

CHESSWOOD GROUP LIMITED

NOTICE TO READERS

Accompanying this notice are the unaudited condensed consolidated interim financial statements of Chesswood Group Limited for the three and nine months ended September 30, 2018. These statements have been prepared by, and are the responsibility of, the Company's management.

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

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

	<i>Note</i>	September 30, 2018 <i>(unaudited)</i>	December 31, 2017 <i>(audited)</i>
ASSETS			
Cash		\$ 4,589	\$ 3,640
Restricted funds	9(d)	9,192	5,971
Assets held for sale	5	2,069	3,371
Other assets	6	7,778	17,564
Finance receivables	7	679,784	550,650
Deferred tax assets		438	755
Interest rate derivatives		1,729	185
Property and equipment		1,723	1,935
Intangible assets		18,721	19,684
Goodwill		40,287	39,857
TOTAL ASSETS		\$ 766,310	\$ 643,612
LIABILITIES			
Accounts payable and other liabilities	8	\$ 14,982	\$ 14,889
Convertible debentures		—	20,090
Borrowings	9	553,188	412,155
Customer security deposits		15,727	14,012
Interest rate derivatives		—	43
Deferred tax liabilities		20,787	21,202
		604,684	482,391
SHAREHOLDERS' EQUITY			
Common shares	12	104,892	105,208
Non-controlling interest		13,403	13,230
Share-based compensation reserve		5,179	5,295
Accumulated other comprehensive income		13,633	10,776
Retained earnings		24,519	26,712
		161,626	161,221
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 766,310	\$ 643,612

Please see notes to the condensed consolidated interim financial statements.

CHESSWOOD GROUP LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(in thousands of dollars, except per share amounts, unaudited)

		Three months ended September 30,		Nine months ended September 30,	
	<i>Note</i>	2018	2017	2018	2017
Finance revenue					
Interest revenue on finance leases and loans		\$ 24,407	\$ 19,648	\$ 68,265	\$ 59,258
Ancillary finance and other fee income		4,491	3,707	12,830	11,434
		<u>28,898</u>	<u>23,355</u>	<u>81,095</u>	<u>70,692</u>
Finance expenses					
Interest expense		7,213	3,868	18,681	10,537
Provision for credit losses	7	4,111	6,473	13,695	16,152
		<u>11,324</u>	<u>10,341</u>	<u>32,376</u>	<u>26,689</u>
Finance margin		<u>17,574</u>	<u>13,014</u>	<u>48,719</u>	<u>44,003</u>
Expenses					
Personnel expenses		4,410	3,478	12,548	11,039
Other expenses		3,624	2,700	10,010	8,589
Depreciation - property and equipment		125	118	361	318
		<u>8,159</u>	<u>6,296</u>	<u>22,919</u>	<u>19,946</u>
Income before undernoted items		9,415	6,718	25,800	24,057
Amortization - intangible assets		(333)	(508)	(1,179)	(1,178)
Unrealized loss on investments held		—	(876)	(151)	(2,537)
Financing costs - convertible debentures		—	100	29	(590)
Unrealized gain on interest rate derivatives		256	124	1,575	276
Unrealized loss on foreign exchange		(58)	(31)	(146)	(23)
Income before taxes		<u>9,280</u>	<u>5,527</u>	<u>25,928</u>	<u>20,005</u>
Tax expense		(3,007)	(2,220)	(8,108)	(8,068)
Income from continuing operations		<u>6,273</u>	<u>3,307</u>	<u>17,820</u>	<u>11,937</u>
Loss from discontinued operations		<u>(181)</u>	<u>(119)</u>	<u>(212)</u>	<u>(304)</u>
Net income		<u>\$ 6,092</u>	<u>\$ 3,188</u>	<u>\$ 17,608</u>	<u>\$ 11,633</u>
Attributable to:					
Common shareholders		\$ 5,589	\$ 2,926	\$ 16,158	\$ 10,677
Non-controlling interest		\$ 503	\$ 262	\$ 1,450	\$ 956
Basic earnings per share	15	\$ 0.34	\$ 0.18	\$ 0.98	\$ 0.65
Diluted earnings per share	15	\$ 0.33	\$ 0.18	\$ 0.96	\$ 0.63

Please see notes to the condensed consolidated interim financial statements.

CHESSWOOD GROUP LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(in thousands of dollars, unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net income	\$ 6,092	\$ 3,188	\$ 17,608	\$ 11,633
Other comprehensive income:				
Unrealized gain (loss) on translation of foreign operations	(1,585)	(4,255)	3,113	(8,159)
Comprehensive income (loss)	<u>\$ 4,507</u>	<u>\$ (1,067)</u>	<u>\$ 20,721</u>	<u>\$ 3,474</u>
Attributable to:				
Common shareholders	\$ 4,134	\$ (979)	\$ 19,014	\$ 3,189
Non-controlling interest	\$ 373	\$ (88)	\$ 1,707	\$ 285

Please see notes to the condensed consolidated interim financial statements.

CHESSWOOD GROUP LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(in thousands of dollars, unaudited)

	<i>Note</i>	Common shares	Common shares	Non- controlling interest	Share-based compensation reserve	Accumulated other comprehensive income	Retained earnings	2018 Total
		(# '000s)						
Shareholders' equity - December 31, 2017		16,575	\$ 105,208	\$ 13,230	\$ 5,295	\$ 10,776	\$ 26,712	\$ 161,221
Impact of adopting IFRS 9 on January 1, 2018	<i>1</i>	—	—	(602)	—	—	(6,753)	(7,355)
Restated balance at January 1, 2018		16,575	105,208	12,628	5,295	10,776	19,959	153,866
Net income		—	—	1,450	—	—	16,158	17,608
Dividends declared	<i>14</i>	—	—	(931)	—	—	(10,375)	(11,306)
Share-based compensation	<i>13</i>	—	—	—	859	—	—	859
Exercise of restricted share units	<i>13</i>	70	806	—	(806)	—	—	—
Exercise of options	<i>13</i>	83	741	—	(169)	—	—	572
Repurchase of common shares under issuer bid	<i>12</i>	(293)	(1,863)	—	—	—	(1,223)	(3,086)
Unrealized gain on translation of foreign operations		—	—	256	—	2,857	—	3,113
Shareholders' equity - September 30, 2018		16,435	\$ 104,892	\$ 13,403	\$ 5,179	\$ 13,633	\$ 24,519	\$ 161,626

	<i>Note</i>	Common shares	Common shares	Non-controlling interest	Share-based compensation reserve	Accumulated other comprehensive income	Retained earnings	2017 Total
		(# '000s)						
Shareholders' equity - December 31, 2016		16,514	\$ 104,596	\$ 13,049	\$ 4,780	\$ 18,196	\$ 17,273	\$ 157,894
Net income		—	—	956	—	—	10,677	11,633
Dividends declared	<i>14</i>	—	—	(931)	—	—	(10,425)	(11,356)
Share-based compensation	<i>13</i>	—	—	—	752	—	—	752
Exercise of restricted share units	<i>13</i>	38	387	—	(387)	—	—	—
Exercise of options	<i>13</i>	18	175	—	(52)	—	—	123
Unrealized loss on translation of foreign operations		—	—	(670)	—	(7,489)	—	(8,159)
Shareholders' equity - September 30, 2017		16,570	105,158	12,404	5,093	10,707	17,525	150,887
Net income		—	—	1,130	—	—	12,668	13,798
Dividends declared		—	—	(311)	—	—	(3,481)	(3,792)
Share-based compensation		—	—	—	213	—	—	213
Exercise of options		5	50	—	(11)	—	—	39
Unrealized gain on translation of foreign operations		—	—	7	—	69	—	76
Shareholders' equity - December 31, 2017		16,575	\$ 105,208	\$ 13,230	\$ 5,295	\$ 10,776	\$ 26,712	\$ 161,221

Please see notes to the condensed consolidated interim financial statements.

CHESSWOOD GROUP LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(in thousands of dollars, unaudited)

		Three months ended September 30,		Nine months ended September 30,	
	<i>Note</i>	2018	2017	2018	2017
OPERATING ACTIVITIES					
Income from continuing operations		\$ 6,273	\$ 3,307	\$ 17,820	\$ 11,937
Non-cash items included in net income					
Amortization and depreciation		458	626	1,540	1,496
Provision for credit losses <i>(excluding recoveries)</i>		6,385	8,821	20,460	22,140
Amortization of origination costs		6,069	4,619	16,953	13,757
Tax expense		3,007	2,220	8,108	8,068
Other non-cash items	17	800	1,294	1,517	4,528
		<u>16,719</u>	<u>17,580</u>	<u>48,578</u>	<u>49,989</u>
Cash from operating activities before change in net operating assets		22,992	20,887	66,398	61,926
Funds advanced on origination of finance receivables		(98,788)	(81,296)	(306,163)	(247,865)
Origination costs paid on finance receivables		(8,435)	(7,095)	(26,268)	(21,964)
Principal collections of finance receivables		61,522	43,841	169,548	133,647
Change in other net operating assets	17	4,845	269	2,897	3,135
		<u>(17,864)</u>	<u>(23,394)</u>	<u>(93,588)</u>	<u>(71,121)</u>
Cash used in operating activities before undernoted					
Interest paid on convertible debentures		—	—	(61)	(650)
Income taxes paid - net		3,529	(1,288)	(2,260)	(9,435)
		<u>(14,335)</u>	<u>(24,682)</u>	<u>(95,909)</u>	<u>(81,206)</u>
Cash used in operating activities - continuing operations					
Cash from operating activities - discontinued operations	5	352	180	1,197	1,417
Cash used in operating activities		<u>(13,983)</u>	<u>(24,502)</u>	<u>(94,712)</u>	<u>(79,789)</u>
INVESTING ACTIVITIES					
Purchase of property and equipment		(56)	(187)	(162)	(799)
Cash used in investing activities		<u>(56)</u>	<u>(187)</u>	<u>(162)</u>	<u>(799)</u>
FINANCING ACTIVITIES					
Borrowings, net	17	22,601	32,962	133,095	91,209
Payment of financing costs		(2,338)	(510)	(3,518)	(862)
Redemption of convertible debentures		—	—	(20,000)	—
Proceeds from exercise of options		274	—	571	123
Repurchase of common shares under issuer bid		—	—	(3,086)	—
Cash dividends paid		(3,757)	(3,789)	(11,316)	(11,352)
Cash from financing activities		<u>16,780</u>	<u>28,663</u>	<u>95,746</u>	<u>79,118</u>
Unrealized foreign exchange gain (loss) on cash		2	(419)	77	(606)
Net increase (decrease) in cash		2,743	3,555	949	(2,076)
Cash, beginning of period		1,846	5,812	3,640	11,443
Cash, end of period		<u>\$ 4,589</u>	<u>\$ 9,367</u>	<u>\$ 4,589</u>	<u>\$ 9,367</u>

Please see notes to the condensed consolidated interim financial statements.

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1. NATURE OF BUSINESS AND BASIS OF PREPARATION

Chesswood Group Limited (the “Company” or “Chesswood”) is incorporated under the laws of the Province of Ontario. The Company’s head office is located at 156 Duncan Mill Road, Unit 16, Toronto, Ontario, M3B 3N2, and its shares trade on the Toronto Stock Exchange under the symbol CHW.

The Company holds a 100% interest in Chesswood Holdings Ltd. Chesswood Holdings Ltd. owns 100% of the shares of the operating companies: Blue Chip Leasing Corporation (“Blue Chip”), Lease-Win Limited, Case Funding Inc. (“Case Funding”), as well as 100% of the shares of Chesswood U.S. Acquisition Co Ltd. (“U.S. Acquisitionco”), a corporation which owns 100% of the shares of the operating company Pawnee Leasing Corporation (“Pawnee”), incorporated in Colorado, United States, and Windset Capital Corporation (“Windset”), incorporated in Delaware, United States. As well, Pawnee holds, through wholly-owned special purpose vehicles, a portfolio of leases which it has securitized to arm's length financial institutions.

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

- Pawnee - micro and small-ticket equipment financing to small and medium-sized businesses in the United States.
- Windset - provided working capital loans to small businesses in 33 states of the United States. The company ceased accepting loan applications in September 2016, but does not meet the criteria for a discontinued operation.
- Blue Chip - commercial equipment financing to small and medium businesses in Canada.

Discontinued operations include:

- 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 in accordance with IAS 34, *Interim Financial Reporting*, on a basis consistent with the accounting policies disclosed in the audited consolidated financial statements for the year ended December 31, 2017, except for the effects of adopting IFRS 9, *Financial Instruments*, see Note 2 - *New Accounting Standards*.
- 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.
- should be read in conjunction with the Company's most recently issued Annual Report which includes information necessary, or useful, to understanding the Company's businesses and financial reporting.
- are unaudited (except otherwise noted).
- reflect adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for a fair statement of results for the interim periods in accordance with IFRS. The results reported in these condensed consolidated interim financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

The preparation of condensed interim consolidated financial statements, including the application of accounting policies, requires management to make estimates and assumptions using judgment that affect the reported amounts of assets and liabilities, and income and expenses during the reporting period. Estimates and other judgments are continually evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates. In preparing these condensed interim consolidated financial statements, the significant estimates and judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited consolidated financial statements for the year ended December 31, 2017.

The reporting currency is the Canadian dollar and the financial statements are presented in thousands of Canadian dollars except per share amounts and as otherwise noted. The functional currency of the Company, Chesswood Holdings Ltd., Blue Chip and Lease-Win Limited is the Canadian dollar. The functional currency of U.S. Acquisitionco, Pawnee, Windset and Case Funding is the United States dollar. Income and expenses of subsidiaries with a different functional currency than the Company's presentation currency are translated in the Company's consolidated financial statements at the average U.S. dollar exchange rate for the reporting period [for the nine months ended September 30, 2018 - 1.2876; 2017 - 1.3074], and assets and liabilities are translated at the closing rate [as at September 30, 2018 - 1.2945; December 31, 2017 - 1.2545].

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

The Company's unaudited condensed consolidated interim financial statements were authorized for issue on November 8, 2018 by the Board of Directors.

2. NEW ACCOUNTING STANDARDS

New accounting standards and amendment adopted in 2018

IFRS 9 Financial Instruments

The Company adopted IFRS 9 on January 1, 2018, retrospectively, but without restatement of prior periods. The accounting policy for financial instruments is described in detail in Note 3 - *Financial Instruments* and Note 7(b) - *Finance Receivables: Allowance for doubtful accounts*. The effects of adoption of IFRS 9 on the Company's financial position are described below. For financial risk management disclosure, please see Note 4 - *Financial Risk Management*.

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. IFRS 9 did not have any effect on the Company's classification or measurement of financial assets or liabilities, other than impairment losses of financial receivables.

IFRS 9 also requires an entity choosing to measure a liability at fair value to present the portion of the change in fair value due to changes in the entity's own credit risk in other comprehensive income or loss in the entity's statement of comprehensive income, rather than within profit or loss. The standard also includes revised guidance related to de-recognition of financial instruments. These requirements had no effect on the Company's financial statements.

Under IAS 39, *Financial Instruments: Measurement and Recognition*, the predecessor to IFRS 9, a financial asset or group of financial assets was deemed to be impaired if, and only if, there was objective evidence of impairment at the reporting date as a result of one or more events that had occurred after initial recognition of the asset (an incurred loss event). Measurement of impairment of financial assets under IFRS 9 is based on an Expected Credit Loss ("ECL") model which also takes into account reasonable and supportable forecasts of future events and economic conditions. Transition to the new model resulted in an increase in the allowance for doubtful accounts against finance receivables as at January 1, 2018 of approximately \$9.6 million and a reduction in shareholders' equity and non-controlling interest of approximately \$7.4 million after-tax. A reconciliation of the allowance under IAS 39 at December 31, 2017 to the January 1, 2018 IFRS 9 allowance is provided at Note 7(b) - *Finance receivables: allowance for doubtful accounts*.

An option is available to recognize a lifetime ECL on initial recognition of leases. The Company has not exercised this option because sufficient credit risk information is available for application of the general requirements of the standard which, because of the duration of the Company's lease agreements, will result in higher quality financial information. This option is not available to loan receivables and the Company wanted consistent treatment for all of its financial receivables.

Calculation of interest income

For financial receivables in Stages 1 and 2 (see Note 7(b) for description), interest revenue is recognized using the effective interest rate applied to the gross carrying amount of the asset. Interest is recognized for financial receivables in Stage 3 at the effective interest rate applied to the net carrying amount of the asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

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 adopted the new standard on January 1, 2018, with no effect on ancillary finance and other fee revenue.

IFRS 2 Share-based Payments, amendment

The Company adopted the amendments to IFRS 2, *Share-based Payments* with no impact on the Company's financial statements.

Accounting standard not yet effective

IFRS 16 Leases

IFRS 16, *Leases*, replaces IAS 17, *Leases*, 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. 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 is of low value. The Company plans to adopt the standard for the year ending December 31, 2019.

The Company does not expect any substantive changes to the Company's finance receivables. The Company will be required to recognize new assets and liabilities for the operating leases of its office premises at the Pawnee and Blue Chip locations. In addition, the nature of expenses related to those leases will now change from straight-line operating lease expense to a depreciation charge for right-of-use assets and interest expense on the lease liabilities. The expected amount for the new asset and liability would be the net present value amount of the lease commitments included in Other financial commitments in Note 10 - *Minimum Payments*. The Company has opted to apply the standard retrospectively without restatement of prior periods. Any adjustments will be reflected in the opening balance of retained earnings for the year ended December 31, 2019 and the Company is in the process of applying that effect.

3. FINANCIAL INSTRUMENTS

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

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

Financial assets

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's cash, restricted funds, net investment in leases, loan receivables, and convertible note receivable (included in Other assets on the condensed consolidated interim statements of financial position) are classified as loans and receivables. Broker commissions related to the origination of finance leases are deferred and recorded as an adjustment to the yield of the net investment in finance leases. Such financial assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of income when the loans or receivables are derecognized or impaired.

Financial assets at fair value through net income or loss

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

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

The Company's investment in Dealnet common shares (included in Other Assets on the condensed consolidated interim statements of financial position) is classified in this category.

Fair value through other comprehensive income

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. Financial assets measured at fair value through other comprehensive income for which fair value cannot be estimated reliably, are measured at cost and any impairment losses 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 at fair value through other comprehensive income. See Note 5 - *Discontinued Operations*.

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, IFRS 9 requires embedded derivatives to be separately recognized and measured at fair value; whereas, changes in fair value in periods subsequent to initial recognition are recognized in net income. In order to avoid the measurement inconsistencies that would result from separate accounting for multiple embedded derivatives, IFRS 9 allows an entity to designate the entire hybrid contract as at fair value through net income or loss. All contingent consideration payable is also included in this category. Derivative financial instruments that are designated as effective hedge instruments are excluded from this category.

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

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

Loans and borrowings

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

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

(a) Categories and measurement hierarchy

The categories to which the financial instruments are allocated are:

AFS	Available for sale	FVTP	Fair value through net income or loss
L&R	Loans and receivables	FVOCI	Fair value through other comprehensive income
L&B	Loans and borrowings		

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

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

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

September 30, 2018					
	<u>Category</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Carrying Value</u>
ASSETS					(\$ thousands)
Cash (iii)	L&R	\$ 4,589	\$ —	\$ —	\$ 4,589
Restricted funds (iii)	L&R	9,192	—	—	9,192
Other assets	L&R	—	5,457	—	5,457
Other assets	FVTP	483	—	—	483
Loan receivables (i)	L&R	—	258,720	—	258,720
Interest rate derivatives (v)	FVTP	—	1,729	—	1,729
LIABILITIES					
Accounts payable and other liabilities (iii)	L&B	—	(14,982)	—	(14,982)
Borrowings (ii)	L&B	—	(553,188)	—	(553,188)
Customer security deposits	L&B	—	(15,727)	—	(15,727)
December 31, 2017					
	<u>Category</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Carrying Value</u>
ASSETS					(\$ thousands)
Cash (iii)	L&R	\$ 3,640	\$ —	\$ —	\$ 3,640
Restricted funds (iii)	L&R	5,971	—	—	5,971
Other assets	L&R	—	9,629	—	9,629
Other assets	FVTP	634	—	—	634
Loan receivables (i)	L&R	—	177,879	—	177,879
Interest rate derivatives (v)	FVTP	—	185	—	185
LIABILITIES					
Accounts payable and other liabilities (iii)	L&B	—	(14,889)	—	(14,889)
Borrowings (ii)	L&B	—	(412,155)	—	(412,155)
Customer security deposits	L&B	—	(14,012)	—	(14,012)
Convertible debentures (iv)	FVTP	(20,090)	—	—	(20,090)
Interest rate derivatives (v)	FVTP	—	(43)	—	(43)

- (i) There is no organized market for the finance receivables. Therefore the carrying value is the amortized cost using the effective interest rate method. The contractual interest rates approximate current market rates.
- (ii) The stated value of the borrowings approximates fair values, as the interest rates attached to these instruments are representative of current market rates, for loans with similar terms, conditions and maturities.
- (iii) Carrying amounts are expected to be reasonable approximations of fair value for cash, restricted funds and for financial instruments with short maturities, including accounts payable and other liabilities.
- (iv) The convertible debentures have several embedded derivative features which were determined to not meet the criteria for treatment as equity components and would otherwise be required to be recognized as separate financial instruments, measured at fair value through net income or loss. Prior to January 1, 2018, the Company had elected under IAS 39.11A to designate the entire convertible debentures (and all the embedded derivatives) as a combined financial liability at fair value through net income or loss. The fair value of the convertible debentures at December 31, 2017 is based on their trading price on the Toronto Stock Exchange. The debentures were repaid in January 2018.
- (v) The Company determines the fair value of its interest rate derivatives under the income valuation technique using a discounted cash flow model. Significant inputs to the valuation model include the contracted notional amount, LIBOR rate yield curves

and the applicable credit-adjusted risk-free rate yield curve. The Company's interest rate derivative is included in the Level 2 fair value hierarchy because all of the significant inputs are directly or indirectly observable.

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

(b) *Gains and losses on financial instruments*

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
	(\$ thousands)			
Loans and receivables:				
Provision for credit losses	\$ (4,111)	\$ (6,473)	\$ (13,695)	\$ (16,152)
Designated as at fair value through net income or loss:				
Convertible debentures	—	100	29	(590)
Fair value through net income or loss:				
Investment in Dealnet common shares	—	(876)	(151)	(2,537)
Interest rate derivatives	256	124	1,575	276
Net loss	\$ (3,855)	\$ (7,125)	\$ (12,242)	\$ (19,003)

4. FINANCIAL RISK MANAGEMENT

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

There have been no material changes in the Company's objectives, policies or processes for measuring and managing any of the risks to which it is exposed since the previous year end. Refer to Note 4 - *Financial Risk Management* of the 2017 annual audited consolidated financial statements for further disclosure.

5. DISCONTINUED OPERATIONS

On February 3, 2015, Case Funding sold certain assets and operations to a private equity firm (the "Purchaser"). Case Funding retained approximately \$9.4 million in finance receivables with a current balance of \$2.1 million and pays a servicing fee of 5% of collections to administer the remaining portfolio. For further details on Case Funding and a discussion on significant judgments and estimates used in valuing legal finance receivables, refer to Note 5(c) - *Discontinued Operations* of the 2017 annual audited consolidated financial statements.

Case Funding's net loss, included in loss from discontinued operations, for the nine months ended September 30, 2018 totaled \$212,000 compared to \$304,000 recorded in the same period in the prior year. For the nine months ended September 30, 2018, Case Funding generated cash flows from operations of \$1.2 million compared to \$1.4 million recorded in the same period in the prior year. For the three months ended September 30, 2018, Case Funding's net loss totaled \$181,000 compared to \$119,000 net loss recorded in the same period in the prior year. For the three months ended September 30, 2018, Case Funding generated cash flows from operations of \$352,000 compared to \$180,000 recorded in the same period in the prior year.

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 September 30, 2018, it was determined an allowance of \$78,000 (December 31, 2017 - \$207,000) was required.

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

	September 30, 2018	December 31, 2017
Legal finance receivables (Case Funding) consist of:		
	(\$ thousands)	
Attorney loans and medical liens	\$ 52	\$ 68
Plaintiff advances	2,017	3,303
Legal finance receivables (net of allowance)	2,069	3,371
Current portion (i)	513	838
Long-term portion	\$ 1,556	\$ 2,533

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

The fair values are classified using the measurement hierarchy (described in Note 3 - *Financial Instruments*) as follows:

ASSETS HELD FOR SALE						September 30, 2018
(\$ thousands)	<u>Category</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		<u>Carrying Value</u>
Attorney loans and medical liens (ii)	L&R	\$ —	\$ 52	\$ —	\$	52
Plaintiff advances	FVOCI	—	—	2,017		2,017

ASSETS HELD FOR SALE						December 31, 2017
(\$ thousands)	<u>Category</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		<u>Carrying Value</u>
Attorney loans and medical liens (ii)	L&R	\$ —	\$ 68	\$ —	\$	68
Plaintiff advances	FVOCI	—	—	3,303		3,303

- (ii) 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.

6. OTHER ASSETS

Other assets comprise:

	September 30, 2018	December 31, 2017
	(\$ thousands)	
Property tax receivable	\$ 497	\$ 527
Tax receivable	31	5,763
Sales tax receivable	401	342
Prepaid expenses and other current assets	909	669
Loan receivable - EcoHome	a 5,457	7,129
Common shares - Dealnet	b 483	634
Convertible note - Dealnet	c —	2,500
Other assets	7,778	17,564
Current portion	4,541	9,801
Long-term portion	\$ 3,237	\$ 7,763

(a) Loan receivable - EcoHome - The loan receivable is carried at amortized cost. The loan receivable is secured by specific EcoHome leases and loans and a general security agreement over all the assets of EcoHome. The loan matures in October 2020, with fixed monthly principal payments, and related interest based on a floating interest rate plus a fixed margin. At September 30, 2018 and December 31, 2017, it was determined no allowance against the loan receivable was required.

(b) Common shares - Dealnet - as partial consideration for the sale of EcoHome in 2016, the Company received 6,039,689 common shares of Dealnet. The Dealnet shares are measured at fair value through net income or loss. The fair value represents the trading price at each reporting date. Dealnet shares trade on the TSX Venture Exchange under the stock symbol "DLS".

(c) Convertible note - Dealnet - as partial consideration for the sale of EcoHome in 2016, the Company received a \$2.5 million convertible note of Dealnet, bearing interest at 6% per annum, which matured in February 2018 and was repaid.

7. FINANCE RECEIVABLES

Finance receivables comprise:

	September 30, 2018	December 31, 2017
	(\$ thousands)	
Net investment in leases	\$ 421,064	\$ 372,771
Loan receivables	258,720	177,879
	<u>\$ 679,784</u>	<u>\$ 550,650</u>

The Company finances its leases and loan receivables by pledging such receivables as security for amounts borrowed from lenders under warehouse, securitization and bulk lease facilities and the general corporate credit facility. The lenders have the right to enforce their security interest in the pledged lease and loan receivables if the Company defaults under these facilities. Therefore, the Company retains ownership (in some cases through consolidated Special Purpose Entities (SPE's)) and servicing responsibilities of the pledged lease and loan receivables and continues to recognize them on the consolidated statement of financial position.

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

	September 30, 2018	December 31, 2017
	(\$ thousands)	
Total minimum payments	\$ 830,010	\$ 669,656
Residual values of leased equipment	23,721	21,482
	<u>853,731</u>	<u>691,138</u>
Unearned income, net of initial direct costs of acquisition	(154,704)	(130,469)
Net investment in finance receivables before allowance for doubtful accounts	<u>699,027</u>	<u>560,669</u>
Allowance for doubtful accounts (b)	(22,137)	(11,926)
	<u>676,890</u>	<u>548,743</u>
Reserve receivable on securitized financial contracts	2,894	1,907
Net investment in finance receivables	<u>679,784</u>	<u>550,650</u>
Current portion	238,702	194,919
Long-term portion	<u>\$ 441,082</u>	<u>\$ 355,731</u>

(b) Allowance for doubtful accounts

The Company measures loss allowances based on an expected credit loss impairment ("ECL") model for all financial instruments except those measured at fair value through profit and loss. Application of the model depends on the following credit stages of the financial assets:

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

Lease and loan receivables at Pawnee 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.

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument and consider reasonable and supportable information about past events, current conditions, and forecasts of future events and economic conditions that impact the Company's credit risk assessment.

For Stage 1, the Company utilized recent static pool data applied to recent origination levels and the inclusion of forward-looking macroeconomic assumptions under the expected credit loss (ECL) methodology.

For Stage 2, the Company considers leases and loans to have experienced a significant increase in credit risk since initial recognition if:

- for non-prime finance receivables, when they are delinquent for over 30 days and further includes approximately 15% of 1-30 day delinquent receivables, and
- for prime receivables when they are 60 days delinquent.

For Stage 3, the Company considers lease and loans to be credit impaired if they are delinquent for more than 90 days or if the individual leases and loans have otherwise been classified as non-accrual.

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. Customer security deposits on hand were considered when estimating future expected credit losses.

Pawnee and Blue Chip are entitled to repossess financed equipment if the borrower defaults on their lease or loan contract. When a lease or loan is charged-off, the related equipment no longer has a carrying value on the consolidated financial statements. Any amounts recovered from the sale of equipment after a charge-off, are credited to the allowance for doubtful accounts when received. Repossessed equipment is generally held at various warehouses by the company's third party contractors to repossess and sell the equipment. As Pawnee and Blue Chip finance a wide range of small equipment with a cost that does not typically exceed \$35,000 at the start of the contract, it is difficult to estimate the fair value of the potential collateral when estimating future expected credit losses.

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

An option is available to recognize a lifetime ECL on initial recognition of leases. The Company has not exercised this option because sufficient credit risk information is available for application of the general requirements of the standard which, because

of the duration of the Company's lease agreements, will result in higher quality financial information. This option is not available to loan receivables and the Company wanted consistent treatment for all of its financial receivables that are very similar in nature.

The following tables show reconciliations from the opening to the closing balance of the allowance for impairment:

	For the nine months ended September 30,				2017 ⁽ⁱ⁾
	Stage 1 12-month ECL ⁽ⁱ⁾	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	2018 Total	
	(\$ thousands)				
Balance, beginning of period, per IAS 39	\$ —	\$ 4,729	\$ 7,197	\$ 11,926	\$ 12,253
Adoption of IFRS 9	9,636	—	—	9,636	
Balance, January 1, 2018 per IFRS 9	9,636	4,729	7,197	21,562	
Transfer to 12-month ECL (Stage 1)	1,007	(836)	(171)	—	
Transfer to lifetime ECL non credit-impaired (Stage 2)	(2,377)	2,452	(75)	—	
Transfer to ECL credit-impaired (Stage 3)	(16,832)	(2,546)	19,378	—	
Net remeasurement of loss allowance	14,495	(813)	(7,161)	6,521	
New receivables originated	5,492	1,274	1,274	8,040	
Changes in models/risk parameters	(866)	—	—	(866)	
Provision for credit losses	919	(469)	13,245	13,695	16,152
Charge-offs	—	—	(20,478)	(20,478)	(21,097)
Recoveries of amounts previously charged off	—	—	6,725	6,725	5,989
Net charge-offs	—	—	(13,753)	(13,753)	(15,108)
Impact of change in foreign exchange rates	297	129	207	633	(801)
Balance, end of period	\$ 10,852	\$ 4,389	\$ 6,896	\$ 22,137	\$ 12,496

(i) Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

Pawnee charges off leases and loans when they become 154 days contractually past due, unless information indicates that an earlier charge-off is warranted. A high percentage of charge-offs are recognized before the subject leases/loans reach 154 days contractually past due. Blue Chip charges off leases and loans on an individual basis when there is no realistic prospect of recovery. Loan and lease receivables that are charged-off during the period are all subject to continued collection efforts.

(c) Finance receivables past due

The following aging represents the total carrying amount of the lease and loan receivables and not just the payments that are past due. The balances presented exclude the \$15.7 million (December 31, 2017 - \$14.0 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.

	<u>As of September 30, 2018</u>					
(\$ thousands)	Current	1-30 days	31 - 60 days	61 - 90 days	Over 90 days	Total
Equipment lease receivables	\$ 421,705	\$ 7,002	\$ 1,899	\$ 1,038	\$ 2,683	\$ 434,327
Loan receivables	257,180	4,855	1,155	519	991	264,700
	678,885	11,857	3,054	1,557	3,674	699,027
Credit impaired	715	601	717	1,503	3,360	6,896
Past due but not impaired	\$ —	\$ 11,256	\$ 2,337	\$ 54	\$ 314	\$ 13,961

	<u>As of December 31, 2017</u>					
(\$ thousands)	Current	1-30 days	31 - 60 days	61 - 90 days	Over 90 days	Total
Equipment lease receivables	\$ 366,436	\$ 7,356	\$ 2,220	\$ 849	\$ 2,802	\$ 379,663
Loan receivables	175,859	3,209	753	335	850	181,006
	542,295	10,565	2,973	1,184	3,652	560,669
Impaired	1,029	585	2,233	1,050	3,585	8,482
Past due but not impaired	\$ —	\$ 9,980	\$ 740	\$ 134	\$ 67	\$ 10,921

(d) Modifications

In cases where a borrower experiences financial difficulties, Pawnee and Blue Chip may grant certain concessionary modifications to the terms and conditions of a lease or loan. Modifications may include payment deferrals, extension of amortization periods, and other modifications intended to minimize the economic loss and to avoid repossession of collateral. Pawnee and Blue Chip have policies in place to determine the appropriate remediation strategy based on certain conditions. Significant increase in credit risk (Stage 2 categorization) is assessed based on the risk of default at initial recognition of the original asset. Expected cash flows arising from the modified contractual terms are considered when calculating the ECL for the modified asset. For finance receivables that were modified while having a lifetime ECL, the leases and loans can revert to having 12-month ECL after a period of performance and improvement in the borrower's financial condition.

The net investment in finance receivables that have been modified (in 2018 or prior) and are current at September 30, 2018 is \$12.7 million (December 31, 2017 - \$14.1 million). On average the terms have been modified to extend the contracts by approximately one to three months, depending on the modification. Finance receivables modified during the nine months ended September 30, 2018 had a total net investment in finance receivable balance at the time of modification of \$18.9 million (2017 - \$22.3 million). These amounts reflect the net investment in finance receivable balances prior to payments collected since modification, or leases that terminated early after modifications or leases charged-off after modification.

(e) Minimum scheduled collections of finance receivables at September 30, 2018 are presented in the following table. The Company's experience has shown that the actual contractual payment streams will vary depending on a number of variables including: prepayment rates, charge-offs and modifications. Accordingly, the following minimum scheduled collections are not to be regarded as a forecast of future cash collections.

	Minimum payments	Present value
	(\$ thousands)	
2018	\$ 83,253	\$ 61,175
2019	294,320	227,034
2020	222,703	183,289
2021	140,912	122,375
2022	71,770	65,404
2023 and thereafter	17,052	16,029
Total minimum payments	\$ 830,010	\$ 675,306

8. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprise:

	September 30, 2018	December 31, 2017
	(\$ thousands)	
Dividend payable	\$ 1,254	\$ 1,264
Accounts payable	1,360	1,598
Sales tax payable	595	761
Customer deposits and prepayments	713	704
Unfunded finance receivables	6,262	5,610
Taxes payable	208	2,174
Payroll related payables and accruals	2,385	1,068
Accrued expenses and other liabilities	2,205	1,710
	\$ 14,982	\$ 14,889

9. BORROWINGS

Borrowings are comprised of:

	September 30, 2018	December 31, 2017
	(\$ thousands)	
Chesswood credit facility	(a) \$ 261,194	\$ 200,405
Deferred financing costs	(2,036)	(2,536)
Borrowings - Chesswood	259,158	197,869
Pawnee credit facilities	(b) 153,307	87,241
Deferred financing costs – Pawnee	(4,274)	(2,142)
Borrowings – Pawnee	149,033	85,099
Securitization and bulk lease financing facilities - Blue Chip	(c) 144,997	129,187
	\$ 553,188	\$ 412,155

(a) The Chesswood revolving credit facility allows borrowings of up to U.S.\$250.0 million subject to, among other things, certain percentages of eligible gross finance receivables. This credit facility is secured by substantially all of the Company's assets, contains covenants including maintaining leverage and interest coverage ratios, and expires on December 8, 2020. At September 30, 2018, the Company was utilizing U.S.\$209.6 million (December 31, 2017 - U.S.\$165.0 million) of its credit facility and had approximately U.S.\$40.4 million in additional borrowings available under the corporate credit facility. At September 30, 2018 and December 31, 2017, and throughout the periods presented, the Company was compliant with all covenants. Based on average debt levels, the effective interest rate during the nine months ended September 30, 2018 was 4.93% (year-ended December 31, 2017 - 4.62%).

(b) Pawnee credit facilities:

(i) Pawnee has a U.S.\$250 million revolving warehouse loan facility specifically to fund its growing prime portfolio, through its subsidiary, Pawnee Portfolio Fund ("PPF"). The warehouse facility will hold Pawnee's prime receivables before they are securitized. This credit facility is secured by PPF's assets, and contains covenants including maintaining leverage and interest coverage ratios, and expires on August 2023. At September 30, 2018, Pawnee was utilizing U.S.\$25.0 million of this facility.

(ii) Pawnee has a combined U.S.\$125 million non-recourse asset-backed facilities with Capital One ("CapOne facility"), through subsidiaries, Pawnee Receivable Fund I and II LLC. The CapOne facilities are secured by U.S.\$154.2 million in gross receivables from Pawnee's prime portfolio of equipment leases and loans and repayment terms are based on the cash flow of the underlying

portfolio. The proceeds were used to pay down Chesswood's existing revolving credit facility. The facilities require Pawnee to mitigate its interest rate risk by entering into interest rate caps for a notional amount not less than 80% of the aggregate outstanding balance. Pawnee is to comply with leverage ratio, interest coverage ratio, and tangible net worth covenants. At September 30, 2018 and throughout the period from October 2017, Pawnee was compliant with all covenants. Based on average debt levels, the effective interest rate during the nine months ended September 30, 2018 was 5.13% (2017 - 4.87%).

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

At September 30, 2018, Blue Chip had access to the following committed lines of funding: (i) \$60.0 million annual limit from a life insurance company; (ii) \$80.0 million rolling limit from a financial institution; and (iii) approved funding from another financial institution with no annual or rolling limit. As at September 30, 2018, Blue Chip had \$145.0 million (December 31, 2017 - \$129.2 million) in securitization and bulk lease financing facilities debt outstanding, was utilizing \$108.6 million (December 31, 2017 - \$73.6 million) of their available financing and had access to at least \$61.4 million (December 31, 2017 - \$96.4 million) of additional financing from the Funders.

Interest rates are fixed at the time of each advance and are based on Government of Canada Bond yields with maturities comparable to the term of the underlying leases plus a premium. Based on average debt levels, the effective interest rate during the nine months ended September 30, 2018 was 3.31% (for the year ended December 31, 2017 - 3.15%). As at September 30, 2018, Blue Chip had provided \$10.1 million in outstanding letters of guarantee through Chesswood's credit facility. Blue Chip must meet certain financial covenants, including leverage ratio, interest coverage ratio, and tangible net worth covenants, to support these securitization and bulk lease financing facilities. As at September 30, 2018 and December 31, 2017, and throughout the periods presented, Blue Chip was compliant with all covenants.

Movements in borrowings:	Chesswood credit facility (a)	Chesswood deferred financing costs	Pawnee credit facilities (b)	Pawnee deferred financing costs	Blue Chip financing facilities (c)	Total
	(\$ thousands)					
Net as of December 31, 2016	\$ 187,978	\$ (2,015)	\$ —	\$ —	\$ 107,118	\$ 293,081
Proceeds or draw-downs	222,219	—	97,097	—	82,209	401,525
Repayments	(196,871)	—	(6,789)	—	(60,140)	(263,800)
Payment of financing costs	—	(1,838)	—	(2,482)	—	(4,320)
Amortization of deferred financing costs	—	1,317	—	265	—	1,582
Foreign currency translation adjustment	(12,921)	—	(3,067)	75	—	(15,913)
Net as of December 31, 2017	200,405	(2,536)	87,241	(2,142)	129,187	412,155
Proceeds or draw-downs	202,708	—	96,530	—	66,800	366,038
Repayments	(148,370)	—	(33,583)	—	(50,990)	(232,943)
Payment of financing costs	—	(425)	—	(3,093)	—	(3,518)
Amortization of deferred financing costs	—	925	—	1,040	—	1,965
Foreign currency translation adjustment	6,451	—	3,119	(79)	—	9,491
Net as of September 30, 2018	\$ 261,194	\$ (2,036)	\$ 153,307	\$ (4,274)	\$ 144,997	\$ 553,188

(d) Restricted funds

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

	September 30, 2018	December 31, 2017
	(\$ thousands)	
Restricted - cash in collection accounts	\$ 4,768	\$ 2,939
Restricted - cash reserves	4,424	3,032
Restricted funds	\$ 9,192	\$ 5,971

10. MINIMUM PAYMENTS

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

(\$ thousands)	2018	2019	2020	2021	2022	2023 +	Total
Accounts payable and other liabilities	\$ 14,982	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 14,982
Borrowings (i)	49,655	112,185	355,866	52,043	18,348	1,272	589,369
Customer security deposits (ii)	1,136	3,492	4,488	4,157	2,953	1,671	17,897
	65,773	115,677	360,354	56,200	21,301	2,943	622,248
Other financial commitments (iii)	222	859	748	561	461	149	3,000
Total commitments	\$ 65,995	\$ 116,536	\$ 361,102	\$ 56,761	\$ 21,762	\$ 3,092	\$ 625,248

- i. Borrowings are described in Note 9 - *Borrowings*, and include fixed payments for Pawnee and Blue Chip's securitization facilities and the Chesswood credit facility, which is a line-of-credit and, as such, the balance can fluctuate. The amount above includes fixed interest payments on Pawnee and Blue Chip's credit facilities and estimated interest payments on the Chesswood credit facility, assuming the interest rate, debt balance and foreign exchange rate at September 30, 2018 remain the same until December 8, 2020, which is the date of expiry of the corporate credit facility.
- ii. The Company's experience has shown the actual contractual payment streams will vary depending on a number of variables including: prepayment rates, charge-offs and modifications. Accordingly, the scheduled contractual payments of customer security deposits shown in the table above are not to be regarded as a forecast of future cash payments.
- iii. The Company and its subsidiaries are committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, with expirations up to 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. \$7.8 million in letters of guarantee. For contingent liabilities and other commitments, refer to Note 18 - *Contingent Liabilities and Other Financial Commitments* of the 2017 annual audited consolidated financial statements.

11. CAPITAL MANAGEMENT

The Company's capital consists of shareholders' equity, which at September 30, 2018 amounted to \$161.6 million (December 31, 2017 - \$161.2 million). The Company's objectives when managing capital are to safeguard the Company's long-term ability to continue as a going concern and to provide adequate returns for shareholders. The Company's share capital is not subject to external restrictions.

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

Chesswood's three-year revolving senior secured U.S.\$250 million credit facility supports growth in finance receivables, provides the Company's working capital needs and for general corporate purposes. The facility, available in U.S. or Canadian dollars, also improves the Company's financial flexibility by centralizing treasury management and making the provision of capital to individual businesses more efficient. This credit facility is secured by substantially all of the Company's assets, contains covenants including maintaining leverage and interest coverage ratios, and expires on December 8, 2020. At September 30, 2018 and December 31, 2017, and throughout the periods presented, the Company was compliant with all covenants.

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

12. COMMON SHARES

	<u>Common shares</u> (# '000s)	<u>Amount</u> (\$ thousands)
Balance, December 31, 2016	16,514	\$ 104,596
Exercise of restricted share units	38	386
Exercise of options	23	226
Balance, December 31, 2017	16,575	\$ 105,208
Exercise of restricted share units (<i>Note 13(b)</i>)	70	806
Exercise of options (<i>Note 13(a)</i>)	83	741
Repurchase of common shares under issuer bid (<i>a</i>)	(293)	(1,863)
Balance, September 30, 2018	16,435	\$ 104,892

(a) 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. No Common Shares were repurchased in 2017 under this normal course issuer bid.

In August 2017, the Board of Directors approved the repurchase and cancellation of up to 1,085,981 of the Company's outstanding Common Shares for the period commencing August 25, 2017 and ending on August 24, 2018. During 2017, no Common Shares were repurchased under this normal course issuer bid. From January 1, 2018 to August 24, 2018, the Company repurchased 293,096 of its shares under the normal course issuer bid at an average cost of \$10.5277. The excess of the purchase price over the average stated value of Common Shares purchased for cancellation was charged to retained earnings.

In August 2018, the Board of Directors approved the repurchase and cancellation of up to 1,043,895 of the Company's outstanding Common Shares for the period commencing August 25, 2018 and ending on August 24, 2019. No Common Shares were repurchased under this normal course issuer bid prior to September 30, 2018. See Note 19 - *Subsequent Event*.

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.

13. COMPENSATION PLANS

(a) Share options

During the nine months ended September 30, 2018, personnel expenses and the share-based compensation reserve included \$414,100 (2017 - \$443,000) relating to option expense.

As of September 30, 2018, unrecognized non-cash compensation expense related to the outstanding options was \$509,500 (September 30, 2017 - \$636,400), which is expected to be recognized over the remaining vesting period.

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

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Balance, beginning of period	2,474,854	2,181,989	2,155,989	1,837,989
Granted	—	—	405,000	362,500
Exercised	(27,000)	—	(83,135)	(18,500)
Forfeited	(43,500)	—	(73,500)	—
Balance, end of period	2,404,354	2,181,989	2,404,354	2,181,989

During the nine months ended September 30, 2018, 83,135 options were exercised (2017 - 18,500) for total cash consideration of \$571,000 (2017 - \$123,000). On exercise, the fair value of options that had been expensed to date during the vesting period of \$169,000 (2017 - \$52,000) was transferred from reserve to Common Share capital (Common Share capital was also increased by the cash consideration received upon exercise). For the options exercised in the nine months ended September 30, 2018, the weighted average share price at the date of exercise was \$11.20 (2017 - \$12.86).

At September 30, 2018, the weighted average exercise price is \$10.45 (September 30, 2017 - \$10.24) and the weighted average remaining contractual life for all options outstanding is 6.3 years (September 30, 2017 - 6.8 years). The 1,669,354 options exercisable at September 30, 2018 have a weighted average exercise price of \$10.10 (September 30, 2017 - 1,420,489 options at \$9.58).

An analysis of the options outstanding at September 30, 2018 is as follows:

Grant date	Number of options outstanding	Vested	Expiry date	Exercise price
April 13, 2010	32,415	32,415	April 13, 2020	\$ 4.49
April 25, 2011	197,500	197,500	April 24, 2021	\$ 7.79
June 10, 2011	50,000	50,000	June 9, 2021	\$ 7.73
December 6, 2011	180,000	180,000	December 6, 2021	\$ 6.14
June 25, 2012	164,489	164,489	June 24, 2022	\$ 7.45
December 6, 2012	125,000	125,000	December 6, 2022	\$ 8.86
April 29, 2014	265,000	265,000	April 29, 2024	\$ 14.12
April 16, 2015	180,000	180,000	April 16, 2025	\$ 12.53
April 29, 2015	150,000	150,000	April 29, 2025	\$ 12.24
August 15, 2016	334,950	218,450	August 15, 2026	\$ 10.17
June 19, 2017	355,000	106,500	June 19, 2027	\$ 12.15
March 28, 2018	370,000	—	March 28, 2028	\$ 10.96
	2,404,354	1,669,354		

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

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

	<u>March 28, 2018</u>	<u>June 19, 2017</u>
Number of options granted	405,000	362,500
Weighted average share price at date	\$10.96	\$12.15
Expected volatility	30% - 32%	30% - 34%
Expected life (years)	7 - 9	7 - 9
Expected dividend yield	7.40%	7.48%
Risk-free interest rates	2.05%	1.1%
Weighted average fair value of options granted	\$1.23	\$1.31

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

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

(b) Restricted share units

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

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Balance, beginning of period	44,000	70,000	70,000	70,000
Granted	—	—	44,000	38,000
Exercised	—	—	(70,000)	(38,000)
Balance, end of period	44,000	70,000	44,000	70,000

During the nine months ended September 30, 2018, personnel expenses and share-based compensation reserve included \$444,700 (2017 - \$308,900) relating to RSUs.

As of September 30, 2018, unrecognized non-cash compensation expense related to non-vested RSUs was \$236,500 (September 30, 2017 - \$322,500).

During the nine months ended September 30, 2018, an aggregate of 44,000 (2017 - 38,000) RSUs were granted to directors and expire in ten years. The grantees of such RSUs are not entitled to dividends before the RSUs are exercised. Such RSUs typically vest one year from the date of issue and are to be settled by the issue of Common Shares. RSUs granted are in respect of future services and are expensed over the vesting period. Compensation cost is measured based on the weighted average market price of the Common Shares for the 10 days prior to the date of the grant of the RSUs, which was \$10.96 (2017 - \$12.15).

During the nine months ended September 30, 2018, 70,000 RSU's were exercised (2017 - 38,000). Upon exercise, the fair value of RSU's that had been expensed during the vesting period of \$806,200 (2017 - \$386,500) was transferred from reserve to Common Share capital. For the RSUs exercised during the nine months ended September 30, 2018, the weighted average share price at the date of exercise was \$10.48 (2017 - \$10.41).

The weighted average remaining contractual life for all RSUs outstanding is 9.5 years (September 30, 2017 - 6.1 years).

An analysis of the RSUs outstanding at September 30, 2018 is as follows:

Grant date	Number of RSUs outstanding	Vested	Expiry date	Value on grant date
March 28, 2018	44,000	—	March 28, 2028	\$ 10.96

14. DIVIDENDS

Under the Chesswood revolving credit facility (see Note 9(a) - *Borrowings*), the maximum amount of cash dividends (and/or cost of any repurchases under normal course issuer bids) that the Company can pay in respect of a month is 1/12 of 90% of free cash flow for the most recently completed four financial quarters in which Chesswood has publicly filed its consolidated financial statements (including its annual consolidated financial statements in respect of a fourth quarter).

The following dividends were paid to Common Shareholders and Exchangeable Securities holders (included as non-controlling interest) during the nine months ended September 30, 2018:

Record date	Payment date	Cash dividend per share (\$)	Total dividend amount (\$ thousands)
December 29, 2017	January 15, 2018	\$ 0.070	\$ 1,264
January 31, 2018	February 15, 2018	\$ 0.070	1,264
February 28, 2018	March 15, 2018	\$ 0.070	1,260
March 29, 2018	April 16, 2018	\$ 0.070	1,260
April 30, 2018	May 15, 2018	\$ 0.070	1,254
May 31, 2018	June 15, 2018	\$ 0.070	1,257
June 29, 2018	July 16, 2018	\$ 0.070	1,252
July 31, 2018	August 15, 2018	\$ 0.070	1,252
August 31, 2018	September 17, 2018	\$ 0.070	1,253
			<u>\$ 11,316</u>

The following dividends were paid to Common Shareholders and Exchangeable Securities holders (included as non-controlling interest) during the nine months ended September 30, 2017:

Record date	Payment date	Cash dividend per share (\$)	Total dividend amount
			(\$ thousands)
December 31, 2016	January 16, 2017	\$ 0.070	\$ 1,259
January 31, 2017	February 15, 2017	\$ 0.070	1,260
February 28, 2017	March 15, 2017	\$ 0.070	1,260
March 31, 2017	April 17, 2017	\$ 0.070	1,260
April 28, 2017	May 15, 2017	\$ 0.070	1,260
May 31, 2017	June 15, 2017	\$ 0.070	1,263
June 30, 2017	July 17, 2017	\$ 0.070	1,263
July 31, 2017	August 15, 2017	\$ 0.070	1,263
August 31, 2017	September 15, 2017	\$ 0.070	1,264
			<u>\$ 11,352</u>

15. EARNINGS PER SHARE

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Weighted average number of common shares outstanding	16,412,873	16,570,367	16,469,099	16,543,347
Dilutive effect of options	386,748	419,346	338,892	441,692
Dilutive effect of restricted share units	44,000	70,000	66,205	66,652
Weighted average common shares outstanding for diluted earnings per share	16,843,621	17,059,713	16,874,196	17,051,691
Options (and in 2017 convertible debentures) excluded from calculation of diluted shares for the period due to their anti-dilutive effect	950,000	1,455,589	950,000	1,255,589

16. 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 three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
	(\$ thousands)			
Salaries, fees and other short-term employee benefits	\$ 396	\$ 300	\$ 1,096	\$ 980
Share-based compensation	163	160	599	474
Compensation expense of key management	\$ 559	\$ 460	\$ 1,695	\$ 1,454

17. CASH FLOW SUPPLEMENTARY DISCLOSURE

	For the three months ended			For the nine months ended	
	September 30,			September 30,	
	2018	2017	Note	2018	2017
	(\$ thousands)				
Non-cash transactions					
Common shares issued on exercise of RSUs	\$ —	\$ —		\$ 806	\$ 387
Other non-cash items included in net income					
Share-based compensation expense	\$ 233	\$ 280	13	\$ 859	\$ 752
Amortization of deferred financing costs	765	344	9	1,965	954
Financing costs - convertible debentures	—	(100)		(29)	590
Unrealized loss on investments	—	876		151	2,537
Escrow receivable fair value adjustment	—	(13)		—	(52)
Unrealized gain on interest rate derivatives	(256)	(124)		(1,575)	(276)
Unrealized loss on foreign exchange	58	31		146	23
	\$ 800	\$ 1,294		\$ 1,517	\$ 4,528
Change in other net operating assets					
Restricted funds	\$ 2,069	\$ —		\$ (3,015)	\$ —
Other assets	683	(259)		4,250	(421)
Accounts payable and other liabilities	1,737	125		396	2,572
Customer security deposits	356	403		1,266	984
	\$ 4,845	\$ 269		\$ 2,897	\$ 3,135
Borrowings – continuing operations					
Draw-downs or proceeds from borrowings	\$ 103,156	\$ 66,046	9	\$ 366,038	\$ 201,478
Payments - borrowings	(80,555)	(33,084)	9	(232,943)	(110,269)
	\$ 22,601	\$ 32,962		\$ 133,095	\$ 91,209

18. SEGMENT INFORMATION

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

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

Segment information is prepared in conformity with the accounting policies adopted for the Company's consolidated financial statements. The role of the "chief operating decision maker" with respect to resource allocation and performance assessment is

embodied in the position of Chief Executive Officer. The performance of the segments is measured on the basis of net income or loss before tax. Net assets, which are defined as total segment assets less total segment liabilities, are used as the basis of assessing the allocation of resources. When compared with the last annual consolidated financial statements, there are no differences in the basis of segmentation or in the basis of measuring segment results.

Selected information by segment and geographically is as follows:

(\$ thousands)	Nine months ended September 30, 2018				
	Equipment Financing - U.S.	Equipment Financing - Canada	Discontinued Operations (Note 5)	Corporate Overhead - Canada	Total
Interest revenue on leases and loans	\$ 58,274	\$ 9,991		\$ —	\$ 68,265
Ancillary finance and other fee income	9,262	3,283		285	12,830
Interest expense	(15,018)	(3,663)		—	(18,681)
Provision for credit losses	(12,203)	(1,492)		—	(13,695)
Finance margin	40,315	8,119		285	48,719
Personnel expenses	8,453	1,945		1,291	11,689
Share-based compensation expense	221	15		623	859
Other expenses	7,729	1,187		1,094	10,010
Depreciation - property and equipment	346	15		—	361
Income before undernoted items	23,566	4,957		(2,723)	25,800
Amortization - intangible assets	—	(1,179)		—	(1,179)
Fair value adjustments - convertible debentures and investments	—	—		(122)	(122)
Unrealized gain on interest rate derivatives	608	—		967	1,575
Unrealized loss on foreign exchange	—	—		(146)	(146)
Income before taxes	24,174	3,778		(2,024)	25,928
Tax expense	5,102	986		2,020	8,108
Income from continuing operations	19,072	2,792		(4,044)	17,820
Loss from discontinued operations	—	—	\$ (212)	—	(212)
Net income	\$ 19,072	\$ 2,792	\$ (212)	\$ (4,044)	\$ 17,608
Net cash used in operating activities	\$ (78,271)	\$ (18,269)	\$ 1,197	\$ 631	\$ (94,712)
Net cash used in investing activities	\$ (162)	\$ —	\$ —	\$ —	\$ (162)
Net cash from financing activities	\$ 59,854	\$ 15,759	\$ —	\$ 20,133	\$ 95,746
Total assets	\$ 546,357	\$ 209,793	\$ 2,069	\$ 8,091	\$ 766,310
Total liabilities	\$ 190,953	\$ 152,281	\$ —	\$ 261,450	\$ 604,684
Finance receivables	\$ 509,362	\$ 170,422	\$ —	\$ —	\$ 679,784
Goodwill and intangible assets	\$ 20,913	\$ 38,095	\$ —	\$ —	\$ 59,008
Property and equipment expenditures	\$ 162	\$ —	\$ —	\$ —	\$ 162

	Nine months ended September 30, 2017				
(\$ thousands)	Equipment Financing - U.S.	Equipment Financing - Canada	Discontinued Operations (Note 5)	Corporate Overhead - Canada	Total
Interest revenue on leases and loans	\$ 50,705	\$ 8,553		\$ —	\$ 59,258
Ancillary finance and other fee income	8,092	3,132		210	11,434
Interest expense	(7,443)	(3,094)		—	(10,537)
Provision for credit losses	(15,092)	(1,060)		—	(16,152)
Finance margin	36,262	7,531		210	44,003
Personnel expenses	7,283	1,865		1,139	10,287
Share-based compensation expense	178	54		520	752
Other expenses	6,385	1,142		1,062	8,589
Depreciation - property and equipment	303	15		—	318
Income before undernoted items	22,113	4,455		(2,511)	24,057
Amortization - intangible assets	—	(1,178)		—	(1,178)
Fair value adjustments - convertible debentures and investments	—	—		(3,127)	(3,127)
Unrealized gain on interest rate derivatives	—	—		276	276
Unrealized loss on foreign exchange	—	—		(23)	(23)
Income before taxes	22,113	3,277		(5,385)	20,005
Tax expense	6,143	939		986	8,068
Income from continuing operations	15,970	2,338		(6,371)	11,937
Loss from discontinued operations	—	—	\$ (304)	—	(304)
Net income	\$ 15,970	\$ 2,338	\$ (304)	\$ (6,371)	\$ 11,633
Net cash used in operating activities	\$ (62,231)	\$ (14,724)	\$ 1,417	\$ (4,251)	\$ (79,789)
Net cash used in investing activities	\$ (786)	\$ (13)	\$ —	\$ —	\$ (799)
Net cash from financing activities	\$ —	\$ 18,916	\$ —	\$ 60,202	\$ 79,118
Total assets	\$ 385,994	\$ 189,768	\$ 3,834	\$ 13,469	\$ 593,065
Total liabilities	\$ 40,724	\$ 136,738	\$ —	\$ 264,716	\$ 442,178
Finance receivables	\$ 358,475	\$ 147,900	\$ —	\$ —	\$ 506,375
Goodwill and intangible assets	\$ 20,161	\$ 39,788	\$ —	\$ —	\$ 59,949
Property and equipment expenditures	\$ 786	\$ 13	\$ —	\$ —	\$ 799

	Three months ended September 30, 2018				
	Equipment Financing - U.S.	Equipment Financing - Canada	Discontinued Operations (Note 5)	Corporate Overhead - Canada	Total
<i>(\$ thousands)</i>					
Interest revenue on leases and loans	\$ 20,918	\$ 3,489		\$ —	\$ 24,407
Ancillary finance and other fee income	3,307	1,103		81	4,491
Interest expense	(5,879)	(1,334)		—	(7,213)
Provision for credit losses	(3,545)	(566)		—	(4,111)
Finance margin	14,801	2,692		81	17,574
Personnel expenses	3,065	665		447	4,177
Share-based compensation expense	67	(5)		171	233
Other expenses	2,742	441		441	3,624
Depreciation - property and equipment	121	4		—	125
Income before undernoted items	8,806	1,587		(978)	9,415
Amortization - intangible assets	—	(333)		—	(333)
Unrealized gain on interest rate derivatives	98	—		158	256
Unrealized loss on foreign exchange	—	—		(58)	(58)
Income before taxes	8,904	1,254		(878)	9,280
Tax expense	1,960	322		725	3,007
Income from continuing operations	6,944	932		(1,603)	6,273
Loss from discontinued operations	—	—	\$ (181)	—	(181)
Net income	\$ 6,944	\$ 932	\$ (181)	\$ (1,603)	\$ 6,092
Net cash used in operating activities	\$ (14,460)	\$ (19)	\$ 352	\$ 143	\$ (13,984)
Net cash used in investing activities	\$ (56)	\$ —	\$ —	\$ —	\$ (56)
Net cash from financing activities	\$ 13,680	\$ (2,211)	\$ —	\$ 5,311	\$ 16,780
Property and equipment expenditures	\$ 56	\$ —	\$ —	\$ —	\$ 56

	Three months ended September 30, 2017				
	Equipment Financing - U.S.	Equipment Financing - Canada	Discontinued Operations (Note 5)	Corporate Overhead - Canada	Total
(\$ thousands)					
Interest revenue on leases and loans	\$ 16,737	\$ 2,911		\$ —	\$ 19,648
Ancillary finance and other fee income	2,588	1,053		66	3,707
Interest expense	(2,790)	(1,078)		—	(3,868)
Provision for credit losses	(6,073)	(400)		—	(6,473)
Finance margin	10,462	2,486		66	13,014
Personnel expenses	2,246	608		344	3,198
Share-based compensation expense	71	17		192	280
Other expenses	1,859	395		446	2,700
Depreciation - property and equipment	113	5		—	118
Income before undernoted items	6,173	1,461		(916)	6,718
Amortization - intangible assets and contingent consideration reversal	—	(508)		—	(508)
Fair value adjustments - convertible debentures and investments	—	—		(776)	(776)
Unrealized loss on interest rate derivatives	—	—		124	124
Unrealized loss on foreign exchange	—	—		(31)	(31)
Income before taxes	6,173	953		(1,599)	5,527
Tax expense	1,541	263		416	2,220
Income from continuing operations	4,632	690		(2,015)	3,307
Loss from discontinued operations	—	—	\$ (119)	—	(119)
Net income	\$ 4,632	\$ 690	\$ (119)	\$ (2,015)	\$ 3,188
Net cash used in operating activities	\$ (20,550)	\$ (4,569)	\$ 180	\$ 437	\$ (24,502)
Net cash used in investing activities	\$ (187)	\$ —	\$ —	\$ —	\$ (187)
Net cash from financing activities	\$ —	\$ 4,400	\$ —	\$ 24,263	\$ 28,663
Property and equipment expenditures	\$ 187	\$ —	\$ —	\$ —	\$ 187

19. SUBSEQUENT EVENT

Subsequent to September 30, 2018 (up to and including November 8, 2018), the Company repurchased 57,600 of its shares under the normal course issuer bid (See Note 12 - *Common Shares*) at an average cost of \$10.4041.

Chesswood Group Limited

DIRECTORS, OFFICERS AND OTHER INFORMATION

Directors

Frederick W. Steiner

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

Samuel Leeper

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

Clare Copeland

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

David Obront

Director
President, Carpool Two Ltd.

Robert Day

Director
Former Chairman, Pawnee Leasing Corporation

Barry Shafran

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

Executive Team

Barry Shafran

President & C.E.O.

Lisa Stevenson

Chief Financial Officer

Other Information

Auditors

BDO Canada LLP

Transfer Agent

TSX Trust Company

Corporate Counsel

McCarthy Tétrault LLP

Toronto Stock Exchange Symbol

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