

CHESSWOOD GROUP LIMITED

FIRST QUARTER REPORT TO SHAREHOLDERS

FOR THE THREE MONTHS ENDED

MARCH 31, 2016



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, 2016. These statements have been prepared by, and are the responsibility of, the Company's management.

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

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

	<i>Note</i>	March 31, 2016 <i>(unaudited)</i>	December 31, 2015 <i>(audited)</i>
ASSETS			
Cash		\$ 5,233	\$ 15,229
Assets held for sale	5	7,594	107,840
Prepaid expenses and other assets	6	21,022	10,261
Finance receivables	7	354,899	365,559
Deferred tax assets		1,052	1,141
Property and equipment		889	895
Intangible assets		22,549	23,335
Goodwill		40,315	41,250
TOTAL ASSETS		\$ 453,553	\$ 565,510
LIABILITIES			
Accounts payable and other liabilities	8	\$ 10,733	\$ 11,557
Liabilities held for sale	5	1,276	73,808
Contingent consideration		1,508	7,215
Borrowings	9	231,572	255,173
Customer security deposits		13,014	13,895
Convertible debentures		20,000	19,900
Interest rate swaps		2,275	892
Deferred tax liabilities		23,068	26,515
		303,446	408,955
SHAREHOLDERS' EQUITY			
Common shares		101,764	101,726
Non-controlling interest		12,614	13,194
Share-based compensation reserve		4,920	4,434
Accumulated other comprehensive income		14,722	20,987
Retained earnings		16,087	16,214
		150,107	156,555
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 453,553	\$ 565,510

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, 2016 AND 2015
(in thousands of dollars, except per share amounts, unaudited)

		Three months ended March 31,	
	<i>Note</i>	2016	2015
Finance revenue			
Interest revenue on finance leases and loans		\$ 19,641	\$ 13,667
Ancillary finance and other fee income		3,251	1,745
		<u>22,892</u>	<u>15,412</u>
Finance expenses			
Interest expense		2,335	1,308
Provision for credit losses		6,268	3,652
		<u>8,603</u>	<u>4,960</u>
Finance margin		<u>14,289</u>	<u>10,452</u>
Expenses			
Personnel expenses		3,466	2,426
Other expenses		2,662	1,935
Amortization - property and equipment		66	64
		<u>6,194</u>	<u>4,425</u>
Income before undernoted items		<u>8,095</u>	<u>6,027</u>
Acquisition related items		(292)	(827)
Amortization - intangible assets		(332)	(63)
Fair value adjustment to investments held		(510)	—
Financing costs - convertible debentures		(100)	(152)
Unrealized loss on interest rate swaps		(1,523)	—
Unrealized gain on foreign exchange		278	103
Income before taxes		<u>5,616</u>	<u>5,088</u>
Tax expense		(2,650)	(2,551)
Income from continuing operations		<u>2,966</u>	<u>2,537</u>
Income from discontinued operations	5	<u>9,231</u>	<u>961</u>
Net income		<u>\$ 12,197</u>	<u>\$ 3,498</u>
Attributable to:			
Common shareholders		\$ 11,181	\$ 3,103
Non-controlling interest		\$ 1,016	\$ 395
Basic earnings per share	12	\$ 0.69	\$ 0.27
Diluted earnings per share	12	\$ 0.67	\$ 0.26

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, 2016 AND 2015
(in thousands of dollars, unaudited)

	Three months ended March 31,	
	2016	2015
Net income	<u>\$ 12,197</u>	<u>\$ 3,498</u>
Other comprehensive income:		
Unrealized gain (loss) on translation of foreign operations	<u>(6,833)</u>	<u>7,790</u>
Comprehensive income for the year	<u><u>\$ 5,364</u></u>	<u><u>\$ 11,288</u></u>
Attributable to:		
Common shareholders	<u>\$ 4,917</u>	<u>\$ 10,015</u>
Non-controlling interest	<u>\$ 447</u>	<u>\$ 1,273</u>

Please see notes to the condensed consolidated interim financial statements.

CHESSWOOD GROUP LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015
(in thousands of dollars, unaudited)

	<i>Note</i>	Common shares	Common shares	Non- controlling interest	Share-based compensation reserve	Accumulated other comprehensive income	Retained earnings	2015 Total
		(# '000s)						
Shareholders' equity - December 31, 2015		16,264	\$ 101,726	\$ 13,194	\$ 4,434	\$ 20,987	\$ 16,214	\$ 156,555
Net income		—	—	1,016	—	—	11,181	12,197
Dividends declared	11	—	—	(1,028)	—	—	(11,308)	(12,336)
Share-based compensation		—	—	—	509	—	—	509
Exercise of options		7	38	—	(23)	—	—	15
Unrealized loss on translation of foreign operations		—	—	(568)	—	(6,265)	—	(6,833)
Shareholders' equity - March 31, 2016		16,271	\$ 101,764	\$ 12,614	\$ 4,920	\$ 14,722	\$ 16,087	\$ 150,107

	<i>Note</i>	Common shares	Common shares	Non-controlling interest	Share-based compensation reserve	Accumulated other comprehensive income	Retained earnings	2014 Total
		(# '000s)						
Shareholders' equity - December 31, 2014		10,420	\$ 49,039	\$ 11,124	\$ 3,504	\$ 6,092	\$ 10,085	\$ 79,844
Shares issued		5,724	49,638	—	—	—	—	49,638
Net income		—	—	395	—	—	3,103	3,498
Dividends declared	11	—	—	(288)	—	—	(2,404)	(2,692)
Share-based compensation		—	—	—	382	—	—	382
Exercise of options		6	66	—	(19)	—	—	47
Unrealized gain on translation of foreign operations		—	—	879	—	6,911	—	7,790
Shareholders' equity - March 31, 2015		16,150	98,743	12,110	3,867	13,003	10,784	138,507
Shares issued		10	1,921	—	—	—	—	1,921
Net income		—	—	1,371	—	—	14,935	16,306
Dividends declared		—	—	(865)	—	—	(9,505)	(10,370)
Share-based compensation		—	—	—	1,277	—	—	1,277
Exercise of restricted share units		38	535	—	(535)	—	—	—
Exercise of options		66	527	—	(175)	—	—	352
Unrealized gain on translation of foreign operations		—	—	578	—	7,984	—	8,562
Shareholders' equity - December 31, 2015		16,264	\$ 101,726	\$ 13,194	\$ 4,434	\$ 20,987	\$ 16,214	\$ 156,555

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, 2016 AND 2015

(in thousands of dollars, unaudited)

		Three months ended March 31,	
	<i>Note</i>	2016	2015
OPERATING ACTIVITIES			
Income from continuing operations		\$ 2,966	\$ 2,537
Costs associated with investing activities included in net income		—	1,043
		<u>2,966</u>	<u>3,580</u>
Non-cash items included in net income			
Amortization		398	127
Provision for credit losses		7,669	4,681
Amortization of origination costs		5,066	3,065
Tax expense		2,651	2,550
Other non-cash items	13	2,675	527
		<u>18,459</u>	<u>10,950</u>
Cash from operating activities before change in net operating assets		21,425	14,530
Funds advanced on origination of finance receivables		(63,661)	(43,396)
Origination costs paid on finance receivables		(6,553)	(4,737)
Principal collections of finance receivables		52,082	26,672
Change in other net operating assets	13	218	(124)
Income taxes paid		(1,930)	(528)
Cash from (used in) operating activities - continuing operations		1,581	(7,583)
Cash (used in) from operating activities - discontinued operations	5	(2,668)	3,006
Cash used in operating activities		<u>(1,087)</u>	<u>(4,577)</u>
INVESTING ACTIVITIES			
Acquisition, net of cash acquired		(6,000)	(41,337)
Proceeds from sale of discontinued operations, net of costs	5	24,964	6,127
Purchase of property and equipment		(55)	(20)
Cash from (used in) investing activities - continuing operations		18,909	(35,230)
Cash used in investing activities - discontinued operations	5	—	(6)
Cash from (used in) investing activities		<u>18,909</u>	<u>(35,236)</u>
FINANCING ACTIVITIES			
Borrowings, net	13	(14,198)	10,366
Payment of financing costs		—	(614)
Proceeds from issue of shares, net of costs		—	34,297
Proceeds from exercise of options		14	47
Cash dividends paid	11	(12,336)	(2,320)
Cash from (used in) financing activities - continuing operations		(26,520)	41,776
Cash used in financing activities - discontinued operations	5	(1,703)	(5,000)
Cash from (used in) financing activities		<u>(28,223)</u>	<u>36,776</u>
Unrealized foreign exchange gain (loss) on cash		(286)	572
Net decrease in cash		(10,687)	(2,465)
Cash, beginning of the period		15,920	10,220
Cash, end of the period		<u>5,233</u>	<u>7,755</u>
Cash held by discontinued operations		<u>—</u>	<u>5,149</u>
Cash held by continuing operations		<u>\$ 5,233</u>	<u>\$ 2,606</u>

Please see notes to the condensed consolidated interim financial statements.

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1. NATURE OF BUSINESS AND BASIS OF PREPARATION

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

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

As partial consideration for the acquisition of Pawnee in May 2006, 1,274,601 Class B shares and 203,936 Class C shares of U.S. Acquisitionco were issued (“Exchangeable Securities”). The Exchangeable Securities are non-voting shares of U.S. Acquisitionco and are fully exchangeable for Common Shares of the Company, on a one-for-one basis, for no additional consideration, through a series of steps and entitle the holders to receive the same dividends as the Common Shares. Attached to the Exchangeable Securities are Special Voting Units of the Company which provide the holders of the Exchangeable Securities voting equivalency to Company Shareholders. The Exchangeable Securities are reflected as non-controlling interest. Under International Financial Reporting Standards (“IFRS”) 10, *Consolidated Financial Statements*, the Exchangeable Securities must be shown as non-controlling interest because they are equity in a subsidiary not attributable, directly or indirectly, to the parent even though they have no voting powers in the subsidiary. There are no restrictions to the Company’s ability to access or use assets and settle liabilities of U.S. Acquisitionco as a result of the non-controlling interest. The non-controlling interest share of the Company’s consolidated net assets and net income is presented on the consolidated financial statements.

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

- Pawnee - micro and small-ticket equipment financing to small businesses in the United States.
- Windset - providing working capital loans to small businesses in 33 states of the United States.
- Blue Chip - commercial equipment financing to small and medium businesses in Canada.
- Case Funding - holds a portfolio of legal finance receivables in the United States.

The condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board (“IASB”). The term IFRS also includes all International Accounting Standards (“IAS”) and all interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

The condensed consolidated interim 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., Blue Chip, and Lease-Win Limited is the Canadian dollar. The functional currency of U.S. Acquisitionco, Pawnee, Windset and Case Funding is the United States dollar.

The Company’s condensed consolidated financial interim statements were authorized for issue on May 12, 2016 by the Board of Directors.

2. CONSOLIDATION

The condensed consolidated interim 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 in connection with business combinations are expensed as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, on a basis consistent with the accounting policies disclosed in the audited consolidated financial statements for the year ended December 31, 2015.

The condensed consolidated 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 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, 2015 included in the Company's most recently issued Annual Report, and have been consistently applied in the preparation of these interim financial statements.

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Management is currently assessing the impact that adoption of the following new accounting pronouncements will have on the Company's financial statements.

IFRS 9 Financial Instruments

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

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

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

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

IFRS 15 Revenue from Contracts with Customers

The standard establishes principles for recognizing revenues based on a five-step model which is to be applied to all contracts with customers. Revenue arising from lease contracts accounted for under IAS 17 is outside of the scope of the new standard. The Company plans to adopt the new standard for the year ending December 31, 2018.

IFRS 16 Leases

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

5. DISCONTINUED OPERATIONS

In the fourth quarter of 2015, the Company made a strategic decision to focus on the growth and development of the Company's specialty finance companies, in particular, commercial equipment finance. This led to the decisions to sell Sherway in November 2015, the sale of EcoHome Financial Inc. ("EcoHome") in February 2016 and the potential sale of the remainder of Case Funding including the remaining legal finance receivables in 2016. It was determined that these disposals meet the criteria of discontinued operations at December 31, 2015. The comparative figures on the condensed consolidated interim statements of income and cash flows have been reclassified as if the operations had been discontinued from the start of the comparative year.

a) Net assets held for sale

As a result, the assets and liabilities that are classified as held-for-sale are as follows:

Held-for-sale	March 31, 2016
<i>(\$ thousands)</i>	
Assets held for sale - Finance receivables - Case Funding	<u>\$ 7,594</u>
Liabilities held for sale - Accounts payable and other liabilities - Case Funding	<u>\$ 1,276</u>

(b) Results from discontinued operations

<i>(\$ thousands, except per share amounts)</i>	For the three months ended March 31, 2016		
	Case Funding	EcoHome	Total
	<i>(d)</i>	<i>(e)</i>	
Interest revenue on leases and loans	\$ 419	\$ 949	\$ 1,368
Ancillary finance and other fee income	—	85	85
Interest expense	—	(481)	(481)
Provision for credit losses	(93)	(8)	(101)
Finance margin	326	545	871
Personnel expenses	—	181	181
Share-based compensation expense	—	148	148
Other expenses	36	151	187
Income before undernoted items	290	65	355
Gain on sale, net of costs and taxes	—	8,920	8,920
Income before taxes	290	8,985	9,275
Tax expense	—	(44)	(44)
Income from discontinued operations	\$ 290	\$ 8,941	\$ 9,231
Basic earnings per share from discontinued operations			\$ 0.52
Diluted earnings per share from discontinued operations			\$ 0.51
<u>Cash flow from discontinued operations</u>			
Net cash from (used in) operating activities	\$ 724	\$ (3,392)	\$ (2,668)
Net cash used in financing activities	\$ —	\$ (1,703)	\$ (1,703)

	For the three months ended March 31, 2015			
(\$ thousands, except per share amounts)	Sherway (c)	Case Funding (d)	EcoHome (e)	Total
Interest revenue on leases and loans	\$ —	\$ 803	\$ 213	\$ 1,016
Ancillary finance and other fee income	—	11	17	28
Interest expense	—	—	(86)	(86)
Provision for credit losses	—	(164)	—	(164)
Finance margin	—	650	144	794
Revenue - automotive operations	11,385	—	—	11,385
Cost of sales – automotive operations	(9,939)	—	—	(9,939)
Gross margin before expenses	1,446	650	144	2,240
Personnel expenses	676	174	40	890
Share-based compensation expense	7	76	3	86
Other expenses	373	146	25	544
Amortization - property and equipment	64	3	—	67
Income before undernoted items	326	251	76	653
Gain on sale, net of costs and taxes	—	840	—	840
Amortization - intangible assets	—	—	(28)	(28)
Income before taxes	326	1,091	48	1,465
Tax expense	—	(493)	(11)	(504)
Income from discontinued operations	\$ 326	\$ 598	\$ 37	\$ 961
Basic earnings per share from discontinued operations				\$ 0.08
Diluted earnings per share from discontinued operations				\$ 0.07

Cash flow from discontinued operations

Net cash from operating activities	\$ 2,439	\$ (430)	\$ 997	\$ 3,006
Net cash used in investing activities	\$ (6)	\$ —	\$ —	\$ (6)
Net cash used in financing activities	\$ (617)	\$ —	\$ (4,383)	\$ (5,000)
Property and equipment expenditures	\$ 6	\$ —	\$ —	\$ 6

c) Acura Sherway

On November 15, 2015, the Company sold the assets and operations of Sherway, for an aggregate purchase price of approximately \$20.4 million resulting in a net gain of approximately \$4.6 million.

Subsequent to March 31, 2016, 37,000 options were exercised as part of the disposal of Sherway.

d) Case Funding

On February 3, 2015, Case Funding sold certain assets and operations to a private equity firm (the "Purchaser") for proceeds of \$6.2 million. The gain on sale, net of costs, totaled \$840,000. The gain on sale resulted in the utilization of unrecognized tax losses of Case Funding.

Attorney loans totaling \$1.3 million are reported in finance receivables until collected and the corresponding funds received from the Purchaser will show as a payable, because not all of the risk and rewards were deemed to have been transferred.

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

In December 2015, the Company made a strategic decision to dispose of the retained legal finance receivables in the following 12 months. A search is underway for a buyer.

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

	March 31, 2016	December 31, 2015
	<i>(\$ thousands)</i>	
Attorney loans and medical liens	\$ 1,059	\$ 3,559
Plaintiff advances	6,520	7,031
Legal finance receivables	7,579	10,590
Current portion (i)	4,017	6,455
Legal finance receivables – long-term portion	\$ 3,562	\$ 4,135

At Case Funding, management reviews each attorney loan receivable on an individual basis for collectability and for reserve requirements, if any. At March 31, 2016, it was determined an allowance of \$526,000 (December 31, 2015 - \$486,000) was required.

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.

e) EcoHome Financial Inc.

On March 17, 2015 (the "Acquisition Date"), the Company acquired (the "Acquisition") all of the issued and outstanding shares and certain shareholder loans of Blue Chip and EcoHome ("Acquired Companies").

On February 18, 2016, the Company sold EcoHome for approximately \$35.0 million, of which \$29.0 million was paid in cash. Chesswood also received 6,039,689 common shares of Dealnet Capital Corp. ("Dealnet") with a value of \$3.5 million and a \$2.5 million convertible note which will mature in two years, bears interest at 6% per annum and is convertible (at the Company's option), in whole or in part at any time, into common shares of Dealnet at a conversion price of \$0.64 per share. \$2.75 million of the proceeds were held back as escrow and will be released on August 18, 2017.

No impairment loss was recognized on reclassification as held-for-sale at December 31, 2015 because the fair value less costs to sell exceeded the carrying amount. The net gain, after \$1.3 million in costs and \$1.2 million in taxes, is approximately \$8.9 million.

6. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets comprise:

	March 31, 2016	December 31, 2015
	(\$ thousands)	
Property tax receivable	\$ 645	\$ 741
Tax receivable	3,256	8,358
Sales tax receivable	208	648
Other prepaid expenses and current assets	826	514
Loan receivable - EcoHome	<i>a</i> 8,000	—
Common shares - Dealnet	<i>b</i> 2,990	—
Escrow funds - Dealnet	<i>c</i> 2,580	—
Convertible note - Dealnet	<i>d</i> 2,517	—
Prepaid expenses and other assets	21,022	10,261
Current portion	13,704	10,261
Long-term portion	\$ 7,318	\$ —

(a) Loan receivable - The loan receivable had a maturity date of April 28, 2016, bore interest at 4.0% per annum and represented the inter-company warehouse funding to EcoHome of leases and loans that had not yet been securitized with EcoHome funders prior to the sale of EcoHome. Subsequent to March 31, 2016, the secured note evidencing the loan is expected to be restated to extend the maturity date to September 30, 2017, with interest at 5.5% per annum for the first 12 months. It is further expected that, part of the extension, the note will provide for monthly cash flow sweeps from a designated portfolio of leases and loans as well as specific quarterly payment provisions. The value represents the net present value of the expected cash flows from the loan receivable. The current portion of the loan receivable is estimated at \$5.8 million.

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

(c) Escrow funds - \$2.75 million of the proceeds were held back as escrow and will be released on August 18, 2017. The value represents the net present value of the escrowed funds.

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

7. FINANCE RECEIVABLES

Finance receivables comprise:

	March 31, 2016	December 31, 2015
	(\$ thousands)	
Net investment in leases	\$ 269,140	\$ 273,667
Loan receivables	85,759	91,892
	\$ 354,899	\$ 365,559

The Company finances its finance lease and loan receivables by pledging such receivables as security for amounts borrowed from lenders under bulk lease facilities and the general corporate credit facility. The Company retains ownership and servicing

responsibilities of the pledged lease and loan receivables; however, the lenders have the right to enforce their security interest in the pledged lease and loan receivables if the Company defaults under these facilities.

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

	March 31, 2016	December 31, 2015
	<i>(\$ thousands)</i>	
Total minimum payments	\$ 439,296	\$ 454,531
Residual values of leased equipment	19,763	21,249
	459,059	475,780
Unearned income, net of initial direct costs of acquisition	(96,633)	(101,198)
Net investment in finance receivables before allowance for doubtful accounts	362,426	374,582
Allowance for doubtful accounts <i>(b)</i>	(9,123)	(10,647)
	353,303	363,935
Reserve receivable on securitized financial contracts	1,596	1,624
Net investment in finance receivables	354,899	365,559
Current portion	164,765	170,429
Net investment in finance receivables - long-term portion	\$ 190,134	\$ 195,130

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

	For the three months ended	
	March 31,	
	2016	2015
	<i>(\$ thousands)</i>	
Balance, beginning of period	\$ 10,647	\$ 6,558
Provision for credit losses	6,268	3,652
Impact of change in foreign exchange rates	(561)	588
Allowance of acquired companies	—	942
Charge-offs	(8,705)	(4,756)
Recoveries	1,474	1,028
Balance, end of period	\$ 9,123	\$ 8,012

(c) Finance Receivables Past Due

Pawnee, Windset and Blue Chip finance receivables are each composed of a large number of homogenous receivables with relatively small individual balances. The evaluation of the allowance for doubtful accounts is performed collectively for each portfolio.

The following aging represents the total carrying amount of the lease and loan receivables and not just the payments that are past due. The balances presented exclude the \$13.0 million (December 31, 2015 - \$13.9 million) of security deposits received from lessees/borrowers and the collateral held (including potential proceeds from repossessed equipment, and potential recoveries from personal guarantees) that would offset any charge-offs. An estimate of the fair value for the collateral and personal guarantees cannot reasonably be determined.

	As of March 31, 2016					
(\$ thousands)	Current	1-30 days	31 - 60 days	61 - 90 days	Over 90 days	Total
Equipment lease receivables	\$ 264,150	\$ 4,796	\$ 2,059	\$ 1,370	\$ 1,366	\$ 273,741
Loan receivables	84,811	2,397	863	366	248	88,685
	\$ 348,961	\$ 7,193	\$ 2,922	\$ 1,736	\$ 1,614	\$ 362,426
Impaired	448	1,840	1,996	1,485	1,538	7,307
Past due but not impaired	\$ —	\$ 5,353	\$ 926	\$ 251	\$ 76	\$ 6,606

	As of December 31, 2015					
(\$ thousands)	Current	1-30 days	31 - 60 days	61 - 90 days	Over 90 days	Total
Equipment lease receivables	\$ 267,891	\$ 5,921	\$ 2,136	\$ 1,087	\$ 2,404	\$ 279,439
Loan receivables	90,794	2,712	1,165	133	339	95,143
	\$ 358,685	\$ 8,633	\$ 3,301	\$ 1,220	\$ 2,743	\$ 374,582
Impaired	229	2,050	2,472	1,052	2,608	8,411
Past due but not impaired	\$ —	\$ 6,583	\$ 829	\$ 168	\$ 135	\$ 7,715

8. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprise:

	March 31, 2016	December 31, 2015
	(\$ thousands)	
Dividends payable	\$ 1,154	\$ 1,153
Accounts payable	1,759	927
Sales tax payable	597	672
Customer deposits and prepayments	197	899
Unfunded finance receivables	1,920	2,634
Taxes payable	2,145	2,744
Payroll related payables and accruals	1,014	783
Accrued expenses and other liabilities	1,947	1,745
	\$ 10,733	\$ 11,557

9. BORROWINGS

Borrowings are comprised of:

	March 31, 2016	December 31, 2015
	(\$ thousands)	
Chesswood credit facility	(a) \$ 142,033	\$ 164,250
Deferred financing costs	(1,169)	(1,524)
	140,864	162,726
Securitization and bulk lease financing facilities	(b) 90,708	92,447
	\$ 231,572	\$ 255,173

(a) On December 8, 2014, Chesswood entered into a three-year revolving senior secured credit facility. Chesswood's credit facility allows borrowings of up to U.S.\$150.0 million subject to, among other things, certain percentages of eligible gross finance receivables. The facility can be extended, subject to certain conditions, to U.S.\$200.0 million. This credit facility is secured by substantially all of Chesswood's assets, contains negative covenants including maintaining leverage and interest coverage ratios, and matures on December 8, 2017. At March 31, 2016 and December 31, 2015, and throughout the periods presented, Chesswood was in compliance with all covenants. Based on average debt levels, the effective interest rate paid during three months ended March 31, 2016 was 4.04% (year ended December 31, 2015 - 3.79%).

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

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

- \$20.0 million annual limit from one life insurance company;
- \$40.0 million rolling limit from one financial institution; and
- Approved funding from one financial institution with no annual or rolling limit.

Interest rates are fixed at the time of each advance and are based on Government of Canada Bond yields with maturities comparable to the term of the underlying leases plus a premium. Based on average debt levels, the effective interest rate paid during the three months ended March 31, 2016 was 3.16% (for the period ended December 31, 2015 - 3.86%). As at March 31, 2016, Blue Chip has provided \$5.6 million in outstanding letters of guarantee through Chesswood credit facility. Blue Chip must meet certain financial covenants to support these securitization and bulk lease financing facilities. As at March 31, 2016, and throughout the periods presented, Blue Chip was in compliance with all covenants.

10. MINIMUM PAYMENTS

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

(\$ thousands)		2016	2017	2018	2019	2020	2021 +	Total
Accounts payable and other liabilities		\$ 10,733	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 10,733
Contingent consideration		—	—	1,508	—	—	—	1,508
Borrowings	(i)	28,730	171,618	16,998	10,881	3,324	21	231,572
Customer security deposits	(ii)	3,205	3,836	3,553	2,083	1,169	171	14,017
Convertible debentures		—	—	20,000	—	—	—	20,000
Interest rate swaps		—	—	—	—	1,269	1,006	2,275
		42,668	175,454	42,059	12,964	5,762	1,198	280,105
Other financial commitments	(iii)	623	611	218	222	225	427	2,326
Total commitments		\$ 43,291	\$ 176,065	\$ 42,277	\$ 13,186	\$ 5,987	\$ 1,625	\$ 282,431

- i. Borrowings are described in Note 9, and include Chesswood's credit facility, which is a line-of-credit and, as such, the balance can fluctuate.
- 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 2017 and 2023, which represent the bulk of other financial commitments.*

For contingent liabilities and other commitments, refer to Note 24 - *Contingent Liabilities and Other Financial Commitments* of the 2015 annual consolidated financial statements. Refer to Note 5 - *Business Acquisitions* of the 2015 annual consolidated financial statements for description of contingent consideration.

11. DIVIDENDS

Under the Chesswood credit facility (see Note 9 - *Borrowings*), the maximum cash dividends (or cost of any repurchases under normal course issuer bids) that the Company can pay in respect of a month is 1/12 of 90% (prior to January 25, 2016 - 1/12 of 80%) of free cash flow for the most recently completed four financial quarters in which Chesswood has publicly filed its condensed consolidated interim financial statements (including its annual financial statements in respect of a fourth quarter), including the free cash flow of acquired companies for the corresponding period for periods prior to acquisition dates (See Note 5 - *Business Acquisitions* in the 2015 Annual Report for further details).

In conjunction with the sale of EcoHome, the Company declared a special dividend of \$0.50 per share on February 18, 2016 for shareholders of record on February 29, 2016 and was paid on March 15, 2016, totaling \$8.9 million.

The maximum permitted cash dividend allowed under Chesswood's credit facility has been increased up to \$3.4 million until November 2017 in relation to the gain realized on the sale of Sherway.

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

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

The following dividends were paid to Common Shareholders and Exchangeable Securities holders (included as non-controlling interest) during three months ended March 31, 2015:

Record date	Payment date	Cash dividend per share (\$)	Total dividend amount
			(\$ thousands)
December 31, 2014	January 15, 2015	\$ 0.065	\$ 773
January 30, 2015	February 17, 2015	\$ 0.065	773
February 27, 2015	March 16, 2015	\$ 0.065	774
			<u>\$ 2,320</u>

12. EARNINGS PER SHARE

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

	For the three months ended March 31,	
	2016	2015
Weighted average number of common shares outstanding	16,268,480	11,628,898
Dilutive effect of options	270,043	246,655
Dilutive effect of restricted share units	66,000	60,000
Weighted average common shares outstanding for diluted earnings per share	16,604,523	11,935,553
Options and convertible debentures excluded from calculation of diluted shares for the period due to their anti-dilutive effect	1,866,176	1,226,176

13. CASH FLOW SUPPLEMENTARY DISCLOSURE

	For the three months ended March 31,	
	2016	2015
	<i>(\$ thousands)</i>	
Other non-cash items included in net income		
Share-based compensation expense	\$ 361	\$ 295
Amortization of deferred financing costs	177	160
Financing costs - convertible debentures	100	152
Unrealized loss on investments	510	—
Escrow receivable fair value accretion	(10)	—
Contingent consideration accretion	292	23
Unrealized loss on interest rate swaps	1,523	—
Unrealized gain on foreign exchange	(278)	(103)
	\$ 2,675	\$ 527
Change in other net operating assets		
Prepaid expenses and other assets	145	2,936
Accounts payable and other liabilities	109	(2,771)
Customer security deposits	(36)	(289)
	\$ 218	\$ (124)

	For the three months ended March 31,	
	2016	2015
	(\$ thousands)	
Borrowings – continuing operations		
Chesswood credit facilities - proceeds	\$ 22,873	\$ 17,627
Chesswood credit facilities - payments	(35,332)	(8,612)
Proceeds from securitization and bulk lease financing facilities	9,911	1,351
Payments under securitization & bulk lease financing facilities	(11,650)	—
	\$ (14,198)	\$ 10,366
Non-cash transactions		
Common shares issued for business acquisition	\$ —	\$ 16,583

14. FINANCIAL INSTRUMENTS

(a) Categories and measurement hierarchy

There were no transfers between levels during the current period or prior year.

(b) Gains and losses on financial instruments

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

	For the three months ended March 31,	
	2016	2015
	(\$ thousands)	
Loans and receivables:		
Provision for credit losses - continuing operations	\$ (6,268)	\$ (3,652)
Designated as at fair value through net income or loss:		
Convertible debentures	(100)	(152)
Investment	(510)	—
Fair value through net income or loss:		
Interest rate swaps	(1,523)	—
Net loss	\$ (8,401)	\$ (3,804)

(c) 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.

15. CAPITAL MANAGEMENT

The Company's capital consists of shareholders' equity, which at March 31, 2016 comprised \$150.1 million (2015 - \$156.6 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.

On December 8, 2014, Chesswood entered into a three year revolving senior secured U.S.\$150 million credit facility. This credit facility supports growth in finance receivables, provides for Chesswood's working capital needs and for general corporate purposes. The facility, available in U.S. or Canadian dollars, also improves our financial flexibility by centralizing treasury management and making the provision of capital to individual businesses more efficient.

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

16. RELATED PARTY TRANSACTIONS

The Company has no parent or other ultimate controlling party.

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,	
	2016	2015
	(\$ thousands)	
Salaries, fees and other short-term employee benefits	\$ 348	\$ 251
Share-based compensation	278	244
Compensation expense of key management	\$ 626	\$ 495

17. SEASONAL OPERATIONS

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.

18. SEGMENT INFORMATION

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

Chesswood's U.S. Equipment Financing business is located in the United States and is involved in small-ticket equipment leasing and lending to small businesses primarily in the start-up and "B" credit markets. At March 31, 2016, Windset's information is aggregated with Chesswood's U.S. Equipment Financing segment as both Pawnee and Windset offer lending solutions to small businesses in the United States and Windset continues to leverage off Pawnee's experience, processes, broker channel and "back-office" support for collections and documentation. The Canadian Equipment Financing segment provides commercial equipment financing to small businesses in Canada and includes Blue Chip.

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

The role of the “chief operating decision maker” with respect to resource allocation and performance assessment is embodied in the position of Chief Executive Officer. The performance of the segments is measured on the basis of net income or loss before tax. Net assets, which are defined as total segment assets less total segment liabilities, are used as the basis of assessing the allocation of resources. When compared with the last annual financial statements, there are no differences in the basis of segmentation or in the basis of measuring segment results. Selected information by segment and geographically is as follows:

(\$ thousands)	Three months ended March 31, 2016			
	Equipment Financing - U.S.	Equipment Financing - Canada	Corporate Overhead - Canada	Total
Interest revenue on leases and loans	\$ 17,121	\$ 2,520	\$ —	\$ 19,641
Ancillary finance and other fee income	2,201	1,050	—	3,251
Interest expense	(1,444)	(891)	—	(2,335)
Provision for credit losses	(5,940)	(328)	—	(6,268)
Finance margin	11,938	2,351	—	14,289
Personnel expenses	2,019	715	371	3,105
Share-based compensation expense	61	21	279	361
Other expenses	1,937	360	365	2,662
Amortization - property and equipment	61	5	—	66
Income before undernoted items	7,860	1,250	(1,015)	8,095
Amortization - intangible assets, contingent consideration accretion (non-cash)	—	(327)	(297)	(624)
Fair value adjustments - convertible debentures and investments	—	—	(610)	(610)
Unrealized loss on interest rate swaps	—	—	(1,523)	(1,523)
Unrealized gain on foreign exchange	—	—	278	278
Income before taxes	7,860	923	(3,167)	5,616
Tax expense	2,536	212	(98)	2,650
Income from continuing operations	5,324	711	(3,069)	2,966
Income from discontinued operations (Note 5)	—	—	9,231	9,231
Net income	\$ 5,324	\$ 711	\$ 6,162	\$ 12,197
Net cash from operating activities	\$ 3,989	\$ (653)	\$ (1,755)	\$ 1,581
Net cash from investing activities	\$ (55)	\$ —	\$ 18,964	\$ 18,909
Net cash used in financing activities	\$ —	\$ (1,739)	\$ (24,781)	\$ (26,520)
Total assets	\$ 267,479	\$ 156,932	\$ 29,142	\$ 453,553
Total liabilities	\$ 33,370	\$ 100,315	\$ 169,761	\$ 303,446
Finance receivables	\$ 240,031	\$ 114,868	\$ —	\$ 354,899
Goodwill and intangible assets	\$ 20,955	\$ 41,909	\$ —	\$ 62,864
Property and equipment expenditures	\$ 55	\$ —	\$ —	\$ 55

	Three months ended March 31, 2015				
	Equipment Financing - U.S.	Equipment Financing - Canada	Discontinued Operations	Corporate overhead - Canada	Total
<i>(\$ thousands)</i>					
Interest revenue on leases and loans	\$ 13,001	\$ 666		\$ —	\$ 13,667
Ancillary finance and other fee income	1,557	188		—	1,745
Interest expense	(1,137)	(171)		—	(1,308)
Provision for credit losses	(3,600)	(52)		—	(3,652)
Finance margin	9,821	631		—	10,452
Personnel expenses	1,544	280		306	2,130
Share-based compensation expense	51	—		245	296
Other expenses	1,478	130		327	1,935
Amortization - property and equipment	46	17		1	64
Income before undernoted items	6,702	204		(879)	6,027
Acquisition related items	—	—		(827)	(827)
Amortization - intangible assets	—	(63)		—	(63)
Fair value adjustments - convertible debentures	—	—		(152)	(152)
Unrealized gain on foreign exchange	—	—		103	103
Income before taxes	6,702	141		(1,755)	5,088
Tax expense	2,428	9		114	2,551
Income from continuing operations	4,274	132		(1,869)	2,537
Income from discontinued operations (Note 5)	—	—	961	—	961
Net income	\$ 4,274	\$ 132	\$ 961	\$ (1,869)	\$ 3,498
Net cash used in operating activities	\$ (4,653)	\$ (469)	\$ 3,006	\$ (2,461)	\$ (4,577)
Net cash used in investing activities	\$ (20)	\$ —	\$ (6)	\$ (35,210)	\$ (35,236)
Net cash from financing activities	\$ —	\$ 1,352	\$ (5,000)	\$ 40,424	\$ 36,776
Total assets	\$ 224,731	\$ 137,007	\$ 111,484	\$ 3,957	\$ 477,179
Total liabilities	\$ 37,764	\$ 89,737	\$ 68,585	\$ 142,586	\$ 338,672
Finance receivables	\$ 200,431	\$ 96,610	\$ 66,514	\$ —	\$ 363,555
Goodwill and intangible assets	\$ 20,868	\$ 39,265	\$ 29,878	\$ —	\$ 90,011
Property and equipment expenditures	\$ 20	\$ —	\$ 6	\$ —	\$ 26

Chesswood Group Limited

Directors and Officers

Directors

Frederick W. Steiner

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

Clare Copeland

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

Jeffrey Wortsman

Director
President & C.E.O., Danier Leather Inc.

Barry Shafran

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

David Obront

Director
President, Carpool Two Ltd.

Robert Day

Director
Former Chairman, Pawnee Leasing Corporation

Samuel Leeper

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

Daniel Wittlin

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

Executive Team

Barry Shafran

President & C.E.O.

Lisa Stevenson

Chief Financial Officer

Other Information

Auditors

BDO Canada LLP

Transfer Agent

Equity Financial Trust Company

Corporate Counsel

McCarthy Tétrault LLP

Website

www.chesswoodgroup.com

Toronto Stock Exchange Symbols

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CHW.DB*



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Executive Office:

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