equal to the 10-day volume weighted average price of the Shares at the date 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. The options expire on the 10th anniversary of the grant date.

The value of the options granted during the year was determined using the Black-Scholes option pricing model with the following assumptions:

Weighted average share price at date	$14.12
Expected volatility	61.6%
Expected life (years)	5
Expected dividend yield	5.73%
Risk-free interest rates	1.47%
Weighted average fair value of options granted	$3.72

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 contractual 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 does not necessarily provide a single measure of the fair value of options granted.

The non-cash compensation expense related to these options is approximately $1.1 million which will be recognized over the vesting period.

Chesswood Group Limited

Directors and Officers

Directors and Officers

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

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

Jeffrey Wortsman
Director, Chairman, Audit and Governance Committee
President & C.E.O., Danier Leather Inc.

Barry Shafran
Director
President & C.E.O., Chesswood Group Limited
Chairman and C.E.O., Pawnee Leasing Corporation

David Obront
Director
President, Carpool Two Ltd.

Robert Day
Director
Former Chairman, Pawnee Leasing Corporation

Samuel Leeper
Director
Former C.E.O., Pawnee Leasing Corporation

Executive Team

Barry Shafran
President & C.E.O.
Chesswood Group Limited
Chairman and C.E.O.
Pawnee Leasing Corporation

Lisa Stevenson
Director of Finance
Chief Financial Officer

Other Information

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BDO Canada LLP

Transfer Agent
Equity Financial Trust Company

Corporate Counsel
McCarthy Tétrault LLP

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