CHESSWOOD GROUP LIMITED

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2014

CHESSWOOD GROUP LIMITED

NOTICE TO READERS

Accompanying this notice are the unaudited condensed consolidated interim financial statements of Chesswood Group Limited for the six months ended June 30, 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
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(in thousands of dollars)

	Note	June 30, 2014 (unaudited)	December 31, 2013 (audited)
ASSETS			
Cash and cash equivalents	5	$ **14,174**	$ 22,659
Accounts receivable		**546**	1,199
Inventories		**6,562**	7,836
Prepaid expenses and other assets	*6*	**822**	1,800
Finance receivables	*7*	**185,721**	159,301
Deferred tax assets		**713**	832
Property and equipment		**1,824**	1,215
Intangible assets		**7,896**	7,026
Goodwill	*12*	**18,806**	14,653
TOTAL ASSETS		$ **237,064**	$ 216,521
LIABILITIES			
Accounts payable and other liabilities	*13*	$ **7,633**	$ 7,096
Vehicle financing		**6,451**	6,368
Interest rate swaps	*14*	**1,668**	1,201
Borrowings	*15*	**96,588**	77,305
Customer security deposits		**11,891**	11,830
Convertible debentures	*16*	**20,300**	20,680
Deferred tax liabilities		**19,997**	23,883
		164,528	148,363
SHAREHOLDERS' EQUITY			
Common shares		**48,560**	45,169
Non-controlling interest		**10,343**	10,114
Reserve - share-based compensation		**2,994**	3,909
Accumulated other comprehensive income		**1,026**	953
Retained earnings		**9,613**	8,013
		72,536	68,158
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ **237,064**	$ 216,521

Please see notes to the condensed consolidated interim financial statements.

CHESSWOOD GROUP LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013
(in thousands of dollars, except per share amounts, unaudited)

	Note	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Finance revenue					
Interest revenue on finance leases and loans		**$ 12,174**	$ 9,237	**$ 23,408**	$ 17,919
Ancillary finance and other fee income		**1,455**	1,444	**2,850**	2,874
		13,629	10,681	**26,258**	20,793
Finance expenses					
Interest expense		**1,177**	1,011	**2,352**	1,884
Provision for credit losses		**1,831**	1,403	**3,918**	2,931
		3,008	2,414	**6,270**	4,815
Finance margin		**10,621**	8,267	**19,988**	15,978
Revenue - automotive operations		**14,458**	13,673	**27,694**	23,339
Cost of sales - automotive operations					
Change in inventories		**1,876**	2,929	**1,274**	1,704
Automobiles, parts, and other costs		**10,733**	8,838	**22,972**	18,404
Interest expense		**36**	35	**70**	91
		12,645	11,802	**24,316**	20,199
Automotive gross margin		**1,813**	1,871	**3,378**	3,140
Gross margin before expenses		**12,434**	10,138	**23,366**	19,118
Expenses					
Personnel expenses		**3,173**	2,860	**6,009**	5,422
Other expenses		**2,438**	1,847	**4,860**	3,424
Amortization - property and equipment		**57**	46	**108**	85
Amortization - intangible assets		**43**	43	**43**	169
		5,711	4,796	**11,020**	9,100
Income before undernoted items		**6,723**	5,342	**12,346**	10,018
Unrealized loss on convertible debentures	*16*	**(298)**	—	**(318)**	—
Unrealized gain (loss) on interest rate swaps		**(494)**	730	**(475)**	990
Unrealized gain (loss) on foreign exchange		**(33)**	(166)	**(102)**	38
Income before taxes		**5,898**	5,906	**11,451**	11,046
Provision for taxes		**(2,657)**	(2,577)	**(5,081)**	(4,723)
Net income		**$ 3,241**	$ 3,329	**$ 6,370**	$ 6,323
Attributable to:					
Common shareholders		**$ 2,839**	$ 2,899	**$ 5,574**	$ 5,503
Non-controlling interest		**$ 402**	$ 430	**$ 796**	$ 820
Basic earnings per share	*20*	**$ 0.28**	$ 0.30	**$ 0.55**	$ 0.56
Diluted earnings per share	*20*	**$ 0.26**	$ 0.28	**$ 0.51**	$ 0.53

Please see notes to the condensed consolidated interim financial statements.

CHESSWOOD GROUP LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013
(in thousands of dollars, unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	**2014**	2013
Net income	**$ 3,241**	$ 3,329	**$ 6,370**	$ 6,323
Other comprehensive income:				
Unrealized gain (loss) on translation of foreign operations	**(2,199)**	2,177	**83**	3,058
Comprehensive income for the period	**$ 1,042**	$ 5,506	**$ 6,453**	$ 9,381
Attributable to:				
Common shareholders	**$ 918**	$ 4,794	**$ 5,647**	$ 8,164
Non-controlling interest	**$ 124**	$ 712	**$ 806**	$ 1,217

Please see notes to the condensed consolidated interim financial statements.

CHESSWOOD GROUP LIMITED
CONDENDSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 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		**—**	**—**	**796**	**—**	**—**	**5,574**	**6,370**
Dividends declared		**—**	**—**	**(577)**	**—**	**—**	**(3,974)**	**(4,551)**
Share-based compensation		**—**	**—**	**—**	**561**	**—**	**—**	**561**
Exercise of restricted share units	*18(b)*	**59**	**575**	**—**	**(575)**	**—**	**—**	**—**
Exercise of options	*18(a)*	**332**	**2,816**	**—**	**(901)**	**—**	**—**	**1,915**
Unrealized gain on translation of foreign operations		**—**	**—**	**10**	**—**	**73**	**—**	**83**
Shareholders' equity - June 30, 2014		**10,361**	**$ 48,560**	**$ 10,343**	**$ 2,994**	**$ 1,026**	**$ 9,613**	**$ 72,536**

	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		—	—	820	—	—	5,503	6,323
Dividends declared		—	—	(525)	—	—	(3,505)	(4,030)
Share-based compensation		—	—	—	781	—	—	781
Exercise of restricted share units	—	32	236	—	(236)	—	—	—
Exercise of options	*18(a)*	46	262	—	(159)	—	—	103
Unrealized gain on translation of foreign operations		—	—	397	—	2,661	—	3,058
Shareholders' equity - June 30, 2013		9,921	$ 44,713	$ 10,049	$ 3,546	$ 778	$ 7,704	$ 66,790
Net income		—	—	588	—	—	3,994	4,582
Dividends declared		—	—	(547)	—	—	(3,685)	(4,232)
Share-based compensation		—	—	—	564	—	—	564
Exercise of restricted share units		14	104	—	(104)	—	—	—
Exercise of options		35	352	—	(97)	—	—	255
Unrealized gain on translation of foreign operations		—	—	24	—	175	—	199
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 AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013
(in thousand of dollars, unaudited)

	Note	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
OPERATING ACTIVITIES					
Net income		**$ 3,241**	$ 3,329	**$ 6,370**	$ 6,323
Costs associated with investing activities included in net income		**—**	—	**167**	—
Non-cash items included in net income					
Amortization		**100**	89	**151**	254
Provision for credit losses		**2,726**	2,040	**5,804**	4,151
Share-based compensation expense		**321**	416	**561**	781
Provision for taxes		**2,657**	2,577	**5,081**	4,723
Other non-cash items	*21*	**892**	(523)	**1,027**	(946)
		6,696	4,599	**12,624**	8,963
Cash from operating activities before change in net operating assets		**9,937**	7,928	**19,161**	15,286
Change in net operating assets	*21*	**2,145**	546	**1,299**	141
Cash from operating activities before income tax and interest payments		**12,082**	8,474	**20,460**	15,427
Interest paid on convertible debentures	*16*	**(698)**	—	**(698)**	—
Income tax refund received		**52**	—	**52**	20
Income taxes paid		**(6,461)**	(3,176)	**(7,251)**	(5,499)
Cash from operating activities		**4,975**	5,298	**12,563**	9,948
INVESTING ACTIVITIES					
Acquisition costs	*12*	**—**	—	**(10,567)**	—
Finance receivables - net increase	*21*	**(9,324)**	(10,364)	**(19,221)**	(23,391)
Customer security deposits		**(558)**	110	**(538)**	417
Purchase of property and equipment		**(635)**	(45)	**(696)**	(330)
Cash used in investing activities		**(10,517)**	(10,299)	**(31,022)**	(23,304)
FINANCING ACTIVITIES					
Borrowings - net	*21*	**3,525**	12,464	**12,631**	19,162
Proceeds from exercise of options	*18*	**428**	47	**1,915**	103
Cash dividends paid	*19*	**(2,293)**	(2,044)	**(4,526)**	(3,969)
Cash from financing activities		**1,660**	10,467	**10,020**	15,296
Unrealized foreign exchange gain (loss) on cash		**(102)**	69	**(46)**	98
Net increase (decrease) in cash and cash equivalents		**(3,984)**	5,535	**(8,485)**	2,038
Cash and cash equivalents, beginning of period		**18,158**	2,094	**22,659**	5,591
Cash and cash equivalents, end of period		**$ 14,174**	$ 7,629	**$14,174**	$ 7,629

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 six months ended June 30, 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 six months ended	
June 30, 2014	December 31, 2013	June 30, 2014	June 30, 2013
1.0676	1.0636	**1.0968**	1.0159

The Company's consolidated financial statements were authorized for issue on August 6, 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 Instruments

In July 2014, the IASB issued the final amendments to *IFRS 9 Financial Instruments*, to replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 provides guidance on the classification and measurement of financial assets and liabilities, a forward-looking "expected loss" impairment model and general hedge accounting.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value replacing multiple rules in IAS 39. 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.

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 amended IFRS 9 introduced a new, expected-loss impairment model (replacing the existing incurred loss impairment model) that will require more timely recognition of expected credit losses and requires entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses on a more timely basis.

The effective date of IFRS 9 is set for the Company's December 31, 2018 fiscal year, with earlier adoption permitted. The Corporation has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

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, 2014 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. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	June 30, 2014	December 31, 2013
	($ thousands)	
Cash	**$ 7,174**	$ 22,659
Cashable guaranteed investment certificate	**7,000**	—
	$ 14,174	$ 22,659

The guaranteed investment certificate ("GIC") is a one-year cashable GIC that earns interest at a fixed rate of 1.2% per annum and matures in April 2015. The GIC was cashable after 30 days of the start of the investment without interest penalty.

6. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets comprise:

	June 30, 2014	December 31, 2013
	($ thousands)	
Property tax receivable	**$ 206**	$ 325
Tax receivable	**111**	1,070
Other prepaid expenses and current assets	**412**	277
Sales tax receivable	**51**	86
Deposits – premises	**42**	42
	$ 822	$ 1,800

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

7. FINANCE RECEIVABLES

Finance receivables comprise:

	Note	June 30, 2014	December 31, 2013
		($ thousands)	
Net investment in leases	8	**$ 131,492**	$ 127,145
Net investment in leases - pledged	8	**5,892**	—
Equipment financing agreements and working capital loans	9	**35,150**	21,195
Legal finance receivables	11	**13,187**	10,961
		$ 185,721	$ 159,301

8. NET INVESTMENT IN LEASES

(a) Net investment in leases include the following:

	June 30, 2014	December 31, 2013
	($ thousands)	
Total minimum lease payments for leases	**$ 167,673**	$ 160,363
Residual values of leased equipment	**18,869**	19,159
	186,542	179,522
Unearned income, net of initial direct costs of lease acquisition	**(51,288)**	(48,804)
Net investment in leases before allowance for doubtful accounts	**135,254**	130,718
Allowance for doubtful accounts (b)	**(3,762)**	(3,573)
Net investment in leases	**$ 131,492**	127,145
Net investment in leases - pledged	**5,892**	—
	137,384	127,145
Current portion	**50,679**	47,143
Net investment in leases – long-term portion	**$ 86,705**	$ 80,002

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

	For the three months ended		For the six months ended	
	June 30, 2014	**June 30, 2013**	**June 30, 2014**	June 30, 2013
		($ thousands)		
Balance, beginning of period	**$ 4,356**	$ 3,127	**$ 3,573**	$ 2,891
Provision for credit losses	**1,153**	1,236	**3,106**	2,760
Impact of change in foreign exchange rates	**(117)**	107	**23**	168
Allowance of acquired company	**(122)**	—	**337**	—
Charge-offs	**(2,393)**	(1,933)	**(5,133)**	(3,865)
Recoveries	**885**	637	**1,856**	1,220
Balance, end of period	**$ 3,762**	$ 3,174	**$ 3,762**	$ 3,174

9. 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.

	June 30, 2014	December 31, 2013
	($ thousands)	
Equipment financing agreements	**$ 22,748**	$ 18,947
Working capital loans	**12,768**	2,422
Allowance for doubtful accounts (a)	**(366)**	(174)
Equipment Financing Agreements and Working Capital Loans	**$ 35,150**	$ 21,195
Current portion	**17,939**	7,755
EFAs and WCLs – long-term portion	**$ 17,211**	$ 13,440

(a) Pawnee's underwriting requirements and standards for EFAs are the same as those required for leases. The activity in the allowance for doubtful accounts is as follows:

	For the six months ended June 30, 2014	June 30, 2013
	($ thousands)	
Balance, beginning of period	**$ 174**	$ 42
Provision for credit losses	**626**	172
Impact of change in foreign exchange rates	**(5)**	6
Charge-offs	**(459)**	(33)
Recoveries	**30**	—
Balance, end of period	**$ 366**	$ 187

10. 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 $11.9 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 June 30, 2014
($ thousands)	**Current**	**1-30 days**	**31 - 60 days**	**61 - 90 days**	**Over 90 days**
Equipment lease receivables	**$ 134,899**	**$ 3,741**	**$ 892**	**$ 837**	**$ 777**
EFA's & WCLs	**34,838**	**384**	**145**	**—**	**149**
	169,737	**4,125**	**1,037**	**837**	**926**
Impaired	**168**	**286**	**623**	**528**	**926**
Past due but not impaired	**$ —**	**$ 3,839**	**$ 414**	**$ 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	$ —

11. LEGAL FINANCE RECEIVABLES

Legal finance receivables consist of:

	June 30, 2014	December 31, 2013
	($ thousands)	
Attorney loans and medical liens	**$ 5,139**	$ 4,642
Plaintiff advances	**8,048**	6,319
Legal finance receivables	**13,187**	10,961
Current portion (i)	**5,189**	5,322
Legal finance receivables – long-term portion	**$ 7,998**	$ 5,639

At June 30, 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.

12. 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.

Included in the condensed consolidated interim statement of income are revenue of $810,000 and net income of $122,000 related to Northstar for the period February 1 to June 30, 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.

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

		January 31, 2014
		($ thousands)
Cash	$	12
Net investment in leases-pledged		6,127
Net investment in leases		6,649
Prepaid expenses and other assets		95
Property and equipment		20
Goodwill and intangible assets		4,845
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

Northstar has the following other commitments:

($ thousands)		2014		2015		2016		Total
Other financial commitments	$	22	$	44	$	30	$	96

13. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprise:		**June 30, 2014**		December 31, 2013
		($ thousands)		
Dividends payable	**$**	**770**	$	744
Accounts payable		**818**		388
Sales tax payable		**930**		850
Unfunded leases and EFAs		**1,475**		1,359
Taxes payable		**1,318**		39
Payroll related payables and accruals		**790**		1,012
Accrued liabilities and other liabilities		**938**		1,838
Property taxes payable on equipment leases		**301**		298
Withholding taxes payable		**61**		466
Deferred lease incentive		**232**		102
	$	**7,633**	$	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.

14. 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 $1.7 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 June 30, 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

15. BORROWINGS

Borrowings are comprised of:

	June 30, 2014	December 31, 2013
	($ thousands)	
Pawnee credit facility	**$ 90,746**	$ 77,887
Deferred financing costs – Pawnee	**(500)**	(582)
Borrowings – Pawnee and Windset (a)	**$ 90,246**	$ 77,305
Securitization debt (b)	**6,342**	—
	$ 96,588	$ 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.$85.0 million was utilized at June 30, 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 June 30, 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 4.23% (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.

In July 2014, Pawnee's syndicate of lenders approved further amendments to Pawnee's credit facility giving effect to the exercise by Pawnee of U.S.$20.0 million of the accordion feature of its credit facility and allowing for the lending of up to U.S.$25.0 million by Chesswood, the parent company of Pawnee and Windset, which can be used to provide capital to Pawnee and Windset for their financing portfolios.

(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 8 - *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.

16. 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:

	June 30, 2014	December 31, 2013
	($ thousands)	
Principal amount recognized on issuance	**$ 20,000**	$ 20,000
Fair value adjustment	**300**	680
Balance, end of period	**$ 20,300**	$ 20,680

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
		($ thousands)		
Fair value adjustment for the period	**$ 400**	$ —	**$ 380**	$ —
Interest paid during period	**(698)**	$ —	**(698)**	$ —
Financing costs - convertible debentures	**$ (298)**	$ —	**$ (318)**	**$ —**

17. 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		$ 7,399	$ (3)	$ (1)	$ 16	$ 34	$ 188	**$ 7,633**
Vehicle financing		6,451	—	—	—	—	—	**6,451**
Interest rate swaps		—	465	171	418	167	447	**1,668**
Borrowings	*(i)*	1,795	2,805	91,390	475	123	—	**96,588**
Customer security deposits	*(ii)*	2,004	3,204	3,200	2,099	1,176	208	**11,891**
Convertible debentures		—	—	—	—	20,000	—	**20,000**
		$ 17,649	$ 6,471	$ 94,760	$ 3,008	$ 21,500	$ 843	**$144,231**
Other financial commitments	*(iii)*	481	839	621	490	486	2,671	**5,588**
Total commitments		$ 18,130	$ 7,310	$ 95,381	$ 3,498	$ 21,986	$ 3,514	**$149,819**

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 contingent liabilities and other commitments, refer to Note 30 - *Contingent Liabilities and Other Financial Commitments* of the 2013 annual consolidated financial statements.

18. COMPENSATION PLANS

(a) Share options

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

	For the three months ended		For the six months ended	
	June 30, 2014	**June 30, 2013**	**June 30, 2014**	June 30, 2013
Balance, beginning of period	**1,154,878**	1,497,991	**1,431,628**	1,522,900
Granted	**285,000**	—	**285,000**	—
Exercised	**(55,300)**	(21,113)	**(332,050)**	(46,022)
Balance, end of period	**1,384,578**	1,476,878	**1,384,578**	1,476,878

During the three months ended June 30, 2014, personnel expenses and the share-based compensation reserve included $295,400 (2013 - $510,000) relating to option expense. As of June 30, 2014, unrecognized non-cash compensation expense related to the outstanding options was $1.1 million (2013 - $676,800), which is expected to be recognized over the remaining vesting period.

During the six months ended June 30, 2014, 332,050 options were exercised (2013 - 46,022) for total cash consideration of $1,914,300 (2013 - $103,000). On exercise, the fair value of options that had been expensed to date during the vesting period of $902,000 (2013 - $159,000) 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 $15.46 (2013 - $10.32).

An analysis of the options outstanding at June 30, 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	241,000	241,000	April 24, 2021	$ 7.79
June 10, 2011	73,750	73,750	June 9, 2021	$ 7.73
December 6, 2011	200,000	130,000	December 6, 2021	$ 6.14
June 25, 2012	229,500	148,125	June 24, 2022	$ 7.45
July 9, 2012	4,700	2,950	July 8, 2022	$ 7.42
December 6, 2012	125,000	37,500	December 6, 2022	$ 8.86
April 29, 2014	285,000	—	April 29, 2024	$ 14.12
	1,384,578	858,953		

At June 30, 2014, the weighted average exercise price is $8.36 (2013 - $6.64) and the weighted average remaining contractual life for all options outstanding is 7.57 years (2013 - 7.56 years). The options exercisable at June 30, 2014 have a weighted average exercise price of $6.67 (2013 - 816,253 options at $5.93).

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.

(b) Restricted share units

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

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
Balance, beginning of period	**68,500**	69,000	**75,000**	69,000
Granted	**44,000**	51,500	**44,000**	51,500
Exercised	**(52,500)**	(31,500)	**(59,000)**	(31,500)
Balance, end of period	**60,000**	89,000	**60,000**	89,000

During the six months ended June 30, 2014, personnel expenses and share-based compensation reserve included $266,100 (2013 - $271,000) relating to RSUs. As of June 30, 2014, unrecognized non-cash compensation expense related to non-vested RSUs was $552,400 (2013 - $456,000).

During the six months ended June 30, 2014, an aggregate of 44,000 (2013 - 44,000) RSUs were granted to directors and expire in ten years. The grantees of such RSUs are not entitled to the dividends paid before the RSUs are exercised. Such RSUs vest one year from the date of issue and are to be settled by the issue of Shares. RSUs granted are in respect of future services and are expensed over the vesting period. Compensation cost is measured based on the market price of the Shares on the date of the grant of the RSUs, which was $14.07 (2013 - $11.65).

On exercise of the 59,000 RSUs during the six months ended June 30, 2014 (2013 -31,500), the value of the RSUs of $574,500 (2013 - $236,000) that had been expensed during the vesting period was transferred from reserve to Common Share capital. For the 59,000 RSUs exercised in 2014, the weighted average share price at the date of exercise was $13.95 (2013 - 31,500 shares at $10.73).

An analysis of the RSUs outstanding at June 30, 2014 is as follows:

Grant date	Number of RSUs outstanding	Vested	Expiry date	Value on Grant date
April 25, 2011	4,000	4,000	April 24, 2021	$ 7.79
June 25, 2012	6,000	6,000	June 24, 2022	$ 7.45
May 22, 2013	6,000	6,000	May 21, 2023	$ 11.65
May 23, 2014	44,000	—	May 22, 2024	$ 14.07
	60,000	16,000		

The weighted average remaining contractual life for all RSUs outstanding is 9.4 years (December 31, 2013 - 8.35 years).

19. DIVIDENDS

The following dividends were paid to Common Shareholders and Exchangeable Securities holders during six months ended June 30, 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
March 31, 2014	April 16, 2014	$ 0.065	763
April 30, 2014	May 15, 2014	$ 0.065	763
May 31, 2014	June 15, 2014	$ 0.065	767
			$ 4,526

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
March 31, 2013	April 16, 2013	$	0.060		681
April 30, 2013	May 15, 2013	$	0.060		681
May 31, 2013	June 15, 2013	$	0.060		682
				$	**3,969**

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		For the six months ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
Weighted average number of common shares outstanding	**10,296,752**	9,882,763	**10,157,245**	9,864,935
Dilutive effect of options	**605,866**	566,443	**776,732**	527,965
Dilutive effect of RSUs	**66,736**	89,857	**70,845**	81,475
Weighted average common shares outstanding for diluted earnings per share	**10,969,354**	10,539,063	**11,004,822**	10,474,375

Convertible debentures, issued on December 16, 2013, convertible into 941,176 common shares, and options to purchase nil common shares (2013 - nil) 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		For the six months ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
		($ thousands)		
Non-cash items included in net income - other				
Amortization of deferred financing costs	**$ 67**	$ 41	**$ 132**	$ 82
Unrealized loss on convertible debentures	**298**	—	**318**	—
Unrealized gain on interest rate swaps	**494**	(730)	**475**	(990)
Unrealized gain on foreign exchange	**33**	166	**102**	(38)
	$ 892	$ (523)	**$ 1,027**	$ (946)
Finance receivables – change in				
Net investments in leases – pledged	**$ 583**	$ —	**$ 235**	$ —
Net investments in leases	**(2,670)**	(6,144)	**(2,115)**	(14,299)
Equipment finance agreements	**(2,307)**	(3,321)	**(4,063)**	(6,956)
Working capital loans	**(4,276)**	—	**(10,847)**	—
Legal finance receivables	**(654)**	(899)	**(2,431)**	(2,136)
	$ (9,324)	$ (10,364)	**$ (19,221)**	$ (23,391)
Borrowings – change in				
Line-of-credit – Pawnee – net	**$ 3,597**	$ 12,464	**$ 12,865**	$ 19,162
Line-of-credit - Northstar - net	**—**	—	**(434)**	—
Proceeds from securitization of leases - net	**(72)**	—	**200**	—
	$ 3,525	$ 12,464	**$ 12,631**	$ 19,162
Other net operating assets - change in				
Accounts receivable	**$ 1,010**	$ 737	**$ 653**	$ (367)
Inventories	**1,876**	2,929	**1,274**	1,704
Prepaid and other assets	**(940)**	(22)	**83**	(138)
Accounts payable and other liabilities	**3,736**	228	**1,226**	(167)
Vehicle financing	**(3,537)**	(3,326)	**(1,937)**	(891)
	$ 2,145	$ 546	**$ 1,299**	$ 141
Non-cash transactions				
Common shares issued on exercise of restricted share units	**$ 535**	$ 236	**$ 575**	$ 236

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	June 30, 2014 Carrying Value
					($ thousands)
ASSETS					
Cash *(iii)*	L&R	$ 14,174	$ —	$ —	$ 14,174
Accounts receivable *(iii)*	L&R	—	546	—	546
EFAs & WCLs *(i)*	L&R	—	35,150	—	35,150
Attorney loans and medical liens *(i)*	L&R	—	5,139	—	5,139
Plaintiff advances *(c)*	AFS	—	—	8,048	8,048
LIABILITIES					
Accounts payable (iii*)*	L&B		(7,633)	—	(7,633)
Vehicle financing *(ii)*	L&B		(6,451)	—	(6,451)
Interest rate swaps *(iv)*	HFT	—	(1,668)	—	(1,668)
Borrowings *(ii)*	L&B		(96,588)	—	(96,588)
Customer security deposits	L&B		(11,891)		(11,891)
Convertible debentures *(v)*	FVTP	(20,300)	—	—	(20,300)
Total net assets (liabilities) classified as financial instruments		$ (6,126)	$ (83,396)	$ 8,048	$ (81,474)

	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 14 - *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		For the six months ended	
	June 30, 2014	**June 30, 2013**	**June 30, 2014**	June 30, 2013
		($ thousands)		
Balance, beginning of period	**$ 7,623**	$ 3,911	**$ 6,319**	$ 3,349
Originations	**635**	673	**1,666**	1,449
Fair value accretion (i)	**977**	490	**1,649**	864
Losses	**(174)**	—	**(177)**	—
Collections	**(740)**	(659)	**(1,386)**	(1,320)
Foreign exchange impact (ii)	**(273)**	164	**(23)**	237
Balance, end of period	**$ 8,048**	$ 4,579	**$ 8,048**	$ 4,579

(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 June 30, 2014, the average size of a plaintiff advance is U.S.$12,420 (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		For the six months ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
			($ thousands)	
Loans and receivables:				
Provision for credit losses	**$ (1,831)**	$ (1,403)	**$ (3,918)**	$ (2,931)
Designated as at fair value through net income or loss:				
Convertible debentures	**(298)**	—	**(318)**	—
Held for trading:				
Interest rate swaps	**(494)**	730	**(475)**	990
Net loss	**$ (2,623)**	$ (673)	**$ (4,711)**	$ (1,941)

(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 June 30, 2014 comprised $72.5 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 June 30, 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		For the six months ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
		($ thousands)		
Salaries, fees and other short-term employee benefits	**$ 266**	$ 315	**$ 458**	$ 580
Share-based compensation	**234**	241	**414**	449
Compensation expense of key management	**$ 500**	$ 556	**$ 872**	$ 1,029

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 June 30, 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:

	Six months ended June 30, 2014 ($ thousands)				
	Equipment Financing	Legal Financing – U.S.	Automotive operations - Canada	Corporate overhead - Canada	Total
Interest revenue on finance leases and loans	$ 21,069	$ 2,339	—	$ —	$ 23,408
Ancillary finance and other fee income	2,746	104	—	—	2,850
Interest expense *(a)*	(2,352)	—	—	—	(2,352)
Provision for credit losses	(3,732)	(186)	—	—	(3,918)
Finance margin	**17,731**	**2,257**	**—**	**—**	**19,988**
Revenue - automotive operations	—	—	27,694	—	27,694
Cost of sales – automotive operations	—	—	(24,316)	—	(24,316)
Gross margin before expenses	**17,731**	**2,257**	**3,378**	**—**	**23,366**
Personnel expenses	2,681	840	1,427	500	5,448
Share-based compensation expense	90	39	19	413	561
Other expenses	2,471	472	1,160	757	4,860
Amortization	107	10	33	1	151
Income before undernoted items	**12,382**	**896**	**739**	**(1,671)**	**12,346**
Unrealized loss on convertible debentures	—	—	—	(318)	(318)
Unrealized loss on interest rate swaps	(475)	—	—	—	(475)
Unrealized loss on foreign exchange	—	—	—	(102)	(102)
Income before taxes	**11,907**	**896**	**739**	**(2,091)**	**11,451**
Provision for (recovery of) taxes	4,750	—	(1)	332	5,081
Net income	**$7,157**	**$896**	**$740**	**$(2,423)**	**$6,370**
Net cash from (used in) operating activities	$ 11,997	$ 973	$ 3,027	$ (3,434)	$ 12,563
Net cash used in investing activities	$ (17,534)	$ (2,459)	$ (462)	$ (10,567)	$ (31,022)
Net cash from (used in) financing activities	$ 12,631	$ —	$ —	$ (2,611)	$ 10,020
Total Assets	$ 197,293	$ 15,058	$ 13,174	$ 11,539	$ 237,064
Total Liabilities	$ 135,496	$ 380	$ 7,335	$ 21,317	$ 164,528
Finance receivables	$ 172,534	$ 13,187	$ —	$ —	$ 185,721
Goodwill	$ 15,589	$ 697	$ 2,520	$ —	$ 18,806
Intangible assets	$ 6,612	$ 395	$ 889	$ —	$ 7,896
Property and equipment expenditures	$ 206	$ 28	$ 462	$ —	$ 696

(a) includes $277,200 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.

	Six months ended June 30, 2013 ($ thousands)				
	Equipment Financing	Legal Financing – U.S.	Automotive operations - Canada	Corporate overhead - Canada	Total
Interest revenue on finance leases and loans	$ 16,484	$ 1,435	—	$ —	$ 17,919
Ancillary finance and other fee income	2,766	108	—	—	2,874
Interest expense *(a)*	(1,884)	—	—	—	(1,884)
Provision for credit losses	(2,931)	—	—	—	(2,931)
Finance margin	**14,435**	**1,543**	**—**	**—**	**15,978**
Revenue - automotive operations	—	—	23,339	—	23,339
Cost of sales – automotive operations	—	—	(20,199)	—	(20,199)
Gross margin before expenses	**14,435**	**1,543**	**3,140**	**—**	**19,118**
Personnel expenses	2,034	651	1,418	538	4,641
Share-based compensation expense	152	131	49	449	781
Other expenses	1,715	322	973	414	3,424
Amortization	217	1	34	2	254
Income before undernoted items	**10,317**	**438**	**666**	**(1,403)**	**10,018**
Unrealized gain on interest rate swaps	990	—	—	—	990
Unrealized gain on foreign exchange	—	—	—	38	38
Income before taxes	**11,307**	**438**	**666**	**(1,365)**	**11,046**
Provision for (recovery of) taxes	4,472	—	(63)	314	4,723
Net income	**$6,835**	**$438**	**$729**	**$(1,679)**	**$6,323**
Net cash from (used in) operating activities	$ 10,436	$ 466	$ 892	$ (1,846)	$ 9,948
Net cash used in investing activities	$ (21,028)	$ (2,166)	$ (110)	$ —	$ (23,304)
Net cash from (used in) financing activities	$ 19,162	$ —	$ —	$ (3,866)	$ 15,296
Total Assets	$ 161,309	$ 10,051	$ 12,388	$ 6,623	$ 190,371
Total Liabilities	$ 116,367	$ 194	$ 5,941	$ 1,079	$ 123,581
Finance receivables	$ 143,014	$ 8,175	$ —	$ —	$ 151,189
Goodwill	$ 11,430	$ 686	$ 2,520	$ —	$ 14,636
Intangible assets	$ 5,676	$ 389	$ 889	$ —	$ 6,954
Property and equipment expenditures	$ 190	$ 30	$ 110	$ —	$ 330

(a) includes $322,000 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 June 30, 2014 ($ thousands)				
	Equipment Financing	**Legal Financing – U.S.**	**Automotive operations - Canada**	**Corporate overhead - Canada**	**Total**
Interest revenue on finance leases and loans	$ 10,886	$ 1,288	$ —	$ —	$ 12,174
Ancillary finance and other fee income	1,411	44	—	—	1,455
Interest expense (a)	(1,177)	—	—	—	(1,177)
Provision for credit losses	(1,648)	(183)	—	—	(1,831)
Finance margin	**9,472**	**1,149**	**—**	**—**	**10,621**
Revenue - automotive operations	—	—	14,458	—	14,458
Cost of sales – automotive operations	—	—	(12,645)	—	(12,645)
Gross margin before expenses	**9,472**	**1,149**	**1,813**	**—**	**12,434**
Personnel expenses	1,419	420	755	258	2,852
Share-based compensation expense	55	23	10	233	321
Other expenses	1,269	244	630	295	2,438
Amortization	79	5	16	—	100
Income before undernoted items	**6,650**	**457**	**402**	**(786)**	**6,723**
Unrealized loss on convertible debentures	—	—	—	(298)	(298)
Unrealized loss on interest rate swaps	(494)	—	—	—	(494)
Unrealized loss on foreign exchange	—	—	—	(33)	(33)
Income before taxes	**6,156**	**457**	**402**	**(1,117)**	**5,898**
Provision for (recovery of) taxes	2,473	—	(7)	191	2,657
Net income	**$ 3,683**	**$ 457**	**$ 409**	**$ (1,308)**	**$ 3,241**
Net cash from (used in) operating activities	$ 3,643	$ 839	$ 2,106	$ (1,613)	$ 4,975
Net cash used in investing activities	$ (9,430)	$ (660)	$ (427)	$ —	$ (10,517)
Net cash from (used in) financing activities	$ 3,525	$ —	$ —	$ (1,865)	$ 1,660
Property and equipment expenditures	$ 202	$ 6	$ 427	$ —	$ 635

(a) includes $128,650 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.

	Three months ended June 30, 2013 ($ thousands)				
	Equipment Financing	**Legal Financing – U.S.**	**Automotive operations - Canada**	**Corporate overhead - Canada**	**Total**
Interest revenue on finance leases and loans	$ 8,448	$ 789	—	$ —	$ 9,237
Ancillary finance and other fee income	1,395	49	—	—	1,444
Interest expense *(a)*	(1,011)	—	—	—	(1,011)
Provision for credit losses	(1,403)	—	—	—	(1,403)
Finance margin	**7,429**	**838**	**—**	**—**	**8,267**
Revenue - automotive operations	—	—	13,673	—	13,673
Cost of sales – automotive operations	—	—	(11,802)	—	(11,802)
Gross margin before expenses	**7,429**	**838**	**1,871**	**—**	**10,138**
Personnel expenses	1,043	358	798	245	2,444
Share-based compensation expense	66	92	17	241	416
Other expenses	957	150	524	216	1,847
Amortization	68	0	20	1	89
Income before undernoted items	**5,295**	**238**	**512**	**(703)**	**5,342**
Unrealized gain on interest rate swaps	730	—	—	—	730
Unrealized loss on foreign exchange	(56)	—	—	(110)	(166)
Income before taxes	**5,969**	**238**	**512**	**(813)**	**5,906**
Provision for (recovery of) taxes	2,423	—	(55)	209	2,577
Net income	**$3,546**	**$238**	**$567**	**$(1,022)**	**$3,329**
Net cash from (used in) operating activities	$ 4,853	$ 200	$ 998	$ (753)	$ 5,298
Net cash used in investing activities	$ (9,383)	$ (907)	$ (9)	$ —	$ (10,299)
Net cash from (used in) financing activities	$ 12,464	$ —	$ —	$ (1,997)	$ 10,467
Property and equipment expenditures	$ 28	$ 8	$ 9	$ —	$ 45

(a) includes $178,500 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.

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

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Corporate Counsel
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