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 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 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 and operating effectiveness of the Company's DC&P and ICFR as at December 31, 2018 and have concluded that the Company's DC&P and ICFR are effective as at financial year end.

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 control 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, and 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 5, 2019

Independent Auditor's Report

To the Shareholders of
Chesswood Group Limited

Opinion

We have audited the consolidated financial statements of Chesswood Group Limited and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- The information, other than the financial statements and our auditor's report thereon, included in the Annual Report, and
- The information included in the Management's Discussion and Analysis for the year ended December 31, 2018.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis and Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Kerri Plexman.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

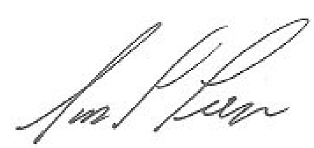
March 5, 2019
Toronto, Ontario

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

	Note	**December 31, 2018**	December 31, 2017
ASSETS			
Cash		**$ 2,326**	$ 3,640
Restricted funds	*13(d)*	**13,598**	5,971
Assets held for sale	*5*	**1,852**	3,371
Other assets	*6*	**8,786**	17,564
Finance receivables	*7*	**728,924**	550,650
Deferred tax assets	*16*	**375**	755
Interest rate derivatives	*15*	**896**	185
Property and equipment	*8*	**1,628**	1,935
Intangible assets	*9*	**18,765**	19,684
Goodwill	*10*	**41,037**	39,857
TOTAL ASSETS		**$ 818,187**	$ 643,612
LIABILITIES			
Accounts payable and other liabilities	*11*	**$ 15,600**	$ 14,889
Convertible debentures	*12*	**—**	20,090
Borrowings	*13*	**601,525**	412,155
Customer security deposits	*14*	**16,773**	14,012
Interest rate derivatives	*15*	**—**	43
Deferred tax liabilities	*16*	**20,794**	21,202
		654,692	482,391
SHAREHOLDERS' EQUITY			
Common shares	*20*	**103,576**	105,208
Non-controlling interest	*21*	**13,713**	13,230
Share-based compensation reserve	*22*	**5,414**	5,295
Accumulated other comprehensive income		**18,350**	10,776
Retained earnings		**22,442**	26,712
		163,495	161,221
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 818,187**	$ 643,612

Approved by the Board of Directors

Fred Steiner, Chairman



Sam L Leeper

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of dollars, except per share amounts)

	Note	2018	2017
Finance revenue			
Interest revenue on finance leases and loans		**$ 97,927**	$ 83,775
Ancillary finance and other fee income		**12,659**	11,549
		110,586	95,324
Finance expenses			
Interest expense		**26,647**	15,268
Provision for credit losses	*7*	**19,423**	21,084
		46,070	36,352
Finance margin		**64,516**	58,972
Expenses			
Personnel expenses		**16,497**	14,757
Other expenses		**13,809**	11,699
Depreciation - property and equipment	*8*	**506**	441
		30,812	26,897
Income before undernoted items		**33,704**	32,075
Acquisition related items		**—**	538
Amortization - intangible assets	*9*	**(1,512)**	(1,691)
Unrealized loss on investments held	*6*	**(181)**	(2,869)
Financing costs - convertible debentures	*12*	**29**	(1,130)
Unrealized gain on interest rate derivatives	*15*	**705**	1,006
Unrealized loss on foreign exchange		**(29)**	(118)
Income before taxes		**32,716**	27,811
Tax expense	*16*	**(9,373)**	(2,060)
Income from continuing operations		**23,343**	25,751
Loss from discontinued operations	*5*	**(458)**	(320)
Net income		**$ 22,885**	$ 25,431
Attributable to:			
Common shareholders		**$ 20,996**	$ 23,345
Non-controlling interest		**$ 1,889**	$ 2,086
Income from continuing operations per share:			
Basic	*24*	**$ 1.31**	$ 1.43
Diluted	*24*	**$ 1.28**	$ 1.39

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of dollars)

		2018		2017
Net income	**$**	**22,885**	$	25,431
Other comprehensive income:				
Unrealized gain (loss) on translation of foreign operations		**8,255**		(8,083)
Comprehensive income	**$**	**31,140**	$	17,348
Attributable to:				
Common shareholders	**$**	**28,570**	$	15,925
Non-controlling interest	**$**	**2,570**	$	1,423

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of dollars)

	Note	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 & 15 on January 1, 2018	2	—	—	(845)	—	—	(9,444)	(10,289)
Restated balance at January 1, 2018		16,575	105,208	12,385	5,295	10,776	17,268	150,932
Net income		—	—	1,889	—	—	20,996	22,885
Dividends declared	23	—	—	(1,242)	—	—	(13,802)	(15,044)
Share-based compensation	22	—	—	—	1,094	—	—	1,094
Exercise of restricted share units	22	70	806	—	(806)	—	—	—
Exercise of options	22	83	741	—	(169)	—	—	572
Repurchase of common shares under issuer bid	20	(499)	(3,179)	—	—	—	(2,020)	(5,199)
Unrealized gain on translation of foreign operations		—	—	681	—	7,574	—	8,255
Shareholders' equity - December 31, 2018		**16,229**	**$ 103,576**	**$ 13,713**	**$ 5,414**	**$ 18,350**	**$ 22,442**	**$ 163,495**

	Note	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		—	—	2,086	—	—	23,345	25,431
Dividends declared	23	—	—	(1,242)	—	—	(13,906)	(15,148)
Share-based compensation	22	—	—	—	965	—	—	965
Exercise of restricted share units	22	38	386	—	(386)	—	—	—
Exercise of options	22	23	226	—	(64)	—	—	162
Unrealized loss on translation of foreign operations		—	—	(663)	—	(7,420)	—	(8,083)
Shareholders' equity - December 31, 2017		16,575	$ 105,208	$ 13,230	$ 5,295	$ 10,776	$ 26,712	$ 161,221

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands of dollars)

	Note	2018	2017
OPERATING ACTIVITIES			
Income from continuing operations		**$ 23,343**	$ 25,751
Non-cash items included in net income			
Amortization and depreciation		**2,018**	2,132
Provision for credit losses *(excluding recoveries)*	*7*	**28,493**	29,154
Amortization of origination costs		**23,269**	18,786
Tax expense		**9,373**	2,060
Other non-cash items	*26*	**3,345**	5,068
		66,498	57,200
Cash from operating activities before change in net operating assets		**89,841**	82,951
Funds advanced on origination of finance receivables		**(400,725)**	(343,614)
Origination costs paid on finance receivables		**(34,354)**	(30,072)
Principal collections of finance receivables		**233,193**	182,252
Change in other net operating assets	*26*	**(1,600)**	(4,550)
Cash used in operating activities before undernoted		**(113,645)**	(113,033)
Interest paid on convertible debentures	*12*	**(61)**	(1,300)
Income taxes paid - net		**(3,645)**	(12,532)
Cash used in operating activities - continuing operations		**(117,351)**	(126,865)
Cash from operating activities - discontinued operations	*5*	**1,259**	1,899
Cash used in operating activities		**(116,092)**	(124,966)
INVESTING ACTIVITIES			
Purchase of property and equipment	*8*	**(212)**	(943)
Cash used in investing activities		**(212)**	(943)
FINANCING ACTIVITIES			
Borrowings, net	*26*	**158,513**	137,725
Payment of financing costs	*13*	**(3,967)**	(4,320)
Redemption of convertible debentures	*12*	**(20,000)**	—
Proceeds from exercise of options	*22*	**571**	162
Repurchase of common shares under issuer bid	*20*	**(5,199)**	—
Cash dividends paid	*23*	**(15,067)**	(15,143)
Cash from financing activities		**114,851**	118,424
Unrealized foreign exchange gain (loss) on cash		**139**	(318)
Net decrease in cash		**(1,314)**	(7,803)
Cash, beginning of year		**3,640**	11,443
Cash, end of year		**$ 2,326**	$ 3,640

Please see notes to the consolidated 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. In addition, Pawnee holds, through consolidated, wholly-owned Special Purpose Entities ("SPEs"), a portfolio of leases and loans which are financed through arm's length financial institutions. See Note 7 - *Finance Receivables* and Note 13(b) - *Borrowings*.

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 the United States. Windset 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 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.

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 Consolidated Financial Statements, and certain 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 5, 2019 by the Board of Directors.

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 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 year ended December 31, 2018 - 1.2957; 2017 - 1.2986], and assets and liabilities are translated at the closing rate [as at December 31, 2018 - 1.3642; December 31, 2017 - 1.2545]. 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.

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, net 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 5, Net Investment in Leases - Note 7, and Taxes - Note 16*.

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: *Legal Finance Receivables - Note 5, Impairment of Financial Asset Receivables - Note 7, Impairment of Intangibles and Goodwill - Note 9 and Note 10, and Taxes - Note 16*.

2. NEW ACCOUNTING STANDARDS

(a) 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(c) - *Finance Receivables:* allowance for credit losses. The effects of adoption of IFRS 9 on the Company's financial position are described below. For financial risk management disclosure, see Note 4 - *Financial Risk Management*.

The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Based upon the analysis of its business model and contractual cash flow characteristics of its financial instruments, the Company's loan receivables will continue to be measured at amortized cost with the adoption of IFRS 9. Accounting for the Company's net investment in leases continues to be within the scope of IAS 17, at amortized cost. There are no material changes in the classification or measurement of the Company's net investment in financial contracts from IAS 39 to IFRS 9, 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 material 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 credit losses against finance receivables as at January 1, 2018 of approximately $10.0 million and a reduction in shareholders' equity and non-controlling interest of approximately $7.6 million after-tax. The reconciliation of the Company's closing allowance for credit losses under IAS 39 at December 31, 2017 and the opening allowance for credit losses in accordance with IFRS 9 at January 1, 2018 is as shown in the following table:

	As reported under IAS 39 as at December 31, 2017	Transition adjustments	As reported under IFRS 9 as at January 1, 2018
Allowance for credit losses	$ 11,926	$ 10,047	$ 21,973

Stage 1 - 12-month ECL (Performing)	$ 10,607
Stage 2 - Lifetime ECL not credit-impaired (Under-Performing)	4,150
Stage 3 - Lifetime ECL credit-impaired (Non-Performing)	7,216
Total	$ 21,973

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(c) 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 ("IFRS 15")

In May 2014, the IASB issued IFRS 15, which replaces IAS 11 - *Construction Contracts*, IAS 18 - *Revenue and IFRIC 13 - Customer Loyalty Programs*, as well as various other interpretations regarding revenue. IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 also contains enhanced disclosure requirements. On adopting IFRS-15, the Company reclassified $4.4 million of certain revenue items from ancillary finance and other fee income to interest revenue on leases and loans in 2018 and $4.1 million in 2017. With effect from January 1, 2018, these revenue items will be recognized on an effective interest basis versus recorded when received. As part of this transition, unearned income in finance receivables increased by $3.4 million and a reduction in shareholders' equity and non-controlling interest of approximately $2.7 million, on an after-tax basis, was recorded. This change should not materially affect annual results on a go-forward basis and had no material impact on net income for 2018.

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.

(b) Accounting standard not yet effective

IFRS 16 Leases

IFRS 16 replaces IAS 17, *Leases,* and is effective for periods beginning on or after January 1, 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 does not expect any substantive changes to the Company's finance receivables. The Company will be required to recognize new right-to-use asset and lease liability 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 lease liability will also be amortized under the effective interest rate method using the interest rate inherent in the underlying leases and lease payments will include both a principal and interest component.

The Company plans to adopt the standard using the modified retrospective method commencing January 1, 2019. Under this method the Company will not restate the 2018 financial statements for the application of IFRS 16. The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Company has leases of certain office equipment that are considered of low value.

The estimated impact on the Company's financial position as at the January 1, 2019 date of adoption is a right-of-use asset of approximately $4 million and a lease liability of $4 million.

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

Financial assets are categorized for subsequent measurement as follows:

Amortized cost
Financial assets that are held in a business model with the objective of collecting contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI") are measured at amortized cost ("AC"). The Company's cash, restricted funds, net investment in leases, and loan receivables are measured at amortized cost. 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 as part of the effective interest rate. 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 that are held for trading and derivative assets are required to be measured at fair value through net income or loss ("FVTP"). Financial assets that meet certain conditions may be designated at fair value through net income or loss upon initial recognition. 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 consolidated statements of financial position) is classified in this category. The convertible note receivable (included in Other assets) was also included in this measurement category.

Fair value through other comprehensive income
Financial assets that are held to both collect contractual cash flows and for sale are required to be measured at fair value through other comprehensive income ("FVOCI"). Other financial assets, provided they are not held for trading and have not been designated as at fair value through net income or loss, can be designated as at fair value through other comprehensive income on initial recognition.

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
Financial liabilities are categorized as follows for subsequent measurement:

Amortized cost
Financial liabilities that are not otherwise measured as at fair value through net income or loss or designated at fair value are measured at amortized cost using the effective interest rate method. Any host contract in a hybrid instrument is also measured at amortized cost. 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 measured at amortized cost include borrowings, accounts payable, other liabilities and customer security deposits.

Financial liabilities at fair value through net income or loss
Financial liabilities that are held for trading and stand-alone derivative liabilities are required to be measured at fair value through net income or loss ("FVTP"). When certain conditions are satisfied, embedded derivatives are required to be separately recognized and measured at fair value with subsequent changes in fair value recognized in net income or loss.

A designation can be made at initial recognition for financial liabilities that include one or more embedded derivatives, provided the host contract is not a financial asset, to measure the entire hybrid instrument at fair value. Where certain criteria are met, for example measurement at amortized cost would create measurement inconsistencies, the financial liability can also be designated at fair value. For such designated financial liabilities, the amount of the change in fair value that relates to changes in the entity's own credit risk is recognized in other comprehensive income and the remaining amount of the change in fair value is recognized in 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 required to be measured at fair value through net income or loss. The convertible debentures were designated as at fair value on initial recognition. The Company has not designated any financial instruments as hedges for accounting purposes.

The fair values of financial liabilities 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.

(a) Categories and measurement hierarchy

The categories to which the financial instruments are allocated are:

	December 31, 2017	December 31, 2018
Financial instrument	IAS 39 Classification	IFRS 9 Classification
ASSETS		
Cash	Loans and receivables	Amortized cost
Restricted funds	Loans and receivables	Amortized cost
Other assets	Loans and receivables	Amortized cost
Other assets	FVTP	FVTP
Loan receivables	Loans and receivables	Amortized cost
Interest rate derivatives	Held for trading	FVTP
LIABILITIES		
Accounts payable and other liabilities	Loans and borrowings	Amortized cost
Borrowings	Loans and borrowings	Amortized cost
Customer security deposits	Loans and borrowings	Amortized cost
Convertible debentures	FVTP	n/a
Interest rate derivatives	Held for trading	FVTP

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:

				December 31, 2018
	Level 1	Level 2	Level 3	Carrying Value
ASSETS				*($ thousands)*
Cash *(iii)*	$ 2,326	$ —	$ —	$ 2,326
Restricted funds *(iii)*	13,598	—	—	13,598
Other assets - Note 6	—	4,900	—	4,900
Other assets - Note 6	453	—	—	453
Loan receivables *(i)*	—	293,131	—	293,131
Interest rate derivatives *(v)*	—	896	—	896
LIABILITIES				
Accounts payable and other liabilities *(iii)*	—	(15,600)	—	(15,600)
Borrowings *(ii)*	—	(601,525)	—	(601,525)
Customer security deposits	—	(16,773)	—	(16,773)

	December 31, 2017			
	Level 1	Level 2	Level 3	Carrying Value
				($ thousands)
ASSETS				
Cash *(iii)*	$ 3,640	$ —	$ —	$ 3,640
Restricted funds *(iii)*	5,971	—	—	5,971
Other assets	—	9,629	—	9,629
Other assets	634	—	—	634
Loan receivables *(i)*	—	177,879	—	177,879
Interest rate derivatives *(v)*	—	185	—	185
LIABILITIES				
Accounts payable and other liabilities *(iii)*	—	(14,889)	—	(14,889)
Borrowings *(ii)*	—	(412,155)	—	(412,155)
Customer security deposits	—	(14,012)	—	(14,012)
Convertible debentures *(iv)*	(20,090)	—	—	(20,090)
Interest rate derivatives *(v)*	—	(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 designated as at fair value through net income or loss under IFRS 9 until they 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 years ended December 31, 2018	2017
	($ thousands)	
Amortized cost:		
Provision for credit losses	**$ (19,423)**	$ (21,084)
Designated as at fair value through net income or loss:		
Convertible debentures	**29**	(1,130)
Contingent consideration	**—**	538
Fair value through net income or loss:		
Investment in Dealnet common shares	**(181)**	(2,869)
Interest rate derivatives	**705**	1,006
Net loss	**$ (18,870)**	$ (23,539)

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, other than the adoption of a new accounting policy for allowances for credit losses and the repayment of convertible debentures during the year.

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, restricted funds, EcoHome loan receivable and finance receivables.

The Company's excess cash is held in accounts with several major Canadian chartered banks and a few U.S. banks with the majority at J.P. Morgan Chase. 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 and Blue Chip's investment in finance receivables are originated with smaller, often owner-operated businesses, some of whom have limited access to traditional financing. A portion of Pawnee's lessees and borrowers are either start-up businesses that have not established business credit or more tenured businesses that have experienced some business credit difficulty at some time in their history ("non-prime"). As a result, such leases and loans entail higher credit risk than our prime customers (reflected in higher than expected levels of delinquencies and loss) relative to the prime commercial equipment finance market. The typical Blue Chip borrower is a tenured small business with a strong credit profile.

Pawnee's credit risk is mitigated by: funding only "business essential" commercial equipment, where the value of the equipment is less than U.S.$250,000, 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, vendor, equipment cost, 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 in its non-prime portfolio is mitigated by the fact that the standard lease\loan contract may require 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 financed equipment if the lessee\borrower defaults on their contract in order to minimize any credit losses. When an asset previously accepted as collateral is to be repossessed, it undergoes a process of physical repossession and disposal in accordance with the legal provisions of the relevant market. See Note 7(f) - *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 7 - *Finance Receivables*.

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\loan, diversification in multiple asset categories and industries, very low lessee\borrower concentration and personal guarantees of the business principals on certain finance contracts.

The Dealnet convertible note was repaid in cash during the year and was considered to be of nominal credit risk. The credit risk on the EcoHome loan is mitigated by the security held by the Company, which includes: the specific leases and loans and a general security agreement over all the assets of EcoHome.

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, 2018, the Company's continuing operations has at least $419.0 million (2017 - $159.6 million) in additional borrowings available under various credit facilities to fund business operations.

The Company's operations and growth are financed through a combination of the cash flows from operations, borrowings under existing credit facilities, and through non-recourse asset-backed bulk lease\loan transactions (often referred to as securitization). 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. $250.0 million (U.S.$207.1 million available based on borrowing base as at December 31, 2018), subject to certain percentages of eligible gross lease receivables, of which U.S.$178.7 million was utilized at December 31, 2018 (2017 - U.S.$165.0 million). See Note 13 - *Borrowings*. In addition, the Company has several bulk financing lines available to its Canadian business and similar financing for its U.S. prime portfolio. At this time, however, management believes that the syndicate of financial institutions that provides Chesswood's credit facility and the banks and life insurance company that provides financing to our subsidiaries are financially viable and will continue to provide the facilities, however there are no guarantees.

Under the corporate credit facility, the maximum cash dividends that the Company can pay in any 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 the cost of any repurchases under normal course issuer bids, if any.

The maturity structure for undiscounted contractual cash flows is presented in Note 17 - *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 and Dealnet common shares, interest rates and foreign currency.

a) Trading prices
The Company's convertible debentures were being measured at fair value at each reporting date with changes in fair value recognized in net income or loss. Fair value was based on the trading price of the debentures on the Toronto Stock Exchange. Therefore

changes in trading price had a direct impact on net assets and net income or loss. The Company did not hedge this fair value price exposure. The convertible debentures were redeemed during the current year, see Note 12 - *Convertible debentures*.

The Company's investment in Dealnet common shares (included in Other Assets on the statement of financial position) 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 shares on the Toronto Stock Exchange. Therefore changes in trading price has 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 receivable 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 based interest rate.

The following table presents a sensitivity analysis for a reasonable fluctuation in interest rates and the effect on the Company for the years ended December 31, 2018 and 2017:

	For the years ended			
	December 31, 2018		December 31, 2017	
	+100 bps	-100 bps	+100 bps	-100 bps
		($ thousands)		
Increase (decrease) in interest expense	**$ 3,109**	**$ (3,109)**	$ 1,627	$ (1,627)
Increase (decrease) in net income and equity	**$ (2,240)**	**$ 2,240**	$ (1,001)	$ 1,001

c) 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, 2018, dividends paid totaled $15.1 million (2017 - $15.1 million).

The following table presents a sensitivity analysis for a hypothetical fluctuation in U.S. dollar exchange rates and the effect on the Company as at December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
	($ thousands)	
Year-end exchange rate	1.3642	1.2545
U.S. denominated net assets in U.S.$ held in Canada	**$ 68**	$ 115
Effect of a 10% increase or decrease in the Canadian/U.S. dollar on U.S. denominated net assets	**$ 9**	$ 14

5. DISCONTINUED OPERATIONS

On February 3, 2015, Case Funding sold certain assets and operations to a private equity firm. Case Funding retained approximately $9.4 million in finance receivables with a current balance of $1.9 million and pays a servicing fee of 5% of collections to administer the remaining portfolio.

Case Funding's net loss, included in loss from discontinued operations, for the year ended December 31, 2018 totaled $458,000 compared to $320,000 recorded in the prior year, which represented a basic and diluted loss per share of $0.026 and $0.025 (2017 - $0.018 and $0.017) respectively. For the year ended December 31, 2018, Case Funding generated cash flows from operations of $1.3 million compared to $1.9 million recorded 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 December 31, 2018, it was determined an allowance of $85,000 (December 31, 2017 - $207,000) was required.

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

Legal finance receivables (Case Funding) consist of:		**December 31, 2018**		December 31, 2017
		($ thousands)		
Attorney loans and medical liens	**$**	**52**	$	68
Plaintiff advances		**1,800**		3,303
Legal finance receivables *(net of allowance)*		**1,852**		3,371
Current portion *(i)*		459		838
Long-term portion	$	1,393	$	2,533

(i) The contracts are due when the underlying cases are settled which 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					**December 31, 2018**
($ thousands)	Category	Level 1	Level 2	Level 3	Carrying Value
Attorney loans and medical liens *(ii)*	AC	$ —	$ 52	$ —	$ 52
Plaintiff advances	FVOCI	—	—	1,800	1,800

ASSETS HELD FOR SALE					December 31, 2017
($ thousands)	Category	Level 1	Level 2	Level 3	Carrying Value
Attorney loans and medical liens *(ii)*	AC	$ —	$ 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.

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.

Plaintiff advances are deemed to be a financial asset as they are a contractual right to receive cash from another entity. These instruments do not meet the SPPI test based on an evaluation of all the terms and conditions of the contracts and are therefore measured at fair value, with the accretion in value, calculated based on the effective interest method.

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, 2018	2017
	($ thousands)	
Balance, beginning of year	**$ 3,303**	$ 5,767
Originations	**—**	—
Fair value accretion	**95**	308
Losses and provision for losses	**(720)**	(403)
Collections	**(1,079)**	(2,071)
Foreign exchange impact *(i)*	**201**	(298)
Balance, end of year	**$ 1,800**	$ 3,303

(i) Difference between year-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.

6. OTHER ASSETS

Other assets comprise:

			December 31, 2018		December 31, 2017
			($ thousands)		
Property tax receivable		**$**	**782**	$	527
Tax receivable			**991**		5,763
Sales tax receivable			**589**		342
Prepaid expenses and other current assets			**1,071**		669
Loan receivable - EcoHome	*a*		**4,900**		7,129
Common shares - Dealnet	*b*		**453**		634
Convertible note - Dealnet	*c*		**—**		2,500
Other assets			**8,786**		17,564
Current portion			6,106		9,801
Long-term portion		$	2,680	$	7,763

(a) Loan receivable - EcoHome - On February 18, 2016, the Company sold EcoHome Financial Inc. ("EcoHome") to Dealnet Capital Corp. ("Dealnet"). The loan 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. In 2017, the Company advanced EcoHome another $5.5 million. 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. The loan receivable is carried at amortized cost. At December 31, 2018 and December 31, 2017, it was determined no material allowance for expected credit losses was required.

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

7. FINANCE RECEIVABLES

Finance receivables comprise:

		December 31, 2018		December 31, 2017
		($ thousands)		
Net investment in leases	**$**	**435,793**	$	372,771
Loan receivables		**293,131**		177,879
	$	**728,924**	$	550,650

The Company finances its leases and loan receivables by pledging such receivables as security for amounts borrowed from lenders under various facilities, as described in Note 13 - *Borrowings*. 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 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:

	December 31, 2018	December 31, 2017
	($ thousands)	
Total minimum payments	**$ 893,080**	$ 669,656
Residual values of leased equipment	**25,735**	21,482
	918,815	691,138
Unearned income, net of initial direct costs of acquisition	**(168,946)**	(130,469)
Net investment in finance receivables before allowance for credit losses	**749,869**	560,669
Allowance for credit losses *(c)*	**(23,929)**	(11,926)
	725,940	548,743
Reserve receivable on securitized financial contracts	**2,984**	1,907
Net investment in finance receivables	**728,924**	550,650
Current portion	255,906	194,919
Long-term portion	$ 473,018	$ 355,731

(b) Minimum scheduled collections of finance receivables at December 31, 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)	
2019	$ 333,194	$ 250,141
2020	260,182	209,931
2021	173,756	148,957
2022	94,968	85,849
2023	30,700	28,983
2024 and thereafter	280	273
Total minimum payments	$ 893,080	$ 724,134

(c) Allowance for credit losses

The Company measures loss allowances based on an expected credit loss ("ECL") impairment 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 ECLs 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. The Company segregated the portfolio into prime and non-prime for the purpose of this analysis.

For the purpose of measuring ECL, a default event is defined as:

- For prime finance receivables, leases and loans that have missed one payment and are not subsequently rectified within 30 days.
- For non-prime finance receivables, leases and loans that have missed one payment.

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 ECL methodology.

For Stage 2, the Company considers leases and loans to have experienced a significant increase in credit risk since initial recognition if they are delinquent for over 30 days and further includes approximately 15% of 1-30 day delinquent non-prime receivables.

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 ECLs.

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 credit losses when received. Repossessed equipment is generally held at various warehouses by the Company's third party contractors prior to selling the equipment. As Pawnee and Blue Chip finance a wide range of small equipment, it is difficult to estimate the fair value of the potential collateral when estimating future ECLs.

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. Forecasts of future events and economic conditions are incorporated by adjusting losses from the static pool data. The estimation and application of forward-looking information requires judgment.

The following table show the gross carrying amount of the finance receivables by credit categories:

	As of December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
	Performing	Under-Performing	Non-Performing	
	($ thousands)			
Prime	$ 472,036	$ 965	$ 2,442	$ 475,443
Non-prime	264,035	5,311	5,080	274,426
Total	$ 736,071	$ 6,276	$ 7,522	$ 749,869

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

	For the year ended December 31, 2018			
	Stage 1	Stage 2	Stage 3	
	12-month ECL(i)	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	**2018 Total**
	($ thousands)			
Balance, January 1, 2018 per IFRS 9 *(Note 2)*	$ 10,608	$ 4,150	$ 7,216	**$ 21,974**
Transfer to 12-month ECL (Stage 1)	1,633	(812)	(821)	**—**
Transfer to lifetime ECL non credit-impaired (Stage 2)	(20,746)	20,759	(13)	**—**
Transfer to ECL credit-impaired (Stage 3)	(2,238)	(18,632)	20,870	**—**
Net remeasurement of loss allowance	10,230	240	(1,660)	**8,810**
New receivables originated	10,613	—	—	**10,613**
Provision for credit losses	(508)	1,555	18,376	**19,423**
Charge-offs	—	—	(28,283)	**(28,283)**
Recoveries of amounts previously charged off	—	—	9,070	**9,070**
Net charge-offs	—	—	(19,213)	**(19,213)**
Impact of change in foreign exchange rates	779	436	530	**1,745**
Balance, end of year	**$ 10,879**	**$ 6,141**	**$ 6,909**	**$ 23,929**

Comparative amounts for 2017 represent the allowance account for impairment measured under IAS 39.

	For the year ended December 31, 2017
	($ thousands)
Balance, beginning of year, per IAS 39	$ 12,253
Provision for credit losses	21,084
Impact of change in foreign exchange rates	(733)
Charge-offs	(28,748)
Recoveries	8,070
Balance, end of year, per IAS 39	$ 11,926

(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 $16.8 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.

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, due to insolvency or non-responsiveness of the lessee or borrower. 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.

As of December 31, 2018

($ thousands)		**Current**		**1-30 days**		**31 - 60 days**		**61 - 90 days**		**Over 90 days**		**Total**
Equipment lease receivables	**$**	**434,231**	**$**	**8,757**	**$**	**2,551**	**$**	**1,102**	**$**	**2,653**	**$**	**449,294**
Loan receivables		**296,429**		**3,189**		**200**		**545**		**212**		**300,575**
	$	**730,660**	**$**	**11,946**	**$**	**2,751**	**$**	**1,647**	**$**	**2,865**	**$**	**749,869**
Credit impaired	**$**	**544**	**$**	**273**	**$**	**1,985**	**$**	**1,554**	**$**	**2,553**	**$**	**6,909**
Past due but not impaired	**$**	**—**	**$**	**11,673**	**$**	**766**	**$**	**93**	**$**	**312**	**$**	**12,844**

As of December 31, 2017

($ 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

(e) 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 December 31, 2018 is $14.8 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 year ended December 31, 2018 had a total net investment in finance receivable balance at the time of modification of $25.6 million (2017 - $28.9 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.

(f) 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 consolidated financial statements. Any amounts recovered from the sale of equipment after a charge-off, are credited to the allowance for credit losses when received. In the year-ended December 31, 2018, the proceeds from the disposal of repossessed equipment that was charged-off totaled $3.3 million (2017 - $3.2 million). Repossessed equipment is held at various warehouses by the companies contracted to repossess and sell the equipment.

8. 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 20% to 30% declining balance annual rates, which are reassessed annually.

	Furniture and equipment	Computer hardware	Total
Cost:			
December 31, 2016	$ 903	$ 1,512	$ 2,415
Additions	302	641	943
Disposals	—	(41)	(41)
Translation	5	3	8
December 31, 2017	1,210	2,115	3,325
Additions	37	175	212
Disposals	(44)	(63)	(107)
Translation	9	(21)	(12)
December 31, 2018	**$ 1,212**	**$ 2,206**	**$ 3,418**

The expenditures in 2018 and 2017 reflects acquisitions related to the growth in Pawnee staff numbers during the year.

	Furniture and equipment	Computer hardware	Total
Accumulated depreciation:			
December 31, 2016	$ 347	$ 634	$ 981
Depreciation	138	303	441
Disposals	—	(41)	(41)
Translation	3	6	9
December 31, 2017	488	902	1,390
Depreciation	120	386	506
Disposals	(41)	(63)	(104)
Translation	11	(13)	(2)
December 31, 2018	**$ 578**	**$ 1,212**	**$ 1,790**

	Furniture and equipment	Computer hardware	Total
Carrying amount:		*($ thousands)*	
December 31, 2016	$ 556	$ 878	$ 1,434
December 31, 2017	$ 722	$ 1,213	$ 1,935
December 31, 2018	**$ 634**	**$ 994**	**$ 1,628**

9. 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 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 three-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 ("CGU") 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. 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.

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 amortization, had no impairment loss been recognized for the asset in prior years.

Significant estimates

The impairment testing utilizes several 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 ("VIU") being derived from an estimated discounted cash flow model. VIU 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. 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.

	Indefinite useful life	Finite useful life		
	Trade names	Broker relationships	Non-Compete	Total
Cost:		($ thousands)		
December 31, 2016	$ 7,665	$ 19,539	$ 1,309	$ 28,513
Adjustment	—	(22)	—	(22)
Translation	(476)	—	—	(476)
December 31, 2017	7,189	19,517	1,309	28,015
Translation	593	—	—	593
December 31, 2018	**$ 7,782**	**$ 19,517**	**$ 1,309**	**$ 28,608**

	Trade names	Broker relationships	Non-Compete	Total
Accumulated amortization:		($ thousands)		
December 31, 2016	$ 127	$ 6,045	$ 468	$ 6,640
Amortization	—	1,087	604	1,691
December 31, 2017	127	7,132	1,072	8,331
Amortization	—	1,275	237	1,512
December 31, 2018	**$ 127**	**$ 8,407**	**$ 1,309**	**$ 9,843**

	Trade names	Broker relationships	Non-Compete	Total
Carrying amount:		($ thousands)		
December 31, 2016	$ 7,538	$ 13,494	$ 841	$ 21,873
December 31, 2017	$ 7,062	$ 12,385	$ 237	$ 19,684
December 31, 2018	**$ 7,655**	**$ 11,110**	**$ —**	**$ 18,765**

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, 2018	December 31, 2017
	($ thousands)	
Pawnee	**$ 7,367**	$ 6,774
Blue Chip	**288**	288
Total indefinite-life intangible assets	**$ 7,655**	$ 7,062

10. 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 CGU for purposes of assessing impairment.

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 VIU. 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 several 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 VIU 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 VIU 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	Blue Chip	Total
Cost:		*($ thousands)*	
December 31, 2016	$ 48,700	$ 26,365	$ 75,065
Translation	(2,475)	—	(2,475)
December 31, 2017	46,225	26,365	72,590
Translation	3,255	—	3,255
December 31, 2018	**$ 49,480**	**$ 26,365**	**$ 75,845**

	Pawnee	Blue Chip	Total
Accumulated impairment:		*($ thousands)*	
December 31, 2016	$ 34,259	$ —	$ 34,259
Translation	(1,526)		(1,526)
December 31, 2017	32,733	—	32,733
Translation	2,075		2,075
December 31, 2018	**$ 34,808**	**$ —**	**$ 34,808**

	Pawnee	Blue Chip	Total
Carrying amount:		*($ thousands)*	
December 31, 2016	$ 14,441	$ 26,365	$ 40,806
December 31, 2017	$ 13,492	$ 26,365	$ 39,857
December 31, 2018	**$ 14,672**	**$ 26,365**	**$ 41,037**

The Company completed its annual goodwill impairment test as at December 31, 2018 and 2017 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 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, 2017	3.0%	3.0%
December 31, 2018	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, 2017	27.60%	21.98%
December 31, 2018	27.87%	21.41%

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.

11. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprise:

	December 31, 2018	December 31, 2017
	($ thousands)	
Dividend payable	**$ 1,240**	$ 1,264
Accounts payable	**2,187**	1,598
Sales tax payable	**874**	761
Customer deposits and prepayments	**845**	704
Unfunded finance receivables	**5,984**	5,610
Taxes payable	**742**	2,174
Payroll related payables and accruals	**1,176**	1,068
Accrued expenses and other liabilities	**2,552**	1,710
	$ 15,600	$ 14,889

12. CONVERTIBLE DEBENTURES

On December 12, 2017, the Company exercised its right to redeem the debentures on January 17, 2018. The Company paid, in cash, to the debenture holders $20.0 million in outstanding principal and $60,548 in accrued and unpaid interest up to the redemption date.

The debentures (symbol TSX: CHW.DB), issued in December 2013, were to mature on December 31, 2018, and bore interest at a rate of 6.5% per annum, paid semi-annually. The outstanding principal under the debentures, at the option of the holders, could have been 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 had the following options to redeem the convertible debentures prior to maturity:
- After December 31, 2016 and prior to December 31, 2017, the Company had the option to redeem the debentures, provided the current market price for the purposes of the debentures was 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 had the option to redeem the debentures, provided the redemption price was at a price equal to the principal amount including accrued and unpaid interest.

The debentures, per accounting guidelines, had 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. 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 was based on their trading price on the Toronto Stock Exchange every reporting period.

The convertible debentures balance was composed of:

	December 31, 2018	December 31, 2017
	($ thousands)	
Principal amount recognized on issuance	**$ —**	$ 20,000
Fair value adjustment	**—**	90
Balance, end of year	**$ —**	$ 20,090

	For the years ended December 31, 2018	2017
	($ thousands)	
Fair value adjustment for the year	**$ 90**	$ 170
Interest paid during the year	**(61)**	(1,300)
Financing costs - convertible debentures	**$ 29**	$ (1,130)

13. 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	242,806	—	172,288	—	84,029	499,123
Repayments	(227,950)	—	(45,606)	—	(67,054)	(340,610)
Payment of financing costs	—	(425)	—	(3,542)	—	(3,967)
Amortization of deferred financing costs	—	1,254	—	1,521	—	2,775
Foreign currency translation adjustment	18,017	—	14,326	(294)	—	32,049
Net as of December 31, 2018	**$ 233,278**	**$ (1,707)**	**$ 228,249**	**$ (4,457)**	**$ 146,162**	**$ 601,525**

(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 December 31, 2018, the Company was utilizing U.S.$178.7 million (December 31, 2017 - U.S.$165.0 million) of its credit facility and had approximately U.S.$71.3 million in additional borrowings available under the corporate credit facility. At December 31, 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 year ended December 31, 2018 was 5.12% (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 in August 2023. At December 31, 2018, Pawnee was utilizing U.S.$83.0 million of this facility. At December 31, 2018 and throughout the period from August 2018, Pawnee was compliant with all covenants. Based on average debt levels, the effective interest rate during the year ended December 31, 2018 was 7.54% (2017 - n/a).
(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 December 31, 2018 and throughout the period from October 2017 (the inception of the CapOne facility), Pawnee was compliant with all covenants. Based on average debt levels, the effective interest rate during the year ended December 31, 2018 was 5.61% (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 December 31, 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 December 31, 2018, Blue Chip had $146.2 million (December 31, 2017 - $129.2 million) in securitization and bulk lease financing facilities debt outstanding, was utilizing $76.2 million (December 31, 2017 - $73.6 million) of their available financing and had access to at least $93.8 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 year ended December 31, 2018 was 3.37% (for the year ended December 31, 2017 - 3.15%). As at December 31, 2018, Blue Chip had provided $10.5 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 December 31, 2018 and December 31, 2017, and throughout the periods presented, Blue Chip was compliant with all covenants.

(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.

	December 31, 2018	December 31, 2017
	($ thousands)	
Restricted - cash in collection accounts	**$ 9,063**	$ 2,939
Restricted - cash reserves	**4,535**	3,032
Restricted funds	**$ 13,598**	$ 5,971

14. 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, 2018		December 31, 2017
		($ thousands)		
Security deposits that will be utilized within one year	**$**	**3,884**	$	3,492
Security deposits that will be utilized in future years		**12,889**		10,520
	$	**16,773**	$	14,012

15. INTEREST RATE DERIVATIVES

Interest rate derivatives, which comprise interest rate swaps and caps, are not considered trading instruments as the Company intends to hold them until maturity. The instruments do not qualify as hedges for accounting purposes, and are therefore recorded as separate derivative financial instruments. Accordingly, the estimated fair values are recorded on the accompanying consolidated statement of financial position. The fair values are based on the estimated net present value of cash flows and represent the consideration the Company would receive (pay) if a derivative was terminated on the reporting date.

Payments made and received pursuant to the terms of the instruments are recorded as an adjustment to interest expense. Fair value adjustments are recorded separately on the statement of income.

(a) Derivative 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 Chesswood's credit facility (see Note 13(a) - *Borrowings*). At December 31, 2018, the fair value of the swaps was an asset of $455,000 (December 31, 2017 - a liability of $43,000).

The following swap agreements were outstanding at December 31, 2018:

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

(b) Derivative caps

Pawnee's non-recourse asset-backed facilities (see Note 13(b)(*ii*) - *Borrowings*) requires Pawnee to mitigate interest rate risk by entering into an interest rate cap for a notional amount of not less than 80% of the aggregate outstanding balance. The interest rate cap is tied to the repayment terms of the underlying finance receivables portfolio supporting the Pawnee facility, through the maturity date, with a floating index rate based on USD-LIBOR-BBA, but subject to a capped fixed rate of 2.25% and 2.75%. At December 31, 2018, the fair value of the interest rate caps was an asset of $441,000 (2017 - $185,000).

16. TAXES

<u>*Description and accounting policy*</u>
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.

Significant estimates and judgments
The Company is subject to income tax laws in the various jurisdictions that it operates in and the complex tax laws are potentially subject to different interpretations by the Company and the relevant tax authority. Management's judgment is applied in interpreting the relevant tax laws and estimating the expected timing and the amount of the provision for current and deferred income taxes. 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 several assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

On December 22, 2017, the U.S. government enacted new tax legislation effective January 1, 2018. The legislation made broad and complex changes to the U.S. tax code. The tax provision may change in the future following a more comprehensive review of the legislation, including implementation of the associated rules and regulations and supporting guidance from the Internal Revenue Service and other bodies, and as a result of any future changes or amendments to this legislation.

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 Pawnee 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 neither of these conditions will be triggered.

(a) Tax expense consists of the following:

	For the years ended	
	December 31, 2018	December 31, 2017
	($ thousands)	
Current tax expense	**$ 7,206**	$ 6,468
Deferred tax (recovery) expense	**2,167**	(4,408)
Tax expense	**$ 9,373**	$ 2,060

(b) The table below shows the reconciliation between tax expense reported in the consolidated statements of income and the tax expense that would have resulted from applying the combined Canadian Federal and Ontario tax rate of 26.5% (2017 - 26.5%) to income before income taxes.

		For the years ended	
		December 31, 2018	December 31, 2017
		($ thousands)	
Income from continuing operations before taxes		**$ 32,716**	$ 27,811
Canadian tax rate		**26.5%**	26.5%
Theoretical tax expense		**8,670**	7,370
Tax cost of non-deductible items		**311**	124
Utilization of tax loss carry-forwards		**(108)**	(22)
Withholding tax on inter-company dividends		**795**	448
Higher effective tax rates in foreign jurisdictions		**666**	3,353
Change in substantively enacted tax rates of future periods	*(i)*	**(1,033)**	(9,379)
True-up of prior year		(87)	—
Other		**159**	166
Tax expense		**$ 9,373**	$ 2,060

(i) - The future tax recovery in 2017 of $9.4 million was a result of the revaluation of the U.S. subsidiaries' net deferred tax liabilities due to the U.S. Tax Cuts and Jobs Act passed on December 22, 2017. The U.S. federal corporate tax rate decreased from 35% to 21%. Chesswood's U.S. subsidiaries' effective tax rate for 2018 and beyond is comprised of the new, lower federal tax rate plus a blended state tax rate.

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

		December 31, 2018	December 31, 2017
		($ thousands)	
Deferred tax assets	*(d)*	**$ 375**	$ 755
Deferred tax liabilities	*(e)*	**(20,794)**	(21,202)
Net deferred tax liabilities		**$ (20,419)**	$ (20,447)

Reconciliation of net deferred tax liabilities:

		For the years ended December 31,	
		2018	2017
		($ thousands)	
Balance, beginning of year		**$ (20,447)**	$ (26,044)
Deferred tax recovery (expense) in the statements of income	*(a)*	**(2,167)**	4,408
Adoption of IFRS 9 & 15		**3,453**	—
Translation		**(1,258)**	1,189
Net change in net deferred tax liabilities during the year		**28**	5,597
Balance, end of year		**$ (20,419)**	$ (20,447)

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

	December 31, 2018	December 31, 2017
	($ thousands)	
Deferred tax assets:		
Financing costs	**$ 375**	$ 598
Tax losses carried forward	—	157
	$ 375	$ 755

Deferred tax assets are recognized to the extent that realization of the related tax benefit through future taxable profits is probable. At December 31, 2018, Case Funding had U.S.$455,000 (2017 - U.S.$570,000) in tax losses carried forward and taxable timing differences of U.S.$455,000 (2017 - $570,000) that have not been recognized.

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, 2018	December 31, 2017
	($ thousands)	
Deferred tax assets:		
Leased assets	**$ 41,195**	$ 38,425
Allowance for credit losses	**7,482**	2,680
Tax losses carried forward	**3,357**	—
Accrued liabilities	**—**	51
	52,034	41,156
Deferred tax liabilities:		
Finance receivables	**70,169**	59,462
Difference in goodwill and intangible asset base	**2,659**	2,896
	72,828	62,358
Deferred taxes liabilities, net	**$ 20,794**	$ 21,202
Deferred taxes liabilities to be realized in the next 12 months	$ 5,946	$ 9,343

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 $56.1 million (2017 - $17.1 million), as it is not considered probable that this temporary difference will reverse in the foreseeable future.

17. MINIMUM PAYMENTS

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

($ thousands)		2019	2020	2021	2022	2023	2023 +	**Total**
Accounts payable and other liabilities		$ 15,600	$ —	$ —	$ —	$ —	$ —	**$ 15,600**
Borrowings	*(i)*	123,815	353,368	95,544	56,416	26,746	91	**655,980**
Customer security deposits	*(ii)*	3,884	4,655	4,678	3,293	2,296	58	**18,864**
		143,299	358,023	100,222	59,709	29,042	149	**690,444**
Other financial commitments	*(iii)*	805	717	739	748	757	790	**4,556**
Total commitments		$ 144,104	$ 358,740	$ 100,961	$ 60,457	$ 29,799	$ 939	**$ 695,000**

i. Borrowings are described in Note 13 - *Borrowings*, and include fixed payments for Pawnee and Blue Chip's securitization facilities and Chesswood's corporate credit facility and Pawnee's warehouse facility, which are lines-of-credit and, as such, the balances can fluctuate. The amount above includes fixed interest payments on Pawnee and Blue Chip's credit facilities and estimated interest payments on the Chesswood corporate credit facility, assuming the interest rate, debt balance and foreign exchange rate at December 31, 2018 remain the same until its expiry date of December 8, 2020.
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 2025, 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. $7.7 million in letters of guarantee. For contingent liabilities and other commitments, refer to Note 18 - *Contingent Liabilities and Other Financial Commitments*.

18. 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, 2018 and 2017 were not material or possible outflows are considered remote.

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.

19. CAPITAL MANAGEMENT

The Company's capital consists of borrowings and shareholders' equity. 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 share repurchases through the normal course issuer bid and 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 December 31, 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.

20. COMMON SHARES

		Common shares		Amount
		(# '000s)		*($ thousands)*
Balance, December 31, 2016		16,514	$	104,596
Exercise of restricted share units (*Note 22(b)*)		38		386
Exercise of options (*Note 22(a)*)		23		226
Balance, December 31, 2017		16,575	$	105,208
Exercise of restricted share units (*Note 22(b)*)		70		806
Exercise of options (*Note 22(a)*)		83		741
Repurchase of common shares under issuer bid	*(a)*	(499)		(3,179)
Balance, December 31, 2018		**16,229**	**$**	**103,576**

(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 per share. 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. From August 25, 2018 to December 31, 2018, the Company repurchased 206,340 of its shares under the normal course issuer bid at an average cost of $10.2412 per share. The excess of the purchase price over the average stated value of Common Shares purchased for cancellation was charged to retained earnings.

See Note 28 - *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.

21. 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.

22. COMPENSATION PLANS

(a) Share options

During the year ended December 31, 2018, personnel expenses and the share-based compensation reserve included $528,000 (2017 - $532,600) relating to option expense.

As of December 31, 2018, unrecognized non-cash compensation expense related to the outstanding options was $395,700 (December 31, 2017 - $489,100), which is expected to be recognized over the remaining vesting period.

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

	For the years ended **December 31,**	
	2018	2017
Balance, beginning of year	**2,155,989**	1,837,989
Granted	**405,000**	362,500
Exercised	**(83,135)**	(23,500)
Forfeited	**(93,500)**	(21,000)
Balance, end of year	**2,384,354**	2,155,989

During the year ended December 31, 2018, 83,135 options were exercised (2017 - 23,500) for total cash consideration of $571,000 (2017 - $162,000). On exercise, the fair value of options that had been expensed to date during the vesting period of $169,000 (2017 - $64,000) 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 year ended December 31, 2018, the weighted average share price at the date of exercise was $11.20 (2017 - $12.40).

At December 31, 2018, the weighted average exercise price is $10.43 (December 31, 2017 - $10.24) and the weighted average remaining contractual life for all options outstanding is 6.1 years (December 31, 2017 - 6.5 years). The 1,643,354 options exercisable at December 31, 2018 have a weighted average exercise price of $10.07 (December 31, 2017 - 1,415,489 options at $9.58).

An analysis of the options outstanding at December 31, 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	160,000	160,000	April 16, 2025	$ 12.53
April 29, 2015	150,000	150,000	April 29, 2025	$ 12.24
August 15, 2016	334,950	212,450	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
	2,384,354	1,643,354		

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:

	March 28, 2018	June 19, 2017
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:

	For the years ended **December 31,**	
	2018	2017
Balance, beginning of year	**70,000**	70,000
Granted	**44,000**	38,000
Exercised	**(70,000)**	(38,000)
Balance, end of year	**44,000**	70,000

During the year ended December 31, 2018, personnel expenses and share-based compensation reserve included $566,000 (2017 - $433,100) relating to RSUs.

As of December 31, 2018, unrecognized non-cash compensation expense related to non-vested RSUs was $115,000 (December 31, 2017 - $198,300).

During the year ended December 31, 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 year ended December 31, 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 year ended December 31, 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 9.2 years (December 31, 2017 - 5.8 years).

An analysis of the RSUs outstanding at December 31, 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

23. DIVIDENDS

Under the Chesswood revolving credit facility (see Note 13(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 year ended December 31, 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
September 28, 2018	October 15, 2018	$	0.070		1,254
October 31, 2018	November 15, 2018	$	0.070		1,252
November 30, 2018	December 17, 2018	$	0.070		1,245
				$	15,067

The following dividend was declared but not paid to Common Shareholders and Exchangeable Securities holders during the year-ended December 31, 2018 and was included in accounts payable and other liabilities (Note 11):

Record date	Payment date	Cash dividend per share ($)		Total dividend amount	
				($ thousands)	
December 31, 2018	January 15, 2019	$	0.070	$	1,240

The following dividends were declared before the financial statements were authorized for issue but not recognized during the year ended December 31, 2018:

Record date	Payment date	Cash dividend per share ($)		Total dividend amount	
				($ thousands)	
January 31, 2019	February 15, 2019	$	0.070	$	1,236
February 28, 2019	March 15, 2019	$	0.070		1,236
				$	2,472

The following dividends were paid to Common Shareholders and Exchangeable Securities holders (included as non-controlling interest) during the year ended December 31, 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
September 29, 2017	October 16, 2017	$ 0.070	1,263
October 31, 2017	November 15, 2017	$ 0.070	1,264
November 30, 2017	December 15, 2017	$ 0.070	1,264
			$ 15,143

The following dividend was declared but not paid to Common Shareholders and Exchangeable Securities holders during the year-ended December 31, 2017 and was included in accounts payable and other liabilities (Note 11):

Record date	Payment date	Cash dividend per share ($)	Total dividend amount
			($ thousands)
December 29, 2017	January 15, 2018	$ 0.070	$ 1,264

The following dividends were declared before the financial statements were authorized for issue but not recognized during the year ended December 31, 2017:

Record date	Payment date	Cash dividend per share ($)	Total dividend amount
			($ thousands)
January 31, 2018	February 15, 2018	$ 0.070	$ 1,264
February 28, 2018	March 15, 2018	$ 0.070	1,264
			$ 2,528

24. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income for the year 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.

	For the years ended December 31, 2018	2017
Weighted average number of common shares outstanding	**16,439,392**	16,550,400
Dilutive effect of options	**311,347**	428,094
Dilutive effect of restricted share units	**60,608**	67,496
Weighted average common shares outstanding for diluted earnings per share	**16,811,347**	17,045,990
Options (and in 2017 convertible debentures) excluded from calculation of diluted shares for the period due to their anti-dilutive effect	**930,000**	1,448,589

25. 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 years ended December 31, 2018	2017
	($ thousands)	
Salaries, fees and other short-term employee benefits	**$ 1,525**	$ 1,128
Share-based compensation	**757**	678
Compensation expense of key management	**$ 2,282**	$ 1,806

26. CASH FLOW SUPPLEMENTARY DISCLOSURE

	<u>Note</u>	For the years ended December 31, 2018	2017
		($ thousands)	
Non-cash transactions			
Common shares issued on exercise of RSUs		**$ 806**	$ 386

	Note	For the years ended December 31, 2018	2017
Other non-cash items included in net income			
Share-based compensation expense	*22*	**$ 1,094**	$ 965
Amortization of deferred financing costs	*13*	**2,775**	1,582
Financing costs - convertible debentures	*12*	**(29)**	1,130
Unrealized loss on investments		**181**	2,869
Escrow receivable fair value adjustment		**—**	(52)
Contingent consideration reversal		**—**	(538)
Unrealized gain on interest rate derivatives		**(705)**	(1,006)
Unrealized loss on foreign exchange		**29**	118
		$ 3,345	$ 5,068
Change in other net operating assets			
Restricted funds		**$ (6,749)**	$ (6,181)
Other assets		**4,238**	(2,579)
Accounts payable and other liabilities		**(556)**	2,876
Customer security deposits		**1,467**	1,334
		$ (1,600)	$ (4,550)
Borrowings – continuing operations			
Draw-downs or proceeds from borrowings	*13*	**$ 499,123**	$ 401,525
Payments - borrowings	*13*	**(340,610)**	(263,800)
		$ 158,513	$ 137,725

27. 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:

	Year ended December 31, 2018				
($ thousands)	**Equipment Financing - U.S.**	**Equipment Financing - Canada**	**Discontinued Operations** *(Note 5)*	**Corporate Overhead - Canada**	**Total**
Interest revenue on leases and loans	$ 84,452	$ 13,475		$ —	$ 97,927
Ancillary finance and other fee income	8,011	4,284		364	12,659
Interest expense	(21,604)	(5,043)		—	(26,647)
Provision for credit losses	(17,829)	(1,594)		—	(19,423)
Finance margin	**53,030**	**11,122**		**364**	**64,516**
Personnel expenses	11,126	2,592		1,685	15,403
Share-based compensation expense	285	20		789	1,094
Other expenses	10,411	1,735		1,663	13,809
Depreciation - property and equipment	490	16		—	506
Income before undernoted items	**30,718**	**6,759**		**(3,773)**	**33,704**
Amortization - intangible assets	—	(1,512)		—	(1,512)
Fair value adjustments - convertible debentures and investments	—	—		(152)	(152)
Unrealized gain on interest rate derivatives	228	—		477	705
Unrealized loss on foreign exchange	—	—		(29)	(29)
Income before taxes	**30,946**	**5,247**		**(3,477)**	**32,716**
Tax expense	5,904	1,260		2,209	9,373
Income from continuing operations	**25,042**	**3,987**		**(5,686)**	**23,343**
Loss from discontinued operations	—	—	$ (458)	—	(458)
Net income	**$ 25,042**	**$ 3,987**	**$ (458)**	**$ (5,686)**	**$ 22,885**
Net cash used in operating activities	$ (100,770)	$ (16,304)	$ 1,259	$ (277)	$ (116,092)
Net cash used in investing activities	$ (212)	$ —	$ —	$ —	$ (212)
Net cash from financing activities	$ 123,140	$ 16,925	$ —	$ (25,214)	$ 114,851
Total assets	$ 600,652	$ 208,514	$ 1,852	$ 7,169	$ 818,187
Total liabilities	$ 267,999	$ 152,893	$ —	$ 233,800	$ 654,692
Finance receivables	$ 559,542	$ 169,382	$ —	$ —	$ 728,924
Goodwill and intangible assets	$ 22,039	$ 37,763	$ —	$ —	$ 59,802
Property and equipment expenditures	$ 212	$ —	$ —	$ —	$ 212

($ thousands)	Year ended December 31, 2017 Equipment Financing - U.S.	Equipment Financing - Canada	Discontinued Operations (Note 5)	Corporate Overhead - Canada	Total
Interest revenue on leases and loans	$ 72,296	$ 11,479		$ —	$ 83,775
Ancillary finance and other fee income	7,020	4,172		357	11,549
Interest expense	(11,053)	(4,215)		—	(15,268)
Provision for credit losses	(19,758)	(1,326)		—	(21,084)
Finance margin	**48,505**	**10,110**		**357**	**58,972**
Personnel expenses	9,718	2,635		1,439	13,792
Share-based compensation expense	242	17		706	965
Other expenses	8,509	1,550		1,640	11,699
Depreciation - property and equipment	420	21		—	441
Income before undernoted items	**29,616**	**5,887**		**(3,428)**	**32,075**
Amortization - intangible assets, contingent consideration reversal	—	(1,691)		538	(1,153)
Fair value adjustments - convertible debentures and investments	—	—		(3,999)	(3,999)
Unrealized gain on interest rate derivatives	192	—		814	1,006
Unrealized loss on foreign exchange	—	—		(118)	(118)
Income before taxes	**29,808**	**4,196**		**(6,193)**	**27,811**
Tax expense (recovery)	(453)	974		1,539	2,060
Income from continuing operations	**30,261**	**3,222**		**(7,732)**	**25,751**
Loss from discontinued operations	—	—	$ (320)	—	(320)
Net income	**$ 30,261**	**$ 3,222**	**$ (320)**	**$ (7,732)**	**$ 25,431**
Net cash used in operating activities	$ (101,870)	$ (15,957)	$ 1,899	$ (9,038)	$ (124,966)
Net cash used in investing activities	$ (930)	$ (13)	$ —	$ —	$ (943)
Net cash from financing activities	$ 87,826	$ 22,044	$ —	$ 8,554	$ 118,424
Total assets	$ 435,579	$ 192,210	$ 3,371	$ 12,452	$ 643,612
Total liabilities	$ 122,637	$ 139,683	$ —	$ 220,071	$ 482,391
Finance receivables	$ 399,076	$ 151,574	$ —	$ —	$ 550,650
Goodwill and intangible assets	$ 20,266	$ 39,275	$ —	$ —	$ 59,541
Property and equipment expenditures	$ 930	$ 13	$ —	$ —	$ 943

28. SUBSEQUENT EVENT

Subsequent to December 31, 2018 (up to and including March 5, 2019), the Company repurchased 48,360 of its shares under the normal course issuer bid (See Note 20 - *Common Shares*) at an average cost of $10.7452 per share.