

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

As more fully detailed in the accompanying MD&A, the Certifying Officers have evaluated, or caused to be evaluated under their supervision, the design effectiveness of the Company's DC&P and ICFR as at December 31, 2016 and have concluded that the Company's DC&P and ICFR are not effective due to the existence of Material Weaknesses. Given the relatively small size of the Company's finance department personnel at head office, the evaluation concluded that (i) there were limited resources to adequately segregate duties and to permit or necessitate the comprehensive documentation of all policies and procedures that form the basis of an effective design of ICFR at head office; (ii) the Company (at its head office) had not maintained effective controls over certain key end-user computing applications, such as spreadsheets, and appropriate security controls to manage access to key information, systems and applications, and that improvement to exception reports were required; (iii) as a result of the lack of segregation of duties as referred to above, the anti-fraud controls are limited; and (iv) there was a lack of timely and comprehensive review of complex and non-recurring transactions by external advisors resulting in the restatement of the Company's consolidated financial statements for the first quarter of 2016.

In order to mitigate the risk of material misstatement in the Company's consolidated financial statements, the Company (i) has established additional review and monitoring controls at head office on a monthly basis; and (ii) performs additional analysis and other post-closing procedures. No material exceptions were noted based on the year-end procedures and no evidence of fraudulent activity was found. The Company has also established procedures for the timely utilization of external expertise in accounting for unusual and complex transaction.

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

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



Barry Shafran
President & CEO
March 2, 2017

Independent Auditor's Report

To the Shareholders of Chesswood Group Limited

We have audited the accompanying consolidated financial statements of Chesswood Group Limited, which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and December 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Chesswood Group Limited as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years ended December 31, 2016 and December 31, 2015 in accordance with International Financial Reporting Standards.



Chartered Professional Accountants, Licensed Public Accountants

March 2, 2017
Toronto, Ontario

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

	<i>Note</i>	December 31, 2016	December 31, 2015
ASSETS			
Cash		\$ 11,443	\$ 15,229
Assets held for sale	4	5,903	107,840
Prepaid expenses and other assets	7	14,468	10,261
Finance receivables	8	431,048	365,559
Deferred tax assets	17	962	1,141
Property and equipment	9	1,434	895
Intangible assets	10	21,873	23,335
Goodwill	11	40,806	41,250
TOTAL ASSETS		\$ 527,937	\$ 565,510
LIABILITIES			
Accounts payable and other liabilities	12	\$ 15,243	\$ 18,772
Liabilities held for sale	4	—	73,808
Convertible debentures	13	20,260	19,900
Borrowings	14	293,081	255,173
Customer security deposits	15	13,603	13,895
Interest rate swaps	16	850	892
Deferred tax liabilities	17	27,006	26,515
		370,043	408,955
SHAREHOLDERS' EQUITY			
Common shares	21	104,596	101,726
Non-controlling interest	22	13,049	13,194
Share-based compensation reserve	23	4,780	4,434
Accumulated other comprehensive income		18,196	20,987
Retained earnings		17,273	16,214
		157,894	156,555
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 527,937	\$ 565,510

Approved by the Board of Directors



Fred Steiner, Chairman



Clare R Copeland

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(in thousands of dollars, except per share amounts)

	<i>Note</i>	2016	2015
Finance revenue			
Interest revenue on finance leases and loans		\$ 77,465	\$ 66,649
Ancillary finance and other fee income		14,118	9,928
		91,583	76,577
Finance expenses			
Interest expense - borrowings		9,824	7,763
Provision for credit losses	8	25,819	18,929
		35,643	26,692
Finance margin		55,940	49,885
Expenses			
Personnel expenses		13,931	11,671
Other expenses		11,387	9,177
Amortization - property and equipment		312	253
		25,630	21,101
Income before undernoted items		30,310	28,784
Acquisition related items	3	678	(1,955)
Amortization - intangible assets	10	(1,337)	(1,180)
Unrealized gain on investments held	7	3	—
Financing costs - convertible debentures	13	(1,660)	(602)
Unrealized gain (loss) on interest rate swaps	16	15	(846)
Unrealized gain (loss) on foreign exchange		111	(57)
Income before taxes		28,120	24,144
Tax expense	17	(10,803)	(11,781)
Income from continuing operations		17,317	12,363
Income from discontinued operations	4	6,961	7,441
Net income		\$ 24,278	\$ 19,804
Attributable to:			
Common shareholders		\$ 22,265	\$ 18,038
Non-controlling interest		\$ 2,013	\$ 1,766
Basic earnings per share	25	\$ 1.36	\$ 1.19
Diluted earnings per share	25	\$ 1.33	\$ 1.16

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(in thousands of dollars)

	<u>2016</u>	<u>2015</u>
Net income	\$ 24,278	\$ 19,804
Other comprehensive income:		
Unrealized gain (loss) on translation of foreign operations	(3,042)	16,352
Comprehensive income	<u>\$ 21,236</u>	<u>\$ 36,156</u>
Attributable to:		
Common shareholders	\$ 19,474	\$ 32,932
Non-controlling interest	\$ 1,762	\$ 3,224

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(in thousands of dollars)

	<i>Note</i>	Common shares	Common shares	Non- controlling interest	Share-based compensation reserve	Accumulated other comprehensive income	Retained earnings	2016 Total
		(# '000s)						
Shareholders' equity - December 31, 2015		16,264	\$ 101,726	\$ 13,194	\$ 4,434	\$ 20,987	\$ 16,214	\$ 156,555
Shares issued	21	10	100	—	—	—	—	100
Net income		—	—	2,013	—	—	22,265	24,278
Dividends declared	24	—	—	(1,907)	—	—	(21,056)	(22,963)
Share-based compensation	23	—	—	—	1,372	—	—	1,372
Exercise of restricted share units	23	38	466	—	(466)	—	—	—
Exercise of options	23	236	2,520	—	(560)	—	—	1,960
Repurchase of common shares under issuer bid	21	(34)	(216)	—	—	—	(150)	(366)
Unrealized loss on translation of foreign operations		—	—	(251)	—	(2,791)	—	(3,042)
Shareholders' equity - December 31, 2016		16,514	\$ 104,596	\$ 13,049	\$ 4,780	\$ 18,196	\$ 17,273	\$ 157,894

	<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, 2014		10,420	\$ 49,039	\$ 11,124	\$ 3,504	\$ 6,092	\$ 10,085	\$ 79,844
Shares issued	21	5,734	51,559	—	—	—	—	51,559
Net income		—	—	1,766	—	—	18,038	19,804
Dividends declared	24	—	—	(1,153)	—	—	(11,909)	(13,062)
Share-based compensation	23	—	—	—	1,659	—	—	1,659
Exercise of restricted share units	23	38	535	—	(535)	—	—	—
Exercise of options	23	72	593	—	(194)	—	—	399
Unrealized gain on translation of foreign operations		—	—	1,457	—	14,895	—	16,352
Shareholders' equity - December 31, 2015		16,264	\$ 101,726	\$ 13,194	\$ 4,434	\$ 20,987	\$ 16,214	\$ 156,555

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(in thousands of dollars)

	<i>Note</i>	2016	2015
OPERATING ACTIVITIES			
Income from continuing operations		\$ 17,317	\$ 12,363
Costs associated with investing activities included in net income		—	1,013
		<u>17,317</u>	<u>13,376</u>
Non-cash items included in net income			
Amortization		1,649	1,433
Provision for credit losses		31,981	23,505
Amortization of origination costs		19,400	16,718
Tax expense		10,803	11,781
Other non-cash items	27	2,689	4,769
		<u>66,522</u>	<u>58,206</u>
Cash from operating activities before change in net operating assets		83,839	71,582
Funds advanced on origination of finance receivables		(294,253)	(239,191)
Origination costs paid on finance receivables		(28,601)	(25,539)
Principal collections of finance receivables		199,162	164,549
Change in other net operating assets	27	2,305	(1,416)
		<u>(37,548)</u>	<u>(30,015)</u>
Cash used in operating activities before undernoted		(37,548)	(30,015)
Interest paid on convertible debentures	13	(1,300)	(1,300)
Income taxes paid - net		(5,372)	(18,433)
		<u>(44,220)</u>	<u>(49,748)</u>
Cash used in operating activities - continuing operations		(44,220)	(49,748)
Cash used in operating activities - discontinued operations	4	(2,600)	(7,214)
Cash used in operating activities		<u>(46,820)</u>	<u>(56,962)</u>
INVESTING ACTIVITIES			
Acquisition, net of cash acquired	3	(6,000)	(41,349)
Proceeds from sale of discontinued operations, net of costs	4	30,964	18,133
Purchase of property and equipment	9	(844)	(254)
		<u>24,120</u>	<u>(23,470)</u>
Cash from (used in) investing activities - continuing operations		24,120	(23,470)
Cash used in investing activities - discontinued operations	4	—	(73)
Cash from (used in) investing activities		<u>24,120</u>	<u>(23,543)</u>
FINANCING ACTIVITIES			
Borrowings, net	27	42,910	50,271
Payment of financing costs		(1,411)	(818)
Proceeds from issue of shares, net of costs	21	—	33,807
Proceeds from exercise of options	23	1,960	399
Repurchase of common shares under issuer bid	21	(366)	—
Cash dividends paid	24	(22,857)	(12,682)
		<u>20,236</u>	<u>70,977</u>
Cash from financing activities - continuing operations		20,236	70,977
Cash from (used in) financing activities - discontinued operations	4	(1,703)	13,762
Cash from financing activities		<u>18,533</u>	<u>84,739</u>
Unrealized foreign exchange gain (loss) on cash		(310)	1,466
		<u>(4,477)</u>	<u>5,700</u>
Net increase (decrease) in cash		(4,477)	5,700
Cash, beginning of the year		15,920	10,220
Cash, end of the year		<u>11,443</u>	<u>15,920</u>
Cash held by discontinued operations	4	—	691
Cash held by continuing operations		<u>\$ 11,443</u>	<u>\$ 15,229</u>

Please see notes to the consolidated financial statements.

TABLE OF NOTES

1	<u>NATURE OF BUSINESS AND BASIS OF PREPARATION</u>	<u>9</u>
2	<u>ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE</u>	<u>11</u>
3	<u>BUSINESS ACQUISITIONS</u>	<u>11</u>
4	<u>DISCONTINUED OPERATIONS</u>	<u>13</u>
5	<u>FINANCIAL INSTRUMENTS</u>	<u>19</u>
6	<u>FINANCIAL RISK MANAGEMENT</u>	<u>23</u>
7	<u>PREPAID EXPENSES AND OTHER ASSETS</u>	<u>25</u>
8	<u>FINANCE RECEIVABLES</u>	<u>26</u>
9	<u>PROPERTY AND EQUIPMENT</u>	<u>29</u>
10	<u>INTANGIBLE ASSETS</u>	<u>31</u>
11	<u>GOODWILL</u>	<u>32</u>
12	<u>ACCOUNTS PAYABLE AND OTHER LIABILITIES</u>	<u>34</u>
13	<u>CONVERTIBLE DEBENTURES</u>	<u>35</u>
14	<u>BORROWINGS</u>	<u>35</u>
15	<u>CUSTOMER SECURITY DEPOSITS</u>	<u>36</u>
16	<u>INTEREST RATE SWAPS</u>	<u>36</u>
17	<u>TAXES</u>	<u>37</u>
18	<u>MINIMUM PAYMENTS</u>	<u>40</u>
19	<u>CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS</u>	<u>40</u>
20	<u>CAPITAL MANAGEMENT</u>	<u>40</u>
21	<u>COMMON SHARES</u>	<u>41</u>
22	<u>EXCHANGEABLE SECURITIES</u>	<u>42</u>
23	<u>COMPENSATION PLANS</u>	<u>42</u>
24	<u>DIVIDENDS</u>	<u>45</u>
25	<u>EARNINGS PER SHARE</u>	<u>47</u>
26	<u>RELATED PARTY TRANSACTIONS</u>	<u>48</u>
27	<u>CASH FLOW SUPPLEMENTARY DISCLOSURE</u>	<u>49</u>
28	<u>SEGMENT INFORMATION</u>	<u>50</u>

1. NATURE OF BUSINESS AND BASIS OF PREPARATION

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

The Company holds a 100% interest in Chesswood Holdings Ltd. and substantially all of the limited partnership units of Sherway LP (“Sherway”). Chesswood Holdings Ltd. owns 100% of the shares of the operating companies: Blue Chip Leasing Corporation (“Blue Chip”), Lease-Win Limited, Case Funding Inc. (“Case Funding”), as well as 100% of the shares of Chesswood U.S. Acquisition Co Ltd. (“U.S. Acquisitionco”), a corporation which owns 100% of the shares of the operating company Pawnee Leasing Corporation (“Pawnee”), incorporated in Colorado, United States, and Windset Capital Corporation (“Windset”), incorporated in Delaware, United States. At December 31, 2016, Chesswood Holding LP (“Holdings LP”) was dissolved and the Company now holds Chesswood Holdings Ltd. directly.

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

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

Discontinued operations results include:

- EcoHome Financial Inc. (“EcoHome”) - consumer financing solutions to the heating ventilating and air conditioning (“HVAC”) and home improvement markets which was sold in February 2016.
- Sherway - selling, servicing and leasing Acura automobiles in the Province of Ontario which was sold in November 2015.
- Case Funding - holds a portfolio of legal finance receivables in the United States.

The consolidated financial statements, including comparatives:

- have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). The term IFRS also includes all International Accounting Standards (“IAS”) and all interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).
- have been prepared on the going concern and historical cost bases, except for derivative financial instruments and hybrid financial liabilities designated as at fair value through net income or loss, which have been measured at fair value.
- include the financial statements of the Company and its subsidiaries as noted above. Subsidiaries are consolidated using the purchase method from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated as long as control is held. The financial statements of all subsidiaries are prepared for the same reporting period as the Company, using uniform accounting policies in accordance with IFRS 10, *Consolidated Financial Statements*. All intra-group balances and items of income and expense resulting from intra-group transactions are eliminated in full. Transaction costs in connection with business combinations are expensed as incurred.
- have been presented in Canadian dollars and are presented in thousands of Canadian dollars except per share amounts and as otherwise noted.

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

The Company’s consolidated financial statements were authorized for issue on March 2, 2017 by the Board of Directors.

The notes to the consolidated financial statements include information which is required to understand the consolidated financial statements and is material and relevant to the operations, consolidated financial position and performance of the Company. Significant and other accounting policies that summarize the measurement basis used and are relevant to an understanding of the consolidated financial statements are provided throughout the notes to the consolidated financial statements.

Foreign currency transactions

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

The functional currency of the Company, Holding LP, Chesswood Holdings Ltd., Blue Chip, EcoHome, Sherway, and Lease-Win Limited is the Canadian dollar. The functional currency of U.S. Acquisitionco, Pawnee, Windset and Case Funding is the United States dollar.

Income and expenses of subsidiaries with a different functional currency than the Company's presentation currency are translated in the Company's consolidated financial statements at the average U.S. dollar exchange rate for the reporting period [for the year ended December 31, 2016 - 1.3248; 2015 - 1.2787], and assets and liabilities are translated at the closing rate [as at December 31, 2016 - 1.3427; 2015 - 1.384]. Exchange differences arising from the translation are recognized in other comprehensive income. Foreign currency payables and receivables in the statement of financial position are recorded at the transaction date at cost. Exchange gains and losses arising from conversion of monetary assets and liabilities at exchange rates at the end of the reporting period are recognized as income or expense.

Statement of cash flows

The statement of cash flows, which is compiled using the indirect method, shows cash flows from operating, investing and financing activities, and the Company's cash at the beginning and end of the year. Cash flows in foreign currencies have been translated at the average rate for the period. Exchange rate differences affecting cash items are presented separately in the statement of cash flows.

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

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

Exercise of judgment and use of accounting estimates and assumptions

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

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

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

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are presented in the following Notes: *Legal finance receivables - Note 4(d) and Net investment in leases - Note 8, and Taxes - Note 17.*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are presented in the following Notes: *Contingent Consideration - Note 3, Impairment of financial asset receivables - Note 8, Impairment of Intangibles and Goodwill - Note 10 and Note 11, and Taxes - Note 17.*

2. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 9 Financial Instruments

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

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

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

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

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

IFRS 15 Revenue from Contracts with Customers

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

IFRS 16 Leases

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

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

3. BUSINESS ACQUISITION

Blue Chip Leasing Corporation and EcoHome Financial Inc.

On March 17, 2015 (the "Acquisition Date"), the Company acquired (the "Acquisition") all of the issued and outstanding shares in, and certain shareholder loans, of Blue Chip and EcoHome (the "Acquired Companies"). Each of the Acquired Companies is incorporated in Ontario. Blue Chip is a tenured, prime, small and mid-ticket equipment finance company serving brokers and vendors from coast-to-coast in Canada. EcoHome provides financing solutions to the HVAC and home improvement markets. The Acquisition enabled the Company to expand the geographical coverage of its North American small ticket platform.

The purchase price to acquire Blue Chip and EcoHome (and shareholder loans) was \$61.1 million, with the possibility of additional consideration totaling \$26.0 million if performance targets are exceeded for the three years following the Acquisition ("Contingent Consideration"). The purchase price for the Acquisition was satisfied through a combination of \$44.6 million of cash and the issuance of 1,806,384 Company common shares to the vendor. The vendor's shares are subject to an escrow agreement that provides for, amongst other things, a staged release of these shares from escrow over a three year period. For valuation purposes, the discount on these restricted shares was calculated based on the theoretical price of a put option on the shares with an expiry date equal to the trading restriction period. A value of approximately \$9.14 per common share was calculated.

The Acquisition was recorded using the acquisition method of accounting. Under this method, the identifiable assets acquired and the liabilities assumed were measured and recognized at their Acquisition Date fair values. Any excess of the Acquisition Date fair value of the consideration over the net of the Acquisition Date fair values of the identifiable assets acquired and the liabilities assumed was recognized as goodwill (Note 11 - *Goodwill*). Acquisition costs associated with a business combination are expensed in the period incurred. The results of operations have been consolidated from the Acquisition Date.

In conjunction with the Acquisition, 175,000 equity options were issued to certain senior management of the Acquired Companies, as described in Note 23 - *Compensation Plans*.

Included in the consolidated statement of income are revenue of \$10.1 million and net income of \$2.1 million related to the Acquired Companies for the period March 18, 2015 to December 31, 2015 (excluding EcoHome results which were reclassified to discontinued operations). Transaction costs of \$897,000 and accretion of the Contingent Consideration of \$1.1 million were expensed during the period and are included in Acquisition related items. An additional \$30,000 of transaction costs were expensed during the year ended December 31, 2014.

Goodwill recorded in connection with the Acquisition is primarily attributable to the economic value associated with the workforce of the acquired business, the expected profitability of the acquired business, the expected synergies and other intangible assets that do not qualify for separate recognition. None of the goodwill is expected to be deductible for tax purposes.

Contingent Consideration - Additional Purchase Price

As a result of the sale of EcoHome (see Note 4 - *Discontinued operations*) in February 2016, the \$6.0 million contingent consideration associated with the Acquired Companies' normalized net income before taxes ("NIBT") for 2015 and 2016 became payable within 10 days of the sale of EcoHome. It was determined that the reclassification of EcoHome to discontinued operations and the fact that the 2016 amount was quantifiable crystallized the recognition of the 2016 Contingent Consideration at December 31, 2015.

As a result of the sale of EcoHome, the vendor and Chesswood modified the amount of NIBT and the maximum amount of Contingent Consideration to be paid with respect to the twelve months ending December 31, 2017. The Company is required to pay to the vendor an amount equal to the aggregate amount determined in accordance with the following formula, up to a maximum of \$12.0 million (the previous maximum was \$20.0 million): (NIBT for the twelve months ending December 31, 2017 less \$6.8 million) x 10 x 0.25.

Chesswood may satisfy up to 50% of any Contingent Consideration payable with respect to the twelve months ending December 31, 2017 through the issuance of Company common shares, at a deemed issue price per share equal to the ten day volume weighted average trading price of the Company common shares preceding the issue date, if certain conditions are met.

Significant estimates

At the Acquisition Date, management estimated the amount that is potentially payable at \$6.2 million. The estimate of fair value of Contingent Consideration requires subjective assumptions to be made of various potential operating scenarios and discount rates. The accretion or reduction in Contingent Consideration payable flows through profit and loss and is included in Acquisition related items. The Company reviews the valuation each quarter and updates the assessment of various probability weighted projected NIBT scenarios. If circumstances change, such future revisions may materially change the estimate of the fair value of Contingent Consideration and therefore materially affect the Company's future financial results.

The Company engaged an independent valuation firm to assist in determining the fair values of the assets acquired, liabilities and provision assumed, and related deferred income tax impacts and the fair value of the Contingent Consideration payable. The allocation of the purchase price was completed during the final quarter of 2015. The material adjustments arising included: the

separate recognition of the broker network and trade name intangible assets, with a reduction in the carrying amount of goodwill, and the adjustment of the fair value of the vendor-take-back shares subject to escrow. The resulting purchase price allocation to the fair value of assets acquired and liabilities assumed was as follows:

<i>As at March 17, 2015</i>	Blue Chip	EcoHome	Total
	(\$ thousands)		
Cash	\$ 2,614	\$ 1,490	\$ 4,104
Net investment in leases and loans	83,537	54,585	138,122
Prepaid expenses and other assets	564	498	1,062
Trade names	288	262	550
Billing systems	—	1,723	1,723
Broker relationships	14,811	10,311	25,122
Non-competition agreements	1,309	690	1,999
Goodwill	22,176	14,129	36,305
Total assets	125,299	83,688	208,987
Accounts payable and other liabilities	1,736	2,056	3,792
Borrowings	73,145	55,686	128,831
Deferred tax liabilities	6,789	2,341	9,130
Total liabilities	81,670	60,083	141,753
Net assets acquired	\$ 43,629	\$ 23,605	\$ 67,234
<u>Consideration</u>			
Cash			\$ 44,556
Common shares			16,518
Contingent consideration			6,160
			<u>\$ 67,234</u>

4. DISCONTINUED OPERATIONS

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

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

Held-for-sale	Sherway	Case Funding	EcoHome	December 31, 2016
(\$ thousands)	(c)	(d)	(e)	
Finance receivables	\$ —	\$ 5,903	\$ —	\$ 5,903
Assets held for sale	\$ —	\$ 5,903	\$ —	\$ 5,903
Accounts payable and other liabilities	\$ —	\$ —	\$ —	\$ —
Liabilities held for sale	\$ —	\$ —	\$ —	\$ —

				December 31,
Held-for-sale	Sherway	Case Funding	EcoHome	2015
<i>(\$ thousands)</i>	<i>(c)</i>	<i>(d)</i>	<i>(e)</i>	
Cash	\$ —	\$ —	\$ 691	\$ 691
Accounts receivable	7	—	—	7
Prepaid expenses and other assets	5	—	669	674
Finance receivables	—	10,590	69,412	80,002
Intangible assets	—	—	12,337	12,337
Goodwill	—	—	14,129	14,129
Assets held for sale	<u>\$ 12</u>	<u>\$ 10,590</u>	<u>\$ 97,238</u>	<u>\$ 107,840</u>
Accounts payable and other liabilities	\$ 37	\$ 3,247	\$ 1,898	\$ 5,182
Borrowings	—	—	66,065	66,065
Deferred taxes liabilities	—	—	2,561	2,561
Liabilities held for sale	<u>\$ 37</u>	<u>\$ 3,247</u>	<u>\$ 70,524</u>	<u>\$ 73,808</u>

No impairment loss was recognized on reclassification as held-for-sale at December 31, 2016 and 2015, as the fair value less costs to sell was higher than the carrying amount.

Categories and measurement hierarchy

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

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

					December 31, 2016
<i>(\$ thousands)</i>	<u>Category</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Carrying Value</u>
ASSETS HELD FOR SALE					
Attorney loans and medical liens (i)	L&R	\$ —	\$ 136	\$ —	\$ 136
Plaintiff advances (Note 4(d))	AFS	—	—	5,767	5,767
					December 31, 2015
<i>(\$ thousands)</i>	<u>Category</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Carrying Value</u>
ASSETS HELD FOR SALE					
Cash (iii)	L&R	\$ 691	\$ —	\$ —	\$ 691
Accounts receivables (iii)	L&R	7	—	—	7
Loan receivables (i)	L&R	—	23,947	—	23,947
Attorney loans and medical liens (i)	L&R	—	3,559	—	3,559
Plaintiff advances (Note 4(d))	AFS	—	—	7,031	7,031
LIABILITIES HELD FOR SALE					
Accounts payable (iii)	L&B	—	(5,182)	—	(5,182)
Borrowings (ii)	L&B	—	(66,065)	—	(66,065)

- (i) There is no organized market for the finance receivables. Therefore the carrying value is the amortized cost using the effective interest rate method. The contractual interest rates approximate current market rates.
- (ii) The stated value of the borrowings approximates fair values, as the interest rates attached to these instruments are representative of current market rates, for loans with similar terms, conditions and maturities.
- (iii) Carrying amounts are expected to be reasonable approximations of fair value for cash and for financial instruments with short maturities, including accounts receivable and accounts payable.

(b) Results from discontinued operations

	For the year ended December 31, 2016					
	Sherway		Case Funding		EcoHome	Total
(\$ thousands, except per share amounts)	(c)	(d)	(e)			
Interest revenue on leases and loans	\$ —	\$ 759	\$ 949	\$		1,708
Ancillary finance and other fee income	—	—	85			85
Interest expense	—	—	(481)			(481)
Provision for credit losses	—	(359)	(8)			(367)
Finance margin	—	400	545			945
Personnel expenses	—	—	181			181
Share-based compensation expense	—	—	148			148
Other expenses	—	124	151			275
Income before undernoted items	—	276	65			341
Gain on sale, net of costs and taxes	—	—	6,663			6,663
Income before taxes	—	276	6,728			7,004
Tax expense	—	—	(43)			(43)
Income from discontinued operation	\$ —	\$ 276	\$ 6,685	\$		6,961
Basic earnings per share from discontinued operations				\$		0.39
Diluted earnings per share from discontinued operations				\$		0.38

Cash flow from discontinued operations

Net cash from (used in) operating activities	\$ —	\$ 1,494	\$ (4,094)	\$	(2,600)
Net cash used in investing activities	\$ —	\$ —	\$ —	\$	—
Net cash from (used in) financing activities	\$ —	\$ —	\$ (1,703)	\$	(1,703)

(\$ thousands, except per share amounts)	For the year ended December 31, 2015			
	Sherway	Case Funding	EcoHome	Total
	(c)	(d)	(e)	
Interest revenue on leases and loans	\$ —	\$ 1,816	\$ 5,062	\$ 6,878
Ancillary finance and other fee income	—	12	386	398
Interest expense	—	—	(2,119)	(2,119)
Provision for credit losses	—	(1,383)	(25)	(1,408)
Finance margin	—	445	3,304	3,749
Revenue - automotive operations	48,557	—	—	48,557
Cost of sales – automotive operations	(42,275)	—	—	(42,275)
Gross margin before expenses	6,282	445	3,304	10,031
Personnel expenses	2,694	180	1,005	3,879
Share-based compensation expense	29	76	90	195
Other expenses	1,815	471	636	2,922
Amortization - property and equipment	191	3	—	194
Income before undernoted items	1,553	(285)	1,573	2,841
Gain on sale, net of costs and taxes	4,629	840	—	5,469
Amortization - intangible assets	—	—	(649)	(649)
Income before taxes	6,182	555	924	7,661
Tax expense	—	—	(220)	(220)
Income from discontinued operation	\$ 6,182	\$ 555	\$ 704	\$ 7,441
Basic earnings per share from discontinued operations				\$ 0.45
Diluted earnings per share from discontinued operations				\$ 0.44
<u>Cash flow from discontinued operations</u>				
Net cash from (used in) operating activities	\$ 2,834	\$ 2,756	\$ (12,804)	\$ (7,214)
Net cash used in investing activities	\$ (29)	\$ (44)	\$ —	\$ (73)
Net cash from (used in) financing activities	\$ (617)	\$ —	\$ 14,379	\$ 13,762
Property and equipment expenditures	\$ 29	\$ —	\$ —	\$ 29

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. The 2015 results presented above reflect the period from January 1, 2015 to November 15, 2015. In conjunction with the transfer of Sherway's employees to the new owner, the stock options held by the employees immediately vested and thus the remaining \$11,600 in unrecognized share-based compensation was expensed on November 15, 2015.

The Company's revenue from the sale of automobiles was recognized when the following conditions were met: the risks and rewards of ownership of the vehicle were transferred to the customer, the sales price was agreed or determinable and the receipt of payment was probable. Revenues were stated net of discounts, if any. All other parts and service revenue was recorded when goods were delivered or services were completed and the receipt of payment could be assumed.

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 and resulted in the utilization of tax losses which were not previously recognized as a deferred tax asset of Case Funding.

In conjunction with the transfer of Case Funding's employees to the Purchaser, the stock options held by the employees immediately vested and thus the remaining \$76,400 in unrecognized stock option costs was expensed on February 3, 2015.

Case Funding retained approximately \$9.4 million in finance receivables with a current balance of \$5.9 million and pays a servicing fee of 5% of collections to administer the remaining portfolio of attorney loans, plaintiff advances and medical liens.

In December 2015, the Company made a strategic decision to dispose of the retained legal finance receivables. An active search is still underway for a buyer. During 2016, certain external events delayed the search for a buyer. At December 31, 2015, a \$1.3 million reduction in the fair value of the retained legal finance receivables was included as a reduction to interest revenue on leases and loans in discontinued operations to reflect the fair value adjustment of the receivables.

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

	December 31, 2016	December 31, 2015
	<i>(\$ thousands)</i>	
Attorney loans and medical liens	\$ 136	\$ 3,559
Plaintiff advances	5,767	7,031
Legal finance receivables	5,903	10,590
Current portion	1,955	6,455
Legal finance receivables – long-term portion	\$ 3,948	\$ 4,135

At Case Funding, management reviews each attorney loan and medical lien receivable on an individual basis for collectability and for reserve requirements, if any. At December 31, 2016, it was determined an allowance of \$162,000 (December 31, 2015 - \$486,000) was required.

Significant judgments

Attorney loans are collateralized loans to contingency fee-based law firms based on a combination of an assessment of the likelihood of a successful outcome for a pool of cases put forward by the law firm, and the creditworthiness of the borrowers. Plaintiff advances are structured as a purchase of an interest in the proceeds of a legal claim and are made (or declined) based on the probability of success and potential claim size, not the plaintiff's credit. Advances are on a non-recourse basis where Case Funding forfeits its entire advance and any related fees if the plaintiff is not successful in the claim. Such advances are not characterized as loans because there is no promise to repay in the event the plaintiff does not succeed in his/her claim. Medical lien financing refers, generally, to the purchase of existing medical debt obligations of patients involved in existing litigation that is the result of an injury or multiple injuries.

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

Plaintiff advances are deemed to be a financial asset as they are a contractual right to receive cash from another entity and are considered to be available-for-sale financial assets for accounting purposes, based on an evaluation of all the terms and conditions of the contracts. The plaintiff advances are on a non-recourse basis, and repayment depends on the success and potential size of claims. Thus, the terms may limit the expected cash flows and, other than for credit deterioration, they were deemed not to be

loans and receivables. Available-for-sale financial assets are valued at fair value, the accretion in value is recognized based on the effective interest method and recognized in finance income.

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

	For the years ended	
	December 31,	
	2016	2015
	(\$ thousands)	
Balance, beginning of year	\$ 7,031	\$ 7,776
Originations	—	136
Fair value accretion (i)	752	1,679
Losses and provision for losses	(359)	(979)
Collections	(1,433)	(2,874)
Foreign exchange impact (ii)	(224)	1,293
Balance, end of year	\$ 5,767	\$ 7,031

- (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 in the consolidated statement of income.
- (ii) Difference between period-end foreign exchange rate and average exchange rate; the amount is included in other comprehensive income.

Significant Estimates

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

The principal assumptions used in the fair value model are as follows:

- Estimated duration of each plaintiff advance;
- Best estimate of anticipated outcome;
- Monthly fee per advance contract on nominal value of each plaintiff advance; and
- Market interest rate at which estimated cash flows are discounted.

The fair value of plaintiff advances is reviewed quarterly on an individual case basis. Events that may trigger changes to the fair value of each plaintiff advance include the following:

- Successful and unsuccessful judgments of claims in which the Company has a plaintiff advance;
- Outstanding appeals against both successful and unsuccessful judgments;
- Receipt of funds to settle plaintiff advances;
- A case is dismissed with prejudice (meaning, it can never be re-filed anywhere);
- Change in monthly fee assessed on plaintiff advances;
- Market interest rate at which estimated cash flows are discounted.

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

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

e) EcoHome Financial Inc.

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

The net gain, after \$1.3 million in costs and \$3.5 million in taxes, is approximately \$6.7 million and is included in income from discontinued operations for the year ended December 31, 2016. In conjunction with the sale of EcoHome, the stock options held by the employees immediately vested and thus the remaining \$137,600 in unrecognized share-based compensation was expensed on February 18, 2016.

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.

5. FINANCIAL INSTRUMENTS

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

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

Financial assets

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

Loans and receivables

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

Financial assets at fair value through net income or loss

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

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

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

Held to maturity investments

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

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

The Company had no financial instruments in this category at December 31, 2016 and 2015.

Available for sale financial assets

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

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

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

Financial liabilities

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

Financial liabilities at fair value through net income or loss

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

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

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

Loans and borrowings

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

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

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

(a) Change to fair value and measurement hierarchy

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

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

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

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

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

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

					<u>December 31, 2015</u>	
	<u>Category</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Carrying Value</u>	
						<i>(\$ thousands)</i>
ASSETS						
Cash (iii)	L&R	\$ 15,229	\$ —	\$ —	\$	15,229
Loan receivables (i)	L&R	—	91,892	—		91,892
LIABILITIES						
Accounts payable (iii)	L&B	—	(11,557)	—		(11,557)
Contingent consideration	FVTP	—	—	(7,215)		(7,215)
Borrowings (ii)	L&B	—	(255,173)	—		(255,173)
Customer security deposits	L&B	—	(13,895)	—		(13,895)
Convertible debentures (iv)	FVTP	(19,900)	—	—		(19,900)
Interest rate swaps (v)	HFT	—	(892)	—		(892)

- (i) There is no organized market for the finance receivables. Therefore the carrying value is the amortized cost using the effective interest rate method. The contractual interest rates approximate current market rates.
- (ii) The stated value of the borrowings approximates fair values, as the interest rates attached to these instruments are representative of current market rates, for loans with similar terms, conditions and maturities.
- (iii) Carrying amounts are expected to be reasonable approximations of fair value for cash and for financial instruments with short maturities, including accounts receivable and accounts payable.
- (iv) The convertible debentures have several embedded derivative features which were determined to not meet the criteria for treatment as equity components and would otherwise be required to be recognized as separate financial instruments, measured at fair value through profit or loss. The Company has elected under IAS 39.11A to designate the entire convertible debentures (and all the embedded derivatives) as a combined financial liability at fair value through profit or loss. The fair value of the convertible debentures is based on their trading price on the Toronto Stock Exchange every reporting period; as a result, there may be increased volatility in the reported net income. The \$1.4 million of costs related to the issuance of the convertible debenture were expensed when incurred in 2013; thus no transaction costs are capitalized in the fair value of the convertible debentures.
- (v) The Company determines the fair value of its interest rate swap under the income valuation technique using a discounted cash flow model. Significant inputs to the valuation model include the contracted notional amount, LIBOR rate yield curves and the applicable credit-adjusted risk-free rate yield curve. The Company's interest rate derivative is included in the Level 2 fair value hierarchy because all of the significant inputs are directly or indirectly observable. For the rates on the interest rate swaps, see Note 16 - *Interest Rate Swaps*.

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) 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 year ended December 31,	
	2016	2015
	(\$ thousands)	
Loans and receivables:		
Provision for credit losses	\$ (25,819)	\$ (18,929)
Designated as at fair value through net income or loss:		
Convertible debentures	(1,660)	(602)
Contingent consideration	678	(1,055)
Fair value through net income or loss:		
Investment in Dealnet common shares	3	—
Interest rate swaps	15	(846)
Net loss	<u>\$ (26,783)</u>	<u>\$ (21,432)</u>

6. 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.

i) Credit risk

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

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

Pawnee, Blue Chip and Windset's investment in finance receivables are originated with smaller, often owner-operated businesses that have limited access to traditional financing. A portion of Pawnee's lessees and borrowers are either a start-up business that has not established business credit or a more tenured business that has experienced some business credit difficulty at some time in its history. As a result, such leases and loans entail higher credit risk (reflected in higher than expected levels of delinquencies and loss) relative to the commercial equipment finance market as a whole. The typical Blue Chip borrower is a tenured small business with a strong credit profile. The typical Windset borrower is a tenured small business - usually with at least ten years time-in-business that needs working capital for a variety of purposes that can include general expansion, funding of accounts receivable or inventory, a new location, etc.

Pawnee's credit risk is mitigated by: funding only "business essential" commercial equipment, where the value of the equipment is less than U.S.\$200,000, typically obtaining at least the personal guarantee of the majority owners of the lessee/borrower for each lease or loan, and by diversification on a number of levels, including: geographical across the United States, type of equipment funded, equipment cost, the industries in which Pawnee's lessees/borrowers operate and through the number of lessees/borrowers, none of which is individually significant. Furthermore, Pawnee's credit risk is mitigated by the fact that the standard lease/loan

contract most often requires that the lessee\borrower provide two months payments as a security deposit, which, in the case of default, is applied against the lease\loan receivable; otherwise the deposit is held for the full term of the lease\loan and is then returned or applied to the purchase option of the equipment at the lessee's option.

Pawnee and Blue Chip are entitled to repossess leased equipment if the lessees default on their lease contracts in order to minimize any credit losses. When an asset previously accepted as collateral is acquired, it undergoes a process of repossession and disposal in accordance with the legal provisions of the relevant market. See Note 8 - *Finance Receivables*, for a further discussion on the repossession of collateral.

The finance receivables consist of a large number of homogenous leases and loans, with relatively small balances, and as such, the evaluation of the allowance for credit losses is performed collectively for the lease and loan receivable portfolio. More detailed information regarding this methodology and on finance receivables that are considered to be impaired is provided in Note 8 - *Finance Receivables*.

Windset's credit risk is mitigated by, amongst other things: the tenured nature of the borrower which typically averages at least 10 years time-in-business, an analysis of the borrowers' cash flows which limits the amount of the loan, the rapid repayment received by Windset through daily payments received on each business day, the personal guarantee of the principal business owner and the short term of the loan.

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

ii) Liquidity risk

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

The Company's objective is to maintain low cash balances, investing any free cash in finance receivables as needed and using any excess to pay down debt on the primary financing facilities. At December 31, 2016, the Company's continuing operations has at least \$127.0 million (2015 - \$83.7 million) in additional borrowings available under various credit facilities to fund business operations, excluding the accordion feature on the corporate facility.

The Company's operations and growth are financed through a combination of the cash flows from operations and from borrowings under existing credit facilities. Prudent liquidity risk management requires managing and monitoring liquidity on the basis of a rolling cash flow forecast and ensuring adequate committed credit facilities are in place, to the extent possible, to meet funding needs.

The Company has a corporate credit facility that allows borrowings of up to U.S. \$170.0 million, and an accordion feature of up to U.S. \$250 million, subject to certain percentages of eligible gross lease receivables, of which U.S.\$144.3 million was utilized at December 31, 2016 (2015 - U.S.\$125.0 million). See Note 14 - *Borrowings*. At this time, management believes that the syndicate of financial institutions that provides Chesswood's credit facility is financially viable and will continue to provide this facility, however there are no guarantees.

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

The maturity structure for undiscounted contractual cash flows is presented in Note 18 - *Minimum payments*.

iii) Market risk

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

a) Trading price of convertible debentures

The convertible debentures are measured at fair value at each reporting date with changes in fair value recognized in net income or loss. Fair value is based on the trading price of the debentures on the Toronto Stock Exchange. Therefore changes in trading price have a direct impact on net assets and net income or loss. The Company does not hedge this fair value price exposure.

b) Interest rate risk

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

The following table presents a sensitivity analysis for a reasonable fluctuation in interest rates and the effect on the Company for the year-ended December 31, 2016 and 2015:

	For the years ended			
	December 31, 2016		December 31, 2015	
	+100 bps	-100 bps	+100 bps	-100 bps
	(\$ thousands)			
Increase (decrease) in interest expense	\$ 1,130	\$ (1,130)	\$ 863	\$ (863)
Increase (decrease) in net income and equity	\$ (695)	\$ 695	\$ (561)	\$ 561

iv) Foreign currency risk

The Company is exposed to fluctuations in the U.S. dollar exchange rate because significant operating cash inflows are generated in the U.S. while dividends are paid to shareholders in Canadian dollars. For the year-ended December 31, 2016 dividends paid totaled \$14.0 million (excluding the special dividend which was supported by Canadian dollar cash flow) (2015 - \$12.7 million). The following table presents a sensitivity analysis for a hypothetical fluctuation in U.S. dollar exchange rates and the effect on the Company for the years ended December 31, 2016 and 2015:

U.S. Denominated Balances	December 31, 2016	December 31, 2015
	(\$ thousands)	
Year-end exchange rate	1.3427	1.3840
U.S. denominated net assets in U.S.\$ held in Canada	\$ 1,376	\$ 1,709
Effect of a 10% increase or decrease in the Canadian/U.S. dollar on U.S. denominated net assets	\$ 185	\$ 237

7. PREPAID EXPENSES AND OTHER ASSETS

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

(b) Common shares - as partial consideration for the sale of EcoHome (Note 4(e)), Chesswood received 6,039,689 common shares of Dealnet. The Dealnet shares are measured at fair value through profit or loss. The fair value represents the trading price at each reporting date. Dealnet shares trade on the TSX Venture Exchange under the stock symbol "DLS".

(c) Escrow funds - \$1.75 million of the proceeds from the sale of EcoHome (Note 4(e)) were held back as escrow and are expected to be released by August 18, 2017. The escrow funds are carried at amortized cost.

(d) Convertible note - as partial consideration for the sale of EcoHome (Note 4(e)), Chesswood received a \$2.5 million convertible note of Dealnet, bearing interest at 6% per annum, which matures in February 2018 and is convertible into common shares of Dealnet (at the Company's option) at a conversion price of \$0.64 per share.

Prepaid expenses and other assets comprise:

	December 31, 2016	December 31, 2015
	<i>(\$ thousands)</i>	
Property tax receivable	\$ 629	\$ 741
Tax receivable	2,377	8,358
Sales tax receivable	45	648
Other prepaid expenses and current assets	716	514
Loan receivable - EcoHome	<i>a</i> 3,000	—
Common shares - Dealnet	<i>b</i> 3,503	—
Escrow funds - Dealnet	<i>c</i> 1,698	—
Convertible note - Dealnet	<i>d</i> 2,500	—
Prepaid expenses and other assets	14,468	10,261
Current portion	11,968	10,261
Long-term portion	\$ 2,500	\$ —

8. FINANCE RECEIVABLES

Description and accounting policy

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

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

Significant judgments

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

Finance receivables comprise:

	December 31, 2016	December 31, 2015
	(\$ thousands)	
Net investment in leases	\$ 322,304	\$ 273,667
Loan receivables	108,744	91,892
	\$ 431,048	\$ 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:

	December 31, 2016	December 31, 2015
	(\$ thousands)	
Total minimum payments	\$ 537,383	\$ 454,531
Residual values of leased equipment	21,527	21,249
	558,910	475,780
Unearned income, net of initial direct costs of acquisition	(116,784)	(101,198)
Net investment in finance receivables before allowance for doubtful accounts	442,126	374,582
Allowance for doubtful accounts (b)	(12,253)	(10,647)
	429,873	363,935
Reserve receivable on securitized financial contracts	1,175	1,624
Net investment in finance receivables	431,048	365,559
Current portion	163,329	170,429
Net investment in finance receivables - long-term portion	\$ 267,719	\$ 195,130

(b) Allowance for doubtful accounts

Description and accounting policy

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

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

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

Significant estimates

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

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

	For the year ended December 31,	
	2016	2015
	(\$ thousands)	
Balance, beginning of year	\$ 10,647	\$ 6,558
Provision for credit losses	25,819	18,929
Impact of change in foreign exchange rates	(272)	1,392
Allowance of acquired companies	—	942
Charge-offs	(30,102)	(21,765)
Recoveries	6,161	4,591
Balance, end of year	\$ 12,253	\$ 10,647

(c) Minimum scheduled collections of minimum finance receivable payments receivable at December 31, 2016 are presented in the following table. The Company's experience has shown that the actual contractual payment streams will vary depending on a number of variables including: prepayment rates, charge-offs and modifications. Accordingly, the following minimum scheduled collections are not to be regarded as a forecast of future cash collections.

	Minimum payments	Present value
	(\$ thousands)	
2017	\$ 219,412	\$ 160,996
2018	154,955	120,616
2019	97,841	81,055
2020	48,411	42,437
2021	16,321	15,101
2022 and thereafter	443	394
Total minimum lease payments	\$ 537,383	\$ 420,599

(d) Finance Receivables Past Due

The following aging represents the total carrying amount of the lease and loan receivables and not just the payments that are past due. The balances presented exclude the \$13.6 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 fair value for the collateral and personal guarantees cannot reasonably be determined.

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

	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

(e) Collateral

Pawnee and Blue Chip are entitled to repossess financed equipment if the borrower defaults on their lease or loan contract. When a lease or loan is charged-off, the related equipment no longer has a carrying value on the financial statements. Any amounts recovered from the sale of equipment after a charge-off, are credited to the allowance for doubtful accounts when received. In the year-ended December 31, 2016, the proceeds from the disposal of repossessed equipment that was charged-off totaled \$1.9 million (2015 - \$1.0 million). Repossessed equipment is held at various warehouses by the company's contracted to repossess and sell the equipment.

9. PROPERTY AND EQUIPMENT

Description and accounting policy

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

Leasehold improvements	straight-line over the remaining lease term
Service equipment and vehicles	20% or 30% declining balance
Furniture and equipment	20% to 30% declining balance
Computer hardware	20% to 30% declining balance

	Leasehold improvements	Service equipment and vehicles	Furniture and equipment	Computer hardware	Total
Cost:			(\$ thousands)		
December 31, 2014	\$ 2,563	\$ 210	\$ 665	\$ 1,363	\$ 4,801
Additions	—	—	42	212	254
Additions - discontinued operations (Note 4)	—	23	—	50	73
Disposals (Note 4)	(2,563)	(233)	(168)	(399)	(3,363)
Translation	—	—	8	(9)	(1)
December 31, 2015	\$ —	\$ —	\$ 547	\$ 1,217	\$ 1,764
Additions	—	—	581	263	844
Disposals	—	—	(218)	(11)	(229)
Translation	—	—	(7)	43	36
December 31, 2016	\$ —	\$ —	\$ 903	\$ 1,512	\$ 2,415

The change in the carrying amount of property and equipment during 2016 relates to the one-time expenditures and disposals for furniture and equipment for the new premises of Pawnee, which they moved into in June 2016.

	Leasehold improvements	Service equipment and vehicles	Furniture and equipment	Computer hardware	Total
Accumulated amortization:			(\$ thousands)		
December 31, 2014	\$ 675	\$ 165	\$ 444	\$ 471	\$ 1,755
Amortization - continuing operations	—	—	70	183	253
Amortization - discontinued operations (Note 4)	164	8	7	15	194
Disposals (Note 4)	(839)	(173)	(144)	(177)	(1,333)
Translation	—	—	6	(6)	—
December 31, 2015	\$ —	\$ —	\$ 383	\$ 486	\$ 869
Amortization - continuing operations	—	—	87	225	312
Disposals	—	—	(153)	(11)	(164)
Translation	—	—	30	(66)	(36)
December 31, 2016	\$ —	\$ —	\$ 347	\$ 634	\$ 981

	Leasehold improvements	Service equipment and vehicles	Furniture and equipment	Computer hardware	Total
Carrying amount:			(\$ thousands)		
December 31, 2014	\$ 1,888	\$ 45	\$ 221	\$ 892	\$ 3,046
December 31, 2015	\$ —	\$ —	\$ 164	\$ 731	\$ 895
December 31, 2016	\$ —	\$ —	\$ 556	\$ 878	\$ 1,434

10. INTANGIBLE ASSETS

Description and accounting policy

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

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

The amortization period and method of amortization for intangible assets with finite lives are reassessed annually. Changes in the useful life or in the pattern of economic benefits derived are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually at the cash generating unit level and are reviewed annually to determine whether the indefinite life continues to be applicable. Any change from indefinite life to finite life would be accounted for prospectively.

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

Significant estimates

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

	<u>Indefinite useful life</u>			<u>Finite useful life</u>		
	<u>Trade names</u>	<u>Billing Systems</u>	<u>Framework agreement</u>	<u>Broker relationships</u>	<u>Non-Compete</u>	<u>Total</u>
Cost:	(\$ thousands)					
December 31, 2014	\$ 6,821	\$ —	\$ 889	\$ 4,538	\$ —	\$ 12,248
Acquisitions (Note 3)	550	1,723	—	25,213	1,999	29,485
Disposal (Note 4(c) & (d))	(429)	—	(889)	—	—	(1,318)
Reclassified to held-for-sale (Note 4(e))	(262)	(1,723)	—	(10,311)	(690)	(12,986)
Translation	1,209	—	—	—	—	1,209
December 31, 2015	\$ 7,889	\$ —	\$ —	\$ 19,440	\$ 1,309	\$ 28,638
Additions	—	—	—	99	—	99
Translation	(224)	—	—	—	—	(224)
December 31, 2016	\$ 7,665	\$ —	\$ —	\$ 19,539	\$ 1,309	\$ 28,513

	Trade names	Billing Systems	Framework agreement	Broker relationships	Non-Compete	Total
Accumulated amortization:	(\$ thousands)					
December 31, 2014	\$ —	\$ —	\$ —	\$ 4,123	\$ —	\$ 4,123
Amortization - continuing operations	—	—	—	847	206	1,053
Impairment	127	—	—	—	—	127
Amortization - discontinued operation (Note 4)	—	—	—	540	109	649
Reclassified - held-for-sale (Note 4(e))	—	—	—	(540)	(109)	(649)
December 31, 2015	\$ 127	\$ —	\$ —	\$ 4,970	\$ 206	\$ 5,303
Amortization - continuing operations	—	—	—	1,075	262	1,337
December 31, 2016	\$ 127	\$ —	\$ —	\$ 6,045	\$ 468	\$ 6,640

	Trade names	Framework agreement	Broker relationships	Non-Compete	Total
Carrying amount:	(\$ thousands)				
December 31, 2014	\$ 6,821	\$ 889	\$ 415	\$ —	\$ 8,125
December 31, 2015	\$ 7,762	\$ —	\$ 14,470	\$ 1,103	\$ 23,335
December 31, 2016	\$ 7,538	\$ —	\$ 13,494	\$ 841	\$ 21,873

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

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

	December 31, 2016	December 31, 2015
	(\$ thousands)	
Pawnee	\$ 7,251	\$ 7,474
Blue Chip	288	288
Total indefinite-life intangible assets	\$ 7,539	\$ 7,762

11. GOODWILL

Description and accounting policy

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

Impairment testing is applied on an individual asset basis unless an asset does not generate cash inflows that are largely independent of the cash inflows generated by other assets or groups of assets. None of the Company's non-financial assets generate independent cash inflows and therefore all non-financial assets are allocated to cash generating units ("CGU") for purposes of assessing impairment. CGUs are defined as the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Impairment losses are recognized when the carrying amount of a CGU exceeds the recoverable amount, which is the greater of the CGU's fair value less cost to sell and its value-in-use. Value-in-use is the present value of the estimated future cash flows from the CGU discounted using a pre-tax rate that reflects current market rates and the risks inherent in the business of each CGU. If the recoverable amount of the CGU is less than its carrying amount, the CGU is considered impaired and is written down to its recoverable amount. The impairment loss is allocated to reduce the carrying amount of the assets of the CGU, first to reduce the carrying amount of the CGU's goodwill and then to the other assets of the CGU allocated pro-rata on the basis of the carrying amount of each asset. Impairment losses of continuing operations are recognized in the statement of income.

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

Significant judgments

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

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

	Pawnee	Case Funding	Sherway	Blue Chip	EcoHome	Total
Cost:						
				(\$ thousands)		
December 31, 2014	\$ 42,077	\$ 757	\$ 3,923	\$ 4,189	\$ —	\$ 50,946
Translation	8,121	—	—	—	—	8,121
Acquisition (Note 3)	—	—	—	22,176	14,129	36,305
Disposal (Note 4)	—	(757)	(3,923)	—	—	(4,680)
Reclassified - held-for-sale (Note 4)	—	—	—	—	(14,129)	(14,129)
December 31, 2015	\$ 50,198	\$ —	\$ —	\$ 26,365	\$ —	\$ 76,563
Translation	(1,498)	—	—	—	—	(1,498)
December 31, 2016	\$ 48,700	\$ —	\$ —	\$ 26,365	\$ —	\$ 75,065
Accumulated impairment:						
				(\$ thousands)		
December 31, 2014	\$ 29,600	\$ —	\$ 1,403	\$ —	\$ —	\$ 31,003
Disposal (Note 4)	—	—	(1,403)	—	—	(1,403)
Translation	5,713	—	—	—	—	5,713
December 31, 2015	\$ 35,313	\$ —	\$ —	\$ —	\$ —	\$ 35,313
Translation	(1,054)	—	—	—	—	(1,054)
December 31, 2016	\$ 34,259	\$ —	\$ —	\$ —	\$ —	\$ 34,259
Carrying amount:						
				(\$ thousands)		
December 31, 2014	\$ 12,477	\$ 757	\$ 2,520	\$ 4,189	\$ —	\$ 19,943
December 31, 2015	\$ 14,885	\$ —	\$ —	\$ 26,365	\$ —	\$ 41,250
December 31, 2016	\$ 14,441	\$ —	\$ —	\$ 26,365	\$ —	\$ 40,806

The Company completed its annual goodwill impairment test as at December 31, 2016 and 2015 and determined that no impairment had occurred. Goodwill is considered impaired to the extent that its carrying amount exceeds its recoverable amount. The recoverable amounts of the Company's CGUs were determined based on their value-in-use ("VIU"). The calculation of VIU incorporated five years of cash flow estimates plus a terminal value and was based on the following key variables:

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

	Pawnee	Blue Chip
Terminal value growth rates:		
December 31, 2015	3.0%	3.0%
December 31, 2016	3.0%	3.0%

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

	Pawnee	Blue Chip
Pre-tax discount rates:		
December 31, 2015	30.82%	22.77%
December 31, 2016	30.82%	23.27%

Significant estimates

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

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprise:

	December 31, 2016	December 31, 2015
	(\$ thousands)	
Dividend payable	\$ 1,259	\$ 1,153
Accounts payable	1,099	927
Sales tax payable	1,020	672
Customer deposits and prepayments	695	899
Unfunded finance receivables	3,636	2,634
Taxes payable	4,600	2,744
Payroll related payables and accruals	1,026	783
Accrued expenses and other liabilities	1,370	1,745
Contingent consideration (Note 3 - Business Acquisition)	538	7,215
	<u>\$ 15,243</u>	<u>\$ 18,772</u>

13. CONVERTIBLE DEBENTURES

The debentures (symbol TSX: CHW.DB) 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 \$20.19 per share at any time (reduced from \$21.25 as a result of the special dividend declared in February 2016).

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 \$20.19 (reduced from \$21.25 as result of special dividend declared in February 2016).
- Subsequent to December 31, 2017 and prior to December 31, 2018, the Company 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.

After the Company exercises its redemption right but 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 convertible debentures balance is composed of:

	December 31, 2016	December 31, 2015
	(\$ thousands)	
Principal amount recognized on issuance	\$ 20,000	\$ 20,000
Fair value adjustment	260	(100)
Balance, end of year	\$ 20,260	\$ 19,900

	For the years ended December 31,	
	2016	2015
	(\$ thousands)	
Fair value adjustment for the year	\$ (360)	\$ 698
Interest paid during the year	(1,300)	(1,300)
Financing costs - convertible debentures	\$ (1,660)	\$ (602)

14. BORROWINGS

Borrowings are comprised of:

	December 31, 2016	December 31, 2015
	(\$ thousands)	
Chesswood credit facility	(a) \$ 187,978	\$ 164,250
Deferred financing costs	(2,015)	(1,524)
	185,963	162,726
Securitization and bulk lease financing facilities	(b) 107,118	92,447
	\$ 293,081	\$ 255,173

(a) Chesswood's credit facility allows borrowings of up to U.S.\$170.0 million (2015 - 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.\$250.0 million (2015 - U.S.\$200.0 million). This credit facility is secured by substantially all of Chesswood's assets, contains covenants including maintaining leverage and interest coverage ratios, and matures on December 8, 2019. At December 31, 2016, the Company was utilizing U.S.\$144.3 million (2015 - U.S.\$125.0 million) of its credit facility and had approximately U.S.\$25.7 million in additional borrowings available under the corporate credit facility before the accordion feature. At December 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 year ended December 31, 2016 was 3.89% (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 "Funders"). The funding facilities advance to Blue Chip on a tranche-by-tranche basis, with each tranche collateralized by a specific group of underlying finance receivables and any related security provided thereunder. The facilities have limited recourse to other assets in the event that lessees/borrowers fail to make payments when due. Blue Chip either maintains certain cash reserves as credit enhancements or provides letters of guarantee in return for release of the cash reserves. Blue Chip continues to service these finance receivables on behalf of the Funders. As at December 31, 2016, Blue Chip had \$107.1 million (2015 - \$92.4 million) in securitization and bulk lease financing facilities debt outstanding, was utilizing \$57.5 million (2015 - \$43.5 million) of their available financing and had access to at least \$92.5 million (2015 - \$49.2 million) of financing available for use from the Funders.

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

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

Interest rates are fixed at the time of each advance and are based on Government of Canada Bond yields with maturities comparable to the term of the underlying leases plus a premium. Based on average debt levels, the effective interest rate paid during the year ended December 31, 2016 was 3.00% (for the period ended December 31, 2015 - 3.38%). As at December 31, 2016, Blue Chip has provided \$5.7 million in outstanding letters of guarantee through Chesswood's credit facility. Blue Chip must meet certain financial covenants to support these securitization and bulk lease financing facilities. As at December 31, 2016 and 2015, and throughout the periods presented, Blue Chip was in compliance with all covenants.

15. CUSTOMER SECURITY DEPOSITS

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

	December 31, 2016	December 31, 2015
	(\$ thousands)	
Security deposits that will be utilized within one year	\$ 4,072	\$ 4,464
Security deposits that will be utilized in future years	9,531	9,431
	\$ 13,603	\$ 13,895

16. INTEREST RATE SWAPS

The Company enters into interest rate swap agreements that provide for payment of an annual fixed rate, in exchange for a LIBOR based floating rate amount. The interest rate swaps are intended to offset a portion of the variable interest rate risk on the credit facility (see Note 14 - *Borrowings*).

The interest rate swaps are not considered trading instruments as the Company 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.

Accordingly, the estimated fair value of the interest rate swaps 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.

The fair value, or the cost to terminate the interest rate swaps would have been \$850,000 at December 31, 2016 (December 31, 2015 - \$892,000).

The following swap agreements were outstanding at December 31, 2016:

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

17. TAXES

Description and accounting policy

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

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

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

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

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

(a) Tax expense consists of the following:

	For the years ended	
	December 31, 2016	December 31, 2015
	(\$ thousands)	
Current tax expense	\$ 9,580	\$ 14,713
Deferred tax expense (recovery)	1,223	(2,932)
Tax expense	\$ 10,803	\$ 11,781

(b) The table below shows the reconciliation between tax expense reported in the Statement of Income and the tax expense that would have resulted from applying the combined Canadian Federal and Ontario tax rate of 26.5% (2015 - 26.5%) to income before income taxes.

	For the years ended	
	December 31, 2016	December 31, 2015
	(\$ thousands)	
Income from continuing operations before taxes	\$ 28,120	\$ 24,144
Canadian tax rate	26.5%	26.5%
Theoretical tax expense	7,452	6,398
Tax cost of non-deductible items	154	1,208
Withholding tax on inter-company dividends	202	545
Higher effective tax rates in foreign jurisdictions	2,696	3,221
Income in discontinued operations that offset expenses in continued operations	—	489
Other	299	(80)
Tax expense	\$ 10,803	\$ 11,781

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

	December 31, 2016	December 31, 2015
	(\$ thousands)	
Deferred tax assets (c)	\$ 962	\$ 1,141
Deferred taxes liabilities (d)	(27,006)	(26,515)
Net deferred taxes liabilities	\$ (26,044)	\$ (25,374)

Reconciliation of net deferred tax liabilities:

	For the years ended	
	December 31, 2016	2015
(\$ thousands)		
Balance, beginning of year	\$ (25,374)	\$ (19,172)
Deferred tax (expense) recovery in the statements of income (a)	(1,223)	2,932
Acquisition (Note 3)	—	(9,130)
Reallocated to held-for-sale	—	2,341
Netted against common shares	—	1,163
Translation	553	(3,508)
Net change in net deferred tax liabilities during the year	(670)	(6,202)
Balance, end of year	\$ (26,044)	\$ (25,374)

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

	December 31, 2016	December 31, 2015
	(\$ thousands)	
Deferred tax assets:		
Financing costs	\$ 827	\$ 1,089
Intangible assets	—	48
Tax losses carried forward	135	4
	\$ 962	\$ 1,141

Deferred tax assets are recognized to the extent that realization of the related tax benefit through future taxable profits is probable. At December 31, 2016, Case Funding had U.S.\$957,000 (2015 - U.S.\$1.2 million) in tax losses carried forward and taxable timing differences of U.S.\$957,000 (2015 - \$1.2 million).

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

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

	December 31, 2016	December 31, 2015
	<i>(\$ thousands)</i>	
Deferred tax assets:		
Leased assets	\$ 80,470	\$ 63,346
Allowance for doubtful accounts	4,438	4,023
Tax losses carried forward	15	353
Accrued liabilities	475	265
	\$ 85,398	\$ 67,987
Deferred tax liabilities:		
Finance receivables	\$ 108,946	\$ 90,398
Difference in goodwill and intangible asset base	3,458	4,104
	\$ 112,404	\$ 94,502
Deferred taxes liabilities, net	\$ 27,006	\$ 26,515
Deferred taxes liabilities to be realized in the next 12 months	\$ 12,763	\$ 5,152

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

The Company has not recognized deferred tax liabilities in respect of unremitted earnings in foreign subsidiaries, totaling \$1.6 million (2015 - \$1.9 million), as it is not considered probable that this temporary difference will reverse in the foreseeable future.

Significant estimates and judgments

Determining the value of deferred tax assets recognized requires an estimate of the value of tax benefits that will eventually be realized by the Company which utilizes a lot of assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

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

- (i) Pawnee sells or licenses any of its assets as part of its acquisition by the Company, or licenses any assets to a related non-U.S. entity during the subsequent 10 years; or
- (ii) If it does sell or license any such assets, it does not offset its U.S. tax arising from such sales or licenses with loss carry-forwards, foreign tax credits or certain tax amounts with similar attributes.

Management has concluded that either or both of these conditions will not be triggered.

18. MINIMUM PAYMENTS

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

(\$ thousands)	2017	2018	2019	2020	2021	2022 +	Total
Accounts payable and other liabilities	\$ 14,705	\$ 538	\$ —	\$ —	\$ —	\$ —	\$ 15,243
Borrowings (i)	52,144	39,768	214,974	9,976	1,496	—	318,358
Customer security deposits (ii)	4,072	3,808	3,467	2,056	1,406	15	14,824
Convertible debentures	1,300	21,300	—	—	—	—	22,600
Interest rate swaps	—	—	—	383	467	—	850
	72,221	65,414	218,441	12,415	3,369	15	371,875
Other financial commitments (iii)	791	294	299	219	223	323	2,149
Total commitments	\$ 73,012	\$ 65,708	\$ 218,740	\$ 12,634	\$ 3,592	\$ 338	\$ 374,024

- Borrowings are described in Note 14, and include Chesswood's credit facility, which is a line-of-credit and, as such, the balance can fluctuate. The amount above includes fixed interest payments on securitization and bulk lease financing facilities and estimated interest payments on the corporate credit facility, assuming the interest rate, debt balance and foreign exchange rate at December 31, 2016 remains the same until December 8, 2019.
- The Company's experience has shown the actual contractual payment streams will vary depending on a number of variables including: prepayment rates, charge-offs and modifications. Accordingly, the scheduled contractual payments of customer security deposits shown in the table above are not to be regarded as a forecast of future cash payments.
- The Company and its subsidiaries are committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, expiring in 2017 and 2023, which represent the bulk of other financial commitments.

The Company has no material "off-balance sheet" financing obligations, except for long-term premises lease agreements and U.S. \$4.3 million in letters of guarantee. For contingent liabilities and other commitments, refer to Note 19 - *Contingent Liabilities and Other Financial Commitments*.

19. CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

Contingent liabilities

The Company is subject to various claims and legal actions in the normal course of its business, from various customers, suppliers and others. The individual value of each claim and the total value of all claims as at December 31, 2016 and 2015 were not material or a possible outflow is considered remote, additional disclosure is not required.

Other financial commitments

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

20. CAPITAL MANAGEMENT

The Company's capital consists of shareholders' equity, which at December 31, 2016 amounted to \$157.9 million (December 31, 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.

Chesswood's three-year revolving senior secured U.S.\$170 million credit facility supports growth in finance receivables, provides for Chesswood's working capital needs and for general corporate purposes. The facility, available in U.S. or Canadian dollars, also improves the Company's financial flexibility by centralizing treasury management and making the provision of capital to individual businesses more efficient.

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

21. COMMON SHARES

	<u>Common shares</u>	<u>Amount</u>
	(# '000s)	(\$ thousands)
Balance, December 31, 2014	10,420	\$ 49,039
Public offering, net of costs (a)	3,303	29,051
Private placement (b)	615	5,925
Business acquisition (c)	1,816	16,583
Exercise of restricted share units (Note 23(b))	38	535
Exercise of options (Note 23(a))	72	593
Balance, December 31, 2015	16,264	\$ 101,726
Exercise of restricted share units (Note 23(b))	38	466
Exercise of options (Note 23(a))	236	2,520
Other	10	100
Repurchase of common shares under issuer bid (d)	(34)	(216)
Balance, December 31, 2016	16,514	\$ 104,596

(a) On March 12, 2015, the Company completed the public offering of 3,302,600 subscription receipts ("Subscription Receipts") at a price of \$9.75 per Subscription Receipt (the "Public Offering"). The Public Offering was oversubscribed, and 430,800 of the Subscription Receipts were issued as a result of the exercise in full of the over-allotment option granted to the underwriters of the Public Offering. Costs of \$3.2 million (net of \$1.2 million tax impact) were deducted from the \$32.2 million of proceeds raised.

(b) Chesswood concurrently completed a non-brokered private placement of 615,384 Subscription Receipts at the same offering price as under the Public Offering to certain directors, officers and other insiders. Each Subscription Receipt entitled the holder thereof to receive, for no additional consideration, one common share in the capital of Chesswood upon the completion of the acquisition of Blue Chip and EcoHome.

At the close of business on March 17, 2015, the Company completed its acquisition of Blue Chip and EcoHome (Note 3). On March 18, 2015, the Subscription Receipts were exchanged for Common Shares.

(c) As partial consideration for the acquisition of Blue Chip and EcoHome, 1,806,384 Common Shares were issued. The vendor's shares are subject to an escrow agreement that provides for, amongst other things, a staged release of these shares, from escrow, over a three year period. For valuation purposes, the discount on these restricted shares was calculated based on the theoretical price of a put option on the shares with an expiry date equal to the trading restriction period. A value of approximately \$9.14 per Common Share was calculated.

(d) Normal course issuer bids

In August 2016, the Board of Directors approved the repurchase and cancellation of up to 1,078,096 of the Company's outstanding Common Shares for the period commencing August 25, 2016 and ending on August 24, 2017. From August 25, 2016 to December 31, 2016, 6,000 Common Shares were repurchased under this normal course issuer bid at an average cost of \$10.9877. The excess of the purchase price over the average stated value of Common Shares purchased for cancellation is charged to retained earnings.

Additionally, the Company has entered into an automatic share purchase plan with a broker for the purpose of permitting the Company to purchase its Common Shares under the normal course issuer bid at such times when the Company would not be

permitted to trade in its own shares during internal blackout periods, including during regularly scheduled quarterly blackout periods. Such purchases will be determined by the broker in its sole discretion based on parameters the Company has established.

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

22. EXCHANGEABLE SECURITIES

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

23. COMPENSATION PLANS

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

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

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

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

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

(a) Share options

During the year ended December 31, 2016, personnel expenses and the share-based compensation reserve included \$751,800 (2015 - \$1.1 million) relating to option expense. An additional \$148,000 in share-based compensation expense is included in income from discontinued operations during the year ended December 31, 2016.

As of December 31, 2016, unrecognized non-cash compensation expense related to the outstanding options was \$605,200 (2015 - \$1.1 million), which is expected to be recognized over the remaining vesting period.

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

	For the year ended December 31,	
	2016	2015
Balance, beginning of year	1,853,917	1,325,156
Granted	395,000	615,000
Exercised	(235,928)	(71,989)
Forfeited	(175,000)	(14,250)
Balance, end of year	1,837,989	1,853,917

During the year ended December 31, 2016, 235,928 options were exercised (2015 - 71,989) for total cash consideration of \$2.0 million (2015 - \$398,800). On exercise, the fair value of options that had been expensed to date during the vesting period of \$560,400 (2015 - \$193,600) was transferred from reserve to Common Share capital (Common Share capital was also increased by the cash consideration received upon exercise). For the options exercised in year ended December 31, 2016, the weighted average share price at the date of exercise was \$10.83 (2015 - \$12.33).

At December 31, 2016, the weighted average exercise price is \$9.82 (2015 - \$9.76) and the weighted average remaining contractual life for all options outstanding is 6.9 years (2015 - 7.06 years). The 1,112,239 options exercisable at December 31, 2016 have a weighted average exercise price of \$8.80 (2015 - 1,097,417 options at \$7.89).

An analysis of the options outstanding at December 31, 2016 is as follows:

Grant date	Number of options outstanding	Vested	Expiry date	Exercise price
April 13, 2010	80,000	80,000	April 13, 2020	\$ 4.49
April 25, 2011	206,500	206,500	April 24, 2021	\$ 7.79
June 10, 2011	50,000	50,000	June 9, 2021	\$ 7.73
December 6, 2011	180,000	180,000	December 6, 2021	\$ 6.14
June 25, 2012	186,489	186,489	June 24, 2022	\$ 7.45
December 6, 2012	125,000	125,000	December 6, 2022	\$ 8.86
April 29, 2014	265,000	179,250	April 29, 2024	\$ 14.12
April 16, 2015	200,000	60,000	April 16, 2025	\$ 12.53
April 29, 2015	150,000	45,000	April 29, 2025	\$ 12.24
August 15, 2016	395,000	—	August 15, 2026	\$ 10.17
	1,837,989	1,112,239		

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 period was determined using the Black-Scholes option pricing model with the following assumptions:

	<u>August 15,</u> <u>2016</u>
Number of options granted	395,000
Weighted average share price at date	\$10.17
Expected volatility	30% - 32%
Expected life (years)	5 - 7
Expected dividend yield	7.41%
Risk-free interest rates	0.62% - 0.86%
Weighted average fair value of options granted	\$1.09

	<u>April 29, 2015</u>	<u>April 16, 2015</u>	<u>March 17, 2015</u>
Number of options granted	150,000	290,000	175,000
Weighted average share price at date	\$12.24	\$12.53	\$11.00
Expected volatility	31% - 57%	31% - 57%	31% - 58%
Expected life (years)	5 - 7	5 - 7	5 - 7
Expected dividend yield	6.42%	6.46%	6.95%
Risk-free interest rates	0.59% - 0.95%	0.59% - 0.95%	0.53% - 0.95%
Weighted average fair value of options granted	\$2.40	\$2.31	\$2.22

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

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

(b) Restricted share units

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

	For the year ended December 31,	
	2016	2015
Balance, beginning of year	66,000	60,000
Granted	42,000	44,000
Exercised	(38,000)	(38,000)
Balance, end of year	70,000	66,000

During the year ended December 31, 2016, personnel expenses and share-based compensation reserve included \$471,900 (2015 - \$566,300) relating to RSUs. As of December 31, 2016, unrecognized non-cash compensation expense related to non-vested RSUs was \$169,700 (2015 - \$214,500).

During the year ended December 31, 2016, an aggregate of 42,000 (2015 - 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 typically vest one year from the date of issue and are to be settled by the issue of Common Shares. RSUs granted are in respect of future services and are expensed over the vesting period. Compensation cost is measured based on the market price of the Common Shares on the date of the grant of the RSUs, which was \$10.17 (2015 - \$12.27).

During the year ended December 31, 2016 and 2015, 38,000 RSU's were exercised, upon exercise, the fair value of RSU's that had been expensed during the vesting period of \$466,300 (2015 - \$534,700) was transferred from reserve to Common Share capital. For the RSUs exercised in year ended December 31, 2016, the weighted average share price at the date of exercise was \$10.48 (2015 - \$12.30).

The weighted average remaining contractual life for all RSUs outstanding is 8.4 years (2015 - 8.6 years).

An analysis of the RSUs outstanding at December 31, 2016 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	6,000	6,000	May 23, 2015	\$ 14.07
May 25, 2015	6,000	6,000	May 21, 2025	\$ 12.27
August 15, 2016	42,000	—	August 15, 2026	\$ 10.17
	<u>70,000</u>	<u>28,000</u>		

24. DIVIDENDS

Under the Chesswood credit facility (see Note 14 - *Borrowings*), the maximum cash dividends (or cost of any repurchases under normal course issuer bids) that the Company can pay in respect of a month is 1/12 of 90% (prior to January 25, 2016 - 1/12 of 80%) of free cash flow for the most recently completed four financial quarters in which Chesswood has publicly filed its condensed consolidated interim financial statements (including its annual financial statements in respect of a fourth quarter), including the free cash flow of acquired companies for the corresponding period for periods prior to acquisition dates.

In conjunction with the sale of EcoHome (Note 4(e)), 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 year ended December 31, 2016:

Record date	Payment date	Cash dividend per share (\$)	Total dividend amount
			(\$ thousands)
December 31, 2015	January 15, 2016	\$ 0.065	\$ 1,153
January 29, 2016	February 16, 2016	\$ 0.065	1,154
February 29, 2016 - special	March 15, 2016	\$ 0.500	8,874
February 29, 2016	March 15, 2016	\$ 0.065	1,154
March 31, 2016	April 15, 2016	\$ 0.065	1,154
April 29, 2016	May 16, 2016	\$ 0.065	1,154
May 31, 2016	June 15, 2016	\$ 0.065	1,158
June 30, 2016	July 15, 2016	\$ 0.065	1,158
July 29, 2016	August 15, 2016	\$ 0.065	1,158
August 31, 2016	September 15, 2016	\$ 0.065	1,161
September 30, 2016	October 17, 2016	\$ 0.065	1,161
October 31, 2016	November 15, 2016	\$ 0.065	1,161
November 30, 2016	December 15, 2016	\$ 0.070	1,257
			<u>\$ 22,857</u>

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

Record date	Payment date	Cash dividend per share (\$)	Total dividend amount
			(\$ thousands)
December 30, 2016	January 16, 2017	\$ 0.07	\$ 1,259

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

Record date	Payment date	Cash dividend per share (\$)	Total dividend amount
			(\$ thousands)
January 31, 2017	February 15, 2017	\$ 0.07	\$ 1,259
February 28, 2017	March 15, 2017	\$ 0.07	1,259
			<u>\$ 2,518</u>

The following dividends were paid to Common Shareholders and Exchangeable Securities holders (included as non-controlling interest) during year ended December 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
March 31, 2015	April 15, 2015	\$ 0.065	1,146
April 30, 2015	May 15, 2015	\$ 0.065	1,147
May 29, 2015	June 15, 2015	\$ 0.065	1,152
June 30, 2015	July 15, 2015	\$ 0.065	1,152
July 31, 2015	August 17, 2015	\$ 0.065	1,153
August 31, 2015	September 15, 2015	\$ 0.065	1,153
September 30, 2015	October 15, 2015	\$ 0.065	1,153
October 30, 2015	November 16, 2015	\$ 0.065	1,153
November 30, 2015	December 15, 2015	\$ 0.065	1,153
			<u>\$ 12,682</u>

The following dividend was declared but not paid to Common Shareholders and Exchangeable Securities holders during the year-ended December 31, 2015 and are included in accounts payable and other liabilities:

Record date	Payment date	Cash dividend per share (\$)	Total dividend amount
			(\$ thousands)
December 31, 2015	January 15, 2016	\$ 0.065	\$ 1,153

The following dividends were declared before the financial statements were authorized for issue but not recognized during the year-ended December 31, 2015:

Record date	Payment date	Cash dividend per share (\$)	Total dividend amount
			(\$ thousands)
January 29, 2016	February 15, 2016	\$ 0.065	\$ 1,153
February 29, 2016	March 15, 2016	\$ 0.500	8,875
February 29, 2016	March 15, 2016	\$ 0.065	1,153
			<u>\$ 11,181</u>

25. EARNINGS PER SHARE

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

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

	For the year ended December 31,	
	2016	2015
Weighted average number of common shares outstanding	16,345,328	15,102,043
Dilutive effect of options	357,950	356,639
Dilutive effect of restricted share units	60,339	63,616
Weighted average common shares outstanding for diluted earnings per share	16,763,617	15,522,298
Options and convertible debentures excluded from calculation of diluted shares for the year due to their anti-dilutive effect	1,556,176	1,666,176

26. RELATED PARTY TRANSACTIONS

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

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

	For the year ended December 31,	
	2016	2015
	(\$ thousands)	
Salaries, fees and other short-term employee benefits	\$ 1,144	\$ 1,314
Share-based compensation	929	1,084
Compensation expense of key management	\$ 2,073	\$ 2,398

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

d) The Company paid fees to a related party for consulting services subsequent to his resignation as an officer of Chesswood and Blue Chip. The individual is deemed a related party because he is a Director and owns more than 10% of the outstanding common shares of the Company. The expense incurred during the year ended December 31, 2016 was \$150,000 (2015 - nil) and is included in other expenses in the consolidated statement of income. The consulting arrangement was completed during 2016 and no further fees are expected.

e) See Note 21 - *Common Shares* relating to private placement in March 2015.

27. CASH FLOW SUPPLEMENTARY DISCLOSURE

	For the year ended December 31,	
	2016	2015
	(\$ thousands)	
Other non-cash items included in net income		
Share-based compensation expense	\$ 1,224	\$ 1,463
Amortization of deferred financing costs	740	746
Financing costs - convertible debentures	1,660	602
Unrealized gain on investments	(3)	—
Escrow receivable accretion	(128)	—
Contingent consideration accretion (reduction)	(678)	1,055
Unrealized (gain) loss on interest rate swaps	(15)	846
Unrealized (gain) loss on foreign exchange	(111)	57
	\$ 2,689	\$ 4,769
Change in other net operating assets		
Prepaid expenses and other assets	\$ 654	\$ (80)
Accounts payable and other liabilities	1,545	(562)
Customer security deposits	106	(774)
	\$ 2,305	\$ (1,416)
Borrowings – continuing operations		
Chesswood credit facilities - proceeds	\$ 176,121	\$ 137,770
Chesswood credit facilities - payments	(147,882)	(102,061)
Proceeds from securitization and bulk lease financing facilities	66,298	47,454
Payments under securitization & bulk lease financing facilities	(51,627)	(32,892)
	\$ 42,910	\$ 50,271
Non-cash transactions		
Common shares issued for business acquisition	\$ —	\$ 16,583
Common shares issued on exercise of restricted shares	\$ 466	\$ 535

28. SEGMENT INFORMATION

Selected information by segment and geographically is as follows:

(\$ thousands)	Year ended December 31, 2016				
	Equipment Financing - U.S.	Equipment Financing - Canada	Discontinued Operations (Note 4)	Corporate Overhead - Canada	Total
Interest revenue on leases and loans	\$ 67,033	\$ 10,432		\$ —	\$ 77,465
Ancillary finance and other fee income	9,440	4,259		419	14,118
Interest expense	(6,178)	(3,646)		—	(9,824)
Provision for credit losses	(24,063)	(1,756)		—	(25,819)
Finance margin	46,232	9,289		419	55,940
Personnel expenses	8,719	2,611		1,377	12,707
Share-based compensation expense	206	67		951	1,224
Other expenses	8,169	1,553		1,665	11,387
Amortization - property and equipment	293	19		—	312
Income before undernoted items	28,845	5,039		(3,574)	30,310
Amortization - intangible assets, contingent consideration accretion/reduction (non-cash)	—	(1,337)		678	(659)
Fair value adjustments - convertible debentures and investments	—	—		(1,657)	(1,657)
Unrealized gain on interest rate swaps	—	—		15	15
Unrealized gain on foreign exchange	—	—		111	111
Income before taxes	28,845	3,702		(4,427)	28,120
Tax expense	8,498	1,032		1,273	10,803
Income from continuing operations	20,347	2,670		(5,700)	17,317
Income from discontinued operations	—	—	\$ 6,961	—	6,961
Net income	\$ 20,347	\$ 2,670	\$ 6,961	\$ (5,700)	\$ 24,278
Net cash used in operating activities	\$ (26,048)	\$ (12,772)	\$ (2,600)	\$ (5,400)	\$ (46,820)
Net cash from investing activities	\$ (844)	\$ —	\$ —	\$ 24,964	\$ 24,120
Net cash from financing activities	\$ —	\$ 14,623	\$ (1,703)	\$ 5,613	\$ 18,533
Total assets	\$ 330,549	\$ 172,073	\$ 5,903	\$ 19,412	\$ 527,937
Total liabilities	\$ 39,655	\$ 117,734	\$ —	\$ 212,654	\$ 370,043
Finance receivables	\$ 300,269	\$ 130,779	\$ —	\$ —	\$ 431,048
Goodwill and intangible assets	\$ 21,691	\$ 40,988	\$ —	\$ —	\$ 62,679
Property and equipment expenditures	\$ 844	\$ —	\$ —	\$ —	\$ 844

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

Chesswood's U.S. Equipment Financing business is located in the United States and is involved in small-ticket equipment leasing and lending to small and medium-sized businesses. For the purpose of this segment information note, at December 31, 2016 and 2015, 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.

	Year ended December 31, 2015				
	Equipment Financing - U.S.	Equipment Financing - Canada	Discontinued Operations (Note 4)	Corporate overhead - Canada	Total
(\$ thousands)					
Interest revenue on leases and loans	\$ 58,624	\$ 8,025		\$ —	\$ 66,649
Ancillary finance and other fee income	7,148	2,780		—	9,928
Interest expense	(5,067)	(2,696)		—	(7,763)
Provision for credit losses	(18,371)	(558)		—	(18,929)
Finance margin	42,334	7,551		—	49,885
Personnel expenses	6,828	2,148		1,231	10,207
Share-based compensation expense	243	66		1,155	1,464
Other expenses	6,060	1,531		1,586	9,177
Amortization - property and equipment	216	22		15	253
Income before undernoted items	28,987	3,784		(3,987)	28,784
Acquisition related items	—	—		(897)	(897)
Amortization - intangible assets, contingent consideration accretion (non-cash)	—	(1,180)		(1,058)	(2,238)
Fair value adjustments - convertible debentures	—	—		(602)	(602)
Unrealized loss on interest rate swaps	—	—		(846)	(846)
Unrealized loss on foreign exchange	—	—		(57)	(57)
Income before taxes	28,987	2,604		(7,447)	24,144
Tax expense	9,420	801		1,560	11,781
Income from continuing operations	19,567	1,803		(9,007)	12,363
Income from discontinued operations	—	—	7,441	—	7,441
Net income	\$ 19,567	\$ 1,803	\$ 7,441	\$ (9,007)	\$ 19,804
Net cash used in operating activities	\$ (31,302)	\$ (13,304)	\$ (7,214)	\$ (5,142)	\$ (56,962)
Net cash used in investing activities	\$ (201)	\$ 2,561	\$ (73)	\$ (25,830)	\$ (23,543)
Net cash from financing activities	\$ —	\$ 14,562	\$ 13,762	\$ 56,415	\$ 84,739
Total assets	\$ 290,580	\$ 155,558	\$ 107,840	\$ 11,532	\$ 565,510
Total liabilities	\$ 38,372	\$ 101,893	\$ 73,808	\$ 194,882	\$ 408,955
Finance receivables	\$ 253,083	\$ 112,476		\$ —	\$ 365,559
Goodwill and intangible assets	\$ 22,359	\$ 42,226		\$ —	\$ 64,585
Property and equipment expenditures	\$ 201	\$ 53		\$ —	\$ 254

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.