

## **CHESSWOOD GROUP LIMITED**

### **NOTICE TO READERS**

Accompanying this notice are the unaudited condensed consolidated interim financial statements of Chesswood Group Limited for the three months ended March 31, 2019. These statements have been prepared by, and are the responsibility of, the Company's management.

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

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

	<i>Note</i>	<b>March 31, 2019</b> <i>(unaudited)</i>	December 31, 2018 <i>(audited)</i>
<b>ASSETS</b>			
Cash		\$ 2,838	\$ 2,326
Restricted funds	10	12,750	13,598
Assets held for sale	5	1,637	1,852
Other assets	6	7,249	8,786
Finance receivables	7	741,043	728,924
Deferred tax assets		339	375
Interest rate derivatives		372	896
Right-to-use assets	8	3,604	—
Property and equipment		1,582	1,628
Intangible assets		18,281	18,765
Goodwill		40,737	41,037
<b>TOTAL ASSETS</b>		<b>\$ 830,432</b>	<b>\$ 818,187</b>
<b>LIABILITIES</b>			
Accounts payable and other liabilities	9	\$ 13,047	\$ 15,600
Premises leases payable	8	3,669	—
Borrowings	10	617,727	601,525
Customer security deposits		15,404	16,773
Deferred tax liabilities		20,040	20,794
		<b>669,887</b>	<b>654,692</b>
<b>SHAREHOLDERS' EQUITY</b>			
Common shares	13	103,880	103,576
Non-controlling interest		13,489	13,713
Share-based compensation reserve	14	5,100	5,414
Accumulated other comprehensive income		16,489	18,350
Retained earnings		21,587	22,442
		<b>160,545</b>	<b>163,495</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 830,432</b>	<b>\$ 818,187</b>

*Please see notes to the condensed interim consolidated financial statements.*

**CHESSWOOD GROUP LIMITED**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**  
*(in thousands of dollars, except per share amounts, unaudited)*

	<i>Note</i>	<b>2019</b>	<b>2018</b>
<b>Finance revenue</b>			
Interest revenue on finance leases and loans		\$ 26,697	\$ 22,230
Ancillary finance and other fee income		4,060	2,955
		<u>30,757</u>	<u>25,185</u>
<b>Finance expenses</b>			
Interest expense		8,257	5,257
Provision for credit losses	7	7,342	4,519
		<u>15,599</u>	<u>9,776</u>
<b>Finance margin</b>		<u>15,158</u>	<u>15,409</u>
<b>Expenses</b>			
Personnel expenses		4,927	4,000
Other expenses		4,357	2,951
Depreciation - property and equipment		287	119
		<u>9,571</u>	<u>7,070</u>
Income before undernoted items		5,587	8,339
Amortization - intangible assets		(333)	(513)
Unrealized loss on investments held		(30)	(151)
Financing costs - convertible debentures		—	29
Unrealized gain (loss) on interest rate derivatives		(503)	759
Unrealized loss on foreign exchange		(82)	(36)
<b>Income before taxes</b>		<u>4,639</u>	<u>8,427</u>
Tax expense		(1,499)	(2,529)
<b>Income from continuing operations</b>		<u>3,140</u>	<u>5,898</u>
<b>Income (loss) from discontinued operations</b>	5	(69)	2
<b>Net income</b>		<u>\$ 3,071</u>	<u>\$ 5,900</u>
<b>Attributable to:</b>			
Common shareholders		\$ 2,815	\$ 5,416
Non-controlling interest		\$ 256	\$ 484
<b>Income from continuing operations per share:</b>			
Basic	16	\$ 0.17	\$ 0.33
Diluted	16	\$ 0.17	\$ 0.32

*Please see notes to the condensed interim consolidated financial statements.*

**CHESSWOOD GROUP LIMITED**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**  
*(in thousands of dollars, unaudited)*

	<u>2019</u>	<u>2018</u>
Net income	\$ 3,071	\$ 5,900
Other comprehensive income:		
Unrealized gain (loss) on translation of foreign operations	<u>(2,031)</u>	2,599
Comprehensive income	<u>\$ 1,040</u>	<u>\$ 8,499</u>
<b>Attributable to:</b>		
Common shareholders	\$ 953	\$ 7,802
Non-controlling interest	\$ 87	\$ 697

*Please see notes to the condensed interim consolidated financial statements.*

**CHESSWOOD GROUP LIMITED**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**  
*(in thousands of dollars, unaudited)*

	<i>Note</i>	Common shares	Common shares	Non- controlling interest	Share-based compensation reserve	Accumulated other comprehensive income	Retained earnings	2019 Total
		(# '000s)						
<b>Shareholders' equity - December 31, 2018</b>		<b>16,229</b>	<b>\$ 103,576</b>	<b>\$ 13,713</b>	<b>\$ 5,414</b>	<b>\$ 18,350</b>	<b>\$ 22,442</b>	<b>\$ 163,495</b>
Net income		—	—	256	—	—	2,815	3,071
Dividends declared	15	—	—	(310)	—	—	(3,402)	(3,712)
Share-based compensation	14	—	—	—	225	—	—	225
Exercise of restricted share units	14	44	482	—	(482)	—	—	—
Exercise of options	14	27	210	—	(57)	—	—	153
Repurchase of common shares under issuer bid	13	(61)	(388)	—	—	—	(268)	(656)
Unrealized loss on translation of foreign operations			—	(170)	—	(1,861)	—	(2,031)
<b>Shareholders' equity - March 31, 2019</b>		<b>16,239</b>	<b>\$ 103,880</b>	<b>\$ 13,489</b>	<b>\$ 5,100</b>	<b>\$ 16,489</b>	<b>\$ 21,587</b>	<b>\$ 160,545</b>

  

	<i>Note</i>	Common shares	Common shares	Non- controlling interest	Share-based compensation reserve	Accumulated other comprehensive income	Retained earnings	2018 Total
		(# '000s)						
<b>Shareholders' equity - December 31, 2017</b>		<b>16,575</b>	<b>\$ 105,208</b>	<b>\$ 13,230</b>	<b>\$ 5,295</b>	<b>\$ 10,776</b>	<b>\$ 26,712</b>	<b>\$ 161,221</b>
Impact of adopting IFRS 9		—	—	(602)	—	—	(6,753)	(7,355)
Net income		—	—	484	—	—	5,416	5,900
Dividends declared	15	—	—	(310)	—	—	(3,473)	(3,783)
Share-based compensation	14	—	—	—	262	—	—	262
Exercise of options	14	56	435	—	(138)	—	—	297
Repurchase of common shares under issuer bid	13	(123)	(782)	—	—	—	(496)	(1,278)
Unrealized gain on translation of foreign operations			—	213	—	2,386	—	2,599
<b>Shareholders' equity - March 31, 2018</b>		<b>16,508</b>	<b>104,861</b>	<b>13,015</b>	<b>5,419</b>	<b>13,162</b>	<b>21,406</b>	<b>157,863</b>
Impact of adopting IFRS 9 & 15		—	—	(243)	—	—	(2,691)	(2,934)
Net income		—	—	1,405	—	—	15,580	16,985
Dividends declared		—	—	(932)	—	—	(10,329)	(11,261)
Share-based compensation		—	—	—	832	—	—	832
Exercise of restricted share units		70	371	—	(806)	—	—	(435)
Exercise of options		27	741	—	(31)	—	—	710
Repurchase of common shares under issuer bid	13	(376)	(2,397)	—	—	—	(1,524)	(3,921)
Unrealized gain on translation of foreign operations			—	468	—	5,188	—	5,656
<b>Shareholders' equity - December 31, 2018</b>		<b>16,229</b>	<b>\$ 103,576</b>	<b>\$ 13,713</b>	<b>\$ 5,414</b>	<b>\$ 18,350</b>	<b>\$ 22,442</b>	<b>\$ 163,495</b>

*Please see notes to the condensed interim consolidated financial statements.*

**CHESSWOOD GROUP LIMITED**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**  
*(in thousands of dollars, unaudited)*

	<i>Note</i>	<u>2019</u>	<u>2018</u>
<b>OPERATING ACTIVITIES</b>			
Income from continuing operations		<b>\$ 3,140</b>	\$ 5,898
Non-cash items included in net income			
Amortization and depreciation		<b>620</b>	632
Provision for credit losses <i>(excluding recoveries)</i>	7	<b>9,710</b>	6,782
Amortization of origination costs		<b>6,491</b>	5,195
Tax expense		<b>1,499</b>	2,529
Other non-cash items	18	<b>1,681</b>	233
		<b>20,001</b>	15,371
Cash from operating activities before change in net operating assets		<b>23,141</b>	21,269
Funds advanced on origination of finance receivables		<b>(96,677)</b>	(93,653)
Origination costs paid on finance receivables		<b>(8,274)</b>	(8,219)
Principal collections of finance receivables		<b>66,071</b>	51,651
Change in other net operating assets	18	<b>(2,022)</b>	1,688
Cash used in operating activities before undernoted		<b>(17,761)</b>	(27,264)
Interest paid on convertible debentures		<b>—</b>	(61)
Income taxes paid - net		<b>(2,011)</b>	(2,689)
Cash used in operating activities - continuing operations		<b>(19,772)</b>	(30,014)
Cash from operating activities - discontinued operations	5	<b>126</b>	636
<b>Cash used in operating activities</b>		<b>(19,646)</b>	(29,378)
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment		<b>(72)</b>	(96)
<b>Cash used in investing activities</b>		<b>(72)</b>	(96)
<b>FINANCING ACTIVITIES</b>			
Borrowings, net	10	<b>24,659</b>	56,846
Payment of financing costs	10	<b>(40)</b>	—
Payment of lease obligations	8	<b>(147)</b>	—
Redemption of convertible debentures		<b>—</b>	(20,000)
Proceeds from exercise of options	14	<b>153</b>	297
Repurchase of common shares under issuer bid	13	<b>(656)</b>	(1,278)
Cash dividends paid	15	<b>(3,712)</b>	(3,788)
<b>Cash from financing activities</b>		<b>20,257</b>	32,077
Unrealized foreign exchange gain (loss) on cash		<b>(27)</b>	133
Net increase in cash		<b>512</b>	2,736
Cash, beginning of period		<b>2,326</b>	3,640
<b>Cash, end of period</b>		<b>\$ 2,838</b>	<b>\$ 6,376</b>

*Please see notes to the condensed interim 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, Tandem Finance Inc., incorporated in Colorado, 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 10(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.
- Tandem - small-ticket equipment financing through equipment vendors and distributors in the U.S.
- 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 IAS 34, *Interim Financial Reporting*, on a basis consistent with the accounting policies disclosed in the audited consolidated financial statements for the year ended December 31, 2018, except for the effects of adopting IFRS 16, *Leases*, see Note 2 - *New Accounting Standards*.
- have been prepared on the going concern and historical cost bases, except for derivative financial instruments and hybrid financial liabilities designated as at fair value through net income or loss, which have been measured at fair value.
- include the financial statements of the Company and its subsidiaries as noted above. Subsidiaries are consolidated using the purchase method from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated as long as control is held. The financial statements of all subsidiaries are prepared for the same reporting period as the Company, using uniform accounting policies in accordance with IFRS 10, *Consolidated Financial Statements*. All intra-group balances and items of income and expense resulting from intra-group transactions are eliminated in full. Transaction costs in connection with business combinations are expensed as incurred.
- should be read in conjunction with the Company's most recently issued Annual Report which includes information necessary, or useful, to understanding the Company's businesses and financial reporting.
- are unaudited (except otherwise noted).
- reflect adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for a fair statement of results for the interim periods in accordance with IFRS. The results reported in these condensed consolidated interim financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

The preparation of condensed interim consolidated financial statements, including the application of accounting policies, requires management to make estimates and assumptions using judgment that affect the reported amounts of assets and liabilities, and income and expenses during the reporting period. Estimates and other judgments are continually evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates. Preparation of these condensed interim consolidated financial statements required management to exercise judgment over the likelihood of the extension options included in its premises leases being exercised. The significant estimates and judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were otherwise the same as those that applied to the audited consolidated financial statements for the year ended December 31, 2018.

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 three months ended March 31, 2019 - 1.3295; 2018 - 1.2647], and assets and liabilities are translated at the closing rate [as at March 31, 2019 - 1.3363; December 31, 2018 - 1.3642].

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 unaudited condensed consolidated interim financial statements, and certain comparative figures have been reclassified to conform to the presentation adopted in the current year's unaudited condensed consolidated interim financial statements.

The Company's unaudited condensed consolidated interim financial statements were authorized for issue on May 14, 2019 by the Board of Directors.

## 2. NEW ACCOUNTING STANDARDS

### New accounting standards adopted in 2019

#### *IFRS 16 Leases*

The Company adopted IFRS 16, which replaced IAS 17, *Leases*, with effect from January 1, 2019, using the modified retrospective approach, as permitted on transition. Accordingly, the information presented for 2018 has not been restated and remains as previously reported under IAS 17 and related interpretations. The Company's new accounting policy is described in note 8 - Right-to-use assets and premises leases payable.



IFRS 16's approach to lessor accounting is substantially unchanged from its predecessor. The Company, as a Lessor, will record property tax income and expense associated with leasing on a gross basis in the consolidated statements of income. The property tax revenue and expense are recorded in the same period as earned and incurred, and the Company recognizes a provision for uncollectible property tax revenue as contra-revenue when a loss is probable and collectability is not reasonably assured.

For lessees, IAS 17 required an entity to identify 'finance' leases, being those leases where in substance the lessee has acquired substantially all the risks and rewards incidental to ownership of the subject asset. For a finance lease, the underlying asset is recognized on the statement of financial position at an amount equal to the fair value of the leased asset, or if lower, the present value of minimum lease payments. Any lease not classified as finance in nature is considered to be an operating lease. The Company's only material leases are for its premises at the Pawnee and Blue Chip locations, which were determined to be operating in nature. Therefore, lease payments were expensed as incurred, straight-line, over the lease term.

IFRS 16 has removed the distinction between finance and operating leases and requires lessees to recognize right-of-use assets and lease liabilities for all leases, subject to certain optional exceptions, on commencement of a lease. Under the new accounting policy, the nature of expenses related to those leases has changed from straight-line operating lease expense to a depreciation charge for the right-of-use assets and interest expense on the lease liabilities.

The Company elected to use the following exemptions on application of the new rules: lease contracts for which the lease terms ends within 12 months from the date of initial application; lease contracts for which the underlying asset is of low value; and short-term leases that have a lease term of 12 months or less. The Company has also elected to account for each lease component and any non-lease components as a single lease component. Leases of certain office equipment are considered of low value and have been excluded. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

On initial application, the Company recorded right-of-use assets and a corresponding lease liability of \$3.8 million as of January 1, 2019, with no net impact on retained earnings. The lease liability was measured as the future lease payments discounted using a weighted average incremental borrowing rate at January 1, 2018 of 4.5%. During the quarter ended March 31, 2019, the Company expensed interest of \$42,000 and depreciation of \$170,000 compared to operating lease payments of \$147,000.

Ancillary finance and other fee income and Other expenses increased by \$871,000, as certain lessor costs, including property taxes that are paid by the lessee to the lessor are required to be presented gross in the unaudited condensed consolidated interim statements of income, prior year comparatives were not restated. The estimated receivable for property taxes has been reclassified to Finance receivables from Other assets, the prior period balance has not been reclassified.

### 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.

*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 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:

Financial instrument	<u>Classification</u>
<b>ASSETS</b>	
Cash	Amortized cost
Restricted funds	Amortized cost
Other assets	Amortized cost
Other assets	FVTP
Loan receivables	Amortized cost
Interest rate derivatives	FVTP
<b>LIABILITIES</b>	
Accounts payable and other liabilities	Amortized cost
Borrowings	Amortized cost
Customer security deposits	Amortized cost
Interest rate derivatives	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:

	<b>March 31, 2019</b>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Carrying Value</u>
<b>ASSETS</b>				(\$ thousands)
Cash (iii)	\$ 2,838	\$ —	\$ —	\$ 2,838
Restricted funds (iii)	12,750	—	—	12,750
Other assets - Note 6	—	4,343	—	4,343
Other assets - Note 6	423	—	—	423
Loan receivables (i)	—	302,654	—	302,654
Interest rate derivatives (iv)	—	372	—	372
<b>LIABILITIES</b>				
Accounts payable and other liabilities (iii)	—	(13,047)	—	(13,047)
Borrowings (ii)	—	(617,727)	—	(617,727)
Customer security deposits	—	(15,404)	—	(15,404)
				<b>December 31, 2018</b>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Carrying Value</u>
				(\$ thousands)
<b>ASSETS</b>				
Cash (iii)	\$ 2,326	\$ —	\$ —	\$ 2,326
Restricted funds (iii)	13,598	—	—	13,598
Other assets	—	4,900	—	4,900
Other assets	453	—	—	453
Loan receivables (i)	—	293,131	—	293,131
Interest rate derivatives (iv)	—	896	—	896
<b>LIABILITIES</b>				
Accounts payable and other liabilities (iii)	—	(15,600)	—	(15,600)
Borrowings (ii)	—	(601,525)	—	(601,525)
Customer security deposits	—	(16,773)	—	(16,773)

- (i) There is no organized market for the finance receivables. The carrying value is the amortized cost using the effective interest rate method which approximates fair value because 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 Company determines the fair value of its interest rate derivatives under the income valuation technique using a discounted cash flow model. Significant inputs to the valuation model include the contracted notional amount, LIBOR rate yield curves and the applicable credit-adjusted risk-free rate yield curve. The Company's interest rate derivative is included in the Level 2 fair value hierarchy because all of the significant inputs are directly or indirectly observable.

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

*(b) Gains and losses on financial instruments*

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

	For the three months ended <b>March 31,</b>	
	<b>2019</b>	2018
	(\$ thousands)	
Amortized cost:		
Provision for credit losses	\$ (7,342)	\$ (4,519)
Designated as at fair value through net income or loss:		
Convertible debentures	—	29
Fair value through net income or loss:		
Investment in Dealnet common shares	(30)	(151)
Interest rate derivatives	(503)	759
Net loss	<u>\$ (7,875)</u>	<u>\$ (3,882)</u>

#### 4. FINANCIAL RISK MANAGEMENT

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

There have been no material changes in the Company's objectives, policies or processes for measuring and managing any of the risks to which it is exposed since the previous year end. Refer to Note 4 - *Financial Risk Management* of the 2018 annual audited consolidated financial statements for further disclosure.

#### 5. DISCONTINUED OPERATIONS

On February 3, 2015, Case Funding sold certain assets and operations to a private equity firm. Case Funding retained approximately \$9.4 million in finance receivables with a current balance of \$1.6 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 three months ended March 31, 2019 totaled \$69,000 compared to net income of \$2,000 recorded in the same period in the prior year, which represented a basic and diluted loss per share of \$0.004 and \$0.004 (2018 - \$0.0001 and \$0.0001) respectively. For the three months ended March 31, 2019, Case Funding generated cash flows from operations of \$126,000 compared to \$636,000 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 March 31, 2019, it was determined an allowance of \$82,000 (December 31, 2018 - \$85,000) was required.

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

	<b>March 31, 2019</b>	December 31, 2018
	(\$ thousands)	
Legal finance receivables (Case Funding) consist of:		
Attorney loans and medical liens	\$ 52	\$ 52
Plaintiff advances	1,585	1,800
<b>Legal finance receivables (net of allowance)</b>	<b>1,637</b>	<b>1,852</b>
Current portion (i)	562	459
Long-term portion	<u>\$ 1,075</u>	<u>\$ 1,393</u>

- (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:

<b>ASSETS HELD FOR SALE</b>					<b>March 31, 2019</b>
(\$ thousands)	Category	Level 1	Level 2	Level 3	Carrying Value
Attorney loans and medical liens (ii)	AC	\$ —	\$ 52	\$ —	\$ 52
Plaintiff advances	FVOCI	—	—	1,585	1,585

<b>ASSETS HELD FOR SALE</b>					<b>December 31, 2018</b>
(\$ 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

- (ii) There is no organized market for the finance receivables. The carrying value is the amortized cost using the effective interest rate method which approximates fair value because contractual interest rates approximate current market rates.

## 6. OTHER ASSETS

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
	(\$ thousands)	
Property tax receivable	\$ —	\$ 782
Tax receivable	374	991
Sales tax receivable	727	589
Prepaid expenses and other current assets	1,382	1,071
Loan receivable - EcoHome	<i>a</i> 4,343	4,900
Common shares - Dealnet	<i>b</i> 423	453
<b>Other assets</b>	<b>7,249</b>	<b>8,786</b>
Current portion	5,126	6,106
Long-term portion	\$ 2,123	\$ 2,680

(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. 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 March 31, 2019 and December 31, 2018, 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".

## 7. FINANCE RECEIVABLES

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 10 - *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.

	<b>March 31, 2019</b>	December 31, 2018
	(\$ thousands)	
Net investment in leases	<b>\$ 438,389</b>	\$ 435,793
Loan receivables	<b>302,654</b>	293,131
	<b>\$ 741,043</b>	\$ 728,924

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

	<b>March 31, 2019</b>	December 31, 2018
	(\$ thousands)	
Total minimum payments	<b>\$ 906,351</b>	\$ 893,080
Residual values of leased equipment	<b>26,029</b>	25,735
	<b>932,380</b>	918,815
Unearned income, net of initial direct costs of acquisition	<b>(169,004)</b>	(168,946)
<b>Net investment in finance receivables before allowance for credit losses</b>	<b>763,376</b>	749,869
Allowance for credit losses (c)	<b>(25,320)</b>	(23,929)
	<b>738,056</b>	725,940
Reserve receivable on securitized financial contracts	<b>2,987</b>	2,984
Net investment in finance receivables	<b>741,043</b>	728,924
Current portion	258,694	255,906
Long-term portion	<b>\$ 482,349</b>	\$ 473,018

(b) Minimum scheduled collections of finance receivables at March 31, 2019 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	\$ 261,583	\$ 194,862
2020	284,225	226,253
2021	198,014	168,167
2022	114,395	102,650
2023	44,678	42,051
2024 and thereafter	3,456	3,364
Total minimum payments	<b>\$ 906,351</b>	\$ 737,347

(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, segregated into prime and non-prime.

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

<b>As of March 31, 2019</b>				
	Stage 1	Stage 2	Stage 3	Total
	Performing	Under-Performing	Non-Performing	
	(\$ thousands)			
Prime	\$ 490,035	\$ 1,087	\$ 2,239	\$ 493,361
Non-prime	258,505	4,895	6,615	270,015
Total	\$ 748,540	\$ 5,982	\$ 8,854	\$ 763,376

<b>As of December 31, 2018</b>				
	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:

<b>Three months ended March 31, 2019</b>				
	Stage 1	Stage 2	Stage 3	
	Performing	Under-Performing	Non-Performing	Total
	(\$ thousands)			
Balance, January 1, 2019	\$ 10,879	\$ 6,141	\$ 6,909	\$ 23,929
Transfer to Performing (Stage 1)	1,293	(933)	(360)	—
Transfer to Under-Performing (Stage 2)	(8,772)	8,899	(127)	—
Transfer to Non-Performing (Stage 3)	—	(8,151)	8,151	—
Net remeasurement of loss allowance	5,701	(93)	(636)	4,972
New receivables originated	2,370	—	—	2,370
Provision for credit losses	592	(278)	7,028	7,342
Charge-offs	—	—	(8,037)	(8,037)
Recoveries of amounts previously charged off	—	—	2,520	2,520
Net charge-offs	—	—	(5,517)	(5,517)
Impact of change in foreign exchange rates	(190)	(124)	(120)	(434)
Balance, end of period	\$ 11,281	\$ 5,739	\$ 8,300	\$ 25,320

  

<b>Three months ended March 31, 2018</b>				
	Stage 1	Stage 2	Stage 3	
	Performing	Under-Performing	Non-Performing	Total
	(\$ thousands)			
Balance, January 1, 2018	\$ 10,608	\$ 4,150	\$ 7,216	\$ 21,974
Transfer to Performing (Stage 1)	1,139	(856)	(283)	—
Transfer to Under-Performing (Stage 2)	(5,901)	5,921	(20)	—
Transfer to Non-Performing (Stage 3)	—	(5,686)	5,686	—
Net remeasurement of loss allowance	2,247	303	(634)	1,916
New receivables originated	2,603	—	—	2,603
Provision for credit losses	88	(318)	4,749	4,519
Charge-offs	—	—	(7,410)	(7,410)
Recoveries of amounts previously charged off	—	—	2,263	2,263
Net charge-offs	—	—	(5,147)	(5,147)
Impact of change in foreign exchange rates	263	104	174	541
Balance, end of period	\$ 10,959	\$ 3,936	\$ 6,992	\$ 21,887

(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 \$15.4 million (December 31, 2018 - \$16.8 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.

	<b>As of March 31, 2019</b>					
<i>(\$ thousands)</i>	<b>Current</b>	<b>1-30 days</b>	<b>31 - 60 days</b>	<b>61 - 90 days</b>	<b>Over 90 days</b>	<b>Total</b>
Equipment lease receivables	\$ 433,953	\$ 8,101	\$ 2,753	\$ 1,904	\$ 2,510	\$ 449,221
Loan receivables	303,184	6,281	1,893	1,275	1,521	314,154
	<b>\$ 737,137</b>	<b>\$ 14,382</b>	<b>\$ 4,646</b>	<b>\$ 3,179</b>	<b>\$ 4,031</b>	<b>\$ 763,375</b>
Credit impaired	\$ 393	\$ 381	\$ 714	\$ 3,065	\$ 3,747	\$ 8,300
Past due but not impaired	\$ —	\$ 14,001	\$ 3,932	\$ 114	\$ 284	\$ 18,331

	<b>As of December 31, 2018</b>					
<i>(\$ thousands)</i>	<b>Current</b>	<b>1-30 days</b>	<b>31 - 60 days</b>	<b>61 - 90 days</b>	<b>Over 90 days</b>	<b>Total</b>
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
	<b>\$ 730,660</b>	<b>\$ 11,946</b>	<b>\$ 2,751</b>	<b>\$ 1,647</b>	<b>\$ 2,865</b>	<b>\$ 749,869</b>
Impaired	\$ 544	\$ 273	\$ 1,985	\$ 1,554	\$ 2,553	\$ 6,909
Past due but not impaired	\$ —	\$ 11,673	\$ 766	\$ 93	\$ 312	\$ 12,844

#### (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 March 31, 2019 is \$14.7 million (December 31, 2018 - \$14.8 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 three months ended March 31, 2019 had a total net investment in finance receivable balance at the time of modification of \$7.1 million (2018 - \$7.9 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.

## 8. RIGHT-TO-USE ASSETS AND PREMISES LEASES PAYABLE

Under IFRS 16, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Included in right-to-use assets and premises leases payable are the Company's leased offices at the Pawnee and Blue Chip locations. For such agreements, the Company recognizes a right-of-use asset and a lease liability at the lease commencement date. Measurement requires the lease term to be determined which includes optional extension periods only if they are reasonably certain to be exercised. Determining the lease term is judgmental.

The lease liability is initially measured at the present value of the lease payments that are unpaid at the commencement date, discounted using the Company's incremental borrowing rate because the rate implicit in the lease is not known. The right-of-use asset is measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use assets are depreciated over the respective lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. Lease terms range from 2 to 7 years, and the optional extension periods have been excluded. Right-of-use assets are reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The lease liability is subsequently accounted for at amortized cost using the effective interest rate method.

The lease liability for the Company's leases will be remeasured in a future period if there is a change in future lease payments arising from a change in the likelihood that extension options are exercised. On remeasuring a lease agreement, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

The following table presents the right-of-use assets for the Company:

	For the three months ended March 31, 2019
	(\$ thousands)
<u>Office Premises:</u>	
Balance, beginning of period	\$ —
Adoption of IFRS 16	3,837
Balance, January 1, 2019	3,837
Additions	—
Depreciation	(170)
Effects of movement in exchange rates	(63)
Balance, end of period	\$ 3,604

The contractual undiscounted cash flows for the related lease obligations are disclosed in Note 11 - *Minimum payments*. The effective interest expense on these lease obligations for the three months ended March 31, 2019 was \$42,000 and is included in Interest expense. Total outflow for leases was \$147,000. Expenses for leases of low-dollar value items are not material. Pawnee's two premises lease extensions from 2025 to 2035 are not reasonably certain to be exercised and have therefore been excluded from the measurement of lease obligations.

	For the three months ended March 31, 2019
	(\$ thousands)
<u>Premises Leases Payable</u>	
Balance, start of period	\$ —
Adoption of IFRS 16	3,837
Balance, January 1, 2019	3,837
Additions	—
Principal payments	(105)
Effects of movement in exchange rates	(63)
Balance, end of period	\$ 3,669

## 9. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprise:

	March 31, 2019	December 31, 2018
	(\$ thousands)	
Dividend payable	\$ 1,241	\$ 1,240
Accounts payable	2,034	2,187
Sales tax payable	901	874
Customer deposits and prepayments	666	845
Unfunded finance receivables	5,126	5,984
Taxes payable	—	742
Payroll related payables and accruals	776	1,176
Accrued expenses and other liabilities	2,303	2,552
	<b>\$ 13,047</b>	<b>\$ 15,600</b>

## 10. 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, 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
Proceeds or draw-downs	57,160	—	14,625	—	13,039	84,824
Repayments	(29,893)	—	(12,553)	—	(17,719)	(60,165)
Payment of financing costs	—	(40)	—	—	—	(40)
Amortization of deferred financing costs	—	329	—	470	—	799
Foreign currency translation adjustment	(4,653)	—	(4,657)	94	—	(9,216)
<b>Net as of March 31, 2019</b>	<b>\$ 255,892</b>	<b>\$ (1,418)</b>	<b>\$ 225,664</b>	<b>\$ (3,893)</b>	<b>\$ 141,482</b>	<b>\$ 617,727</b>

(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 March 31, 2019, the Company was utilizing U.S.\$199.3 million (December 31, 2018 - U.S.\$178.7 million) of its credit facility and had approximately U.S.\$58.5 million in additional borrowings available under the corporate credit facility. At March 31, 2019 and December 31, 2018, and throughout the periods presented, the Company was compliant with all covenants. Based on average debt levels, the effective interest rate during the three months ended March 31, 2019 was 5.49% (year-ended December 31, 2018 - 5.12%).

(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 March 31, 2019, Pawnee was utilizing U.S.\$94.0 million of this facility. At March 31, 2019 and throughout the period from August 2018, Pawnee was compliant with all covenants. Based on average debt levels, the effective interest rate during the three months ended March 31, 2019 was 5.79% (2018 - 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. The balance of the facilities at March 31, 2019 was U.S.\$74.9 million. Pawnee is to comply with leverage ratio, interest coverage ratio, and tangible net worth covenants. At March 31, 2019 and December 31, 2018, and throughout the periods presented, Pawnee was compliant with all covenants. Based on average debt levels, the effective interest rate during the three months ended March 31, 2019 was 5.80% (2018 - 5.61%).

(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 March 31, 2019, Blue Chip had access to the following committed lines of funding: (i) \$60.0 million annual limit from a life insurance company; (ii) \$100.0 million rolling limit from a financial institution; and (iii) approved funding from another financial institution with no annual or rolling limit. As at March 31, 2019, Blue Chip had \$141.5 million (December 31, 2018 - \$146.2 million) in securitization and bulk lease financing facilities debt outstanding, was utilizing \$76.2 million (December 31, 2018 - \$76.2 million) of their available financing and had access to at least \$113.8 million (December 31, 2018 - \$93.8 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 three months ended March 31, 2019 was 3.57% (for the year ended December 31, 2018 - 3.37%). As at March 31, 2019, 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 March 31, 2019 and December 31, 2018, 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.

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
	(\$ thousands)	
Restricted - cash in collection accounts	\$ 8,466	\$ 9,063
Restricted - cash reserves	4,284	4,535
<b>Restricted funds</b>	<b>\$ 12,750</b>	<b>\$ 13,598</b>

## 11. MINIMUM PAYMENTS

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

(\$ thousands)	2019	2020	2021	2022	2023	2024 +	Total
Accounts payable and other liabilities	\$ 13,047	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 13,047
Premises leases payments (i)	492	697	720	730	741	810	4,190
Borrowings (ii)	101,996	381,084	98,803	58,520	39,934	131	680,468
Customer security deposits (iii)	3,923	4,440	4,308	2,814	1,825	18	17,328
	119,458	386,221	103,831	62,064	42,500	959	715,033
Service contracts	122	33	3	2	—	—	160
Total commitments	\$ 119,580	\$ 386,254	\$ 103,834	\$ 62,066	\$ 42,500	\$ 959	\$ 715,193

- 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. See Note 8 - *Right-to-Use Assets*.
- Borrowings are described in Note 10 - *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 March 31, 2019 remain the same until the expiry date.
- The Company's experience has shown the actual contractual payment streams will vary depending on a number of variables including: prepayment rates, charge-offs and modifications. Accordingly, the scheduled contractual payments of customer security deposits shown in the table above are not to be regarded as a forecast of future cash payments.

The Company has no material "off-balance sheet" financing obligations, except for 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* of the 2018 annual audited consolidated financial statements.

## 12. 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 March 31, 2019 and December 31, 2018, 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.



### 13. COMMON SHARES

	<u>Common shares</u> (# '000s)	<u>Amount</u> (\$ thousands)
Balance, December 31, 2017	16,575	\$ 105,208
Exercise of restricted share units (Note 14(b))	70	806
Exercise of options (Note 14(a))	83	741
Repurchase of common shares under issuer bid (a)	(499)	\$ (3,179)
Balance, December 31, 2018	16,229	\$ 103,576
Exercise of restricted share units (Note 14(b))	44	482
Exercise of options (Note 14(a))	27	210
Repurchase of common shares under issuer bid (a)	(61)	(388)
<b>Balance, March 31, 2019</b>	<b>16,239</b>	<b>\$ 103,880</b>

(a) Normal course issuer bids

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. During the three months ended March 31, 2019, the Company repurchased 60,760 of its shares under the normal course issuer bid at an average cost of \$10.7884 per share. The excess of the purchase price over the average stated value of Common Shares purchased for cancellation was charged to retained earnings. Decisions regarding the timing of purchases are based on market conditions and other factors.

### 14. COMPENSATION PLANS

#### (a) Share options

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

	For the three months ended <b>March 31,</b>	
	<b>2019</b>	2018
Balance, beginning of period	<b>2,384,354</b>	2,155,989
Granted	—	405,000
Exercised	<b>(26,500)</b>	(56,135)
Forfeited	—	(19,000)
Balance, end of period	<b>2,357,854</b>	2,485,854

During the three months ended March 31, 2019, personnel expenses and the share-based compensation reserve included \$110,000 (2018 - \$134,400) relating to option expense.

As of March 31, 2019, unrecognized non-cash compensation expense related to the outstanding options was \$285,600 (March 31, 2018 - \$853,600), which is expected to be recognized over the remaining vesting period.

During the three months ended March 31, 2019, 26,500 options were exercised (2018 - 56,135) for total cash consideration of \$153,000 (2018 - \$297,000). On exercise, the fair value of options that had been expensed to date during the vesting period of \$57,000 (2017 - \$138,000) 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 three months ended March 31, 2019, the weighted average share price at the date of exercise was \$11.18 (2018 - \$10.78).

At March 31, 2019, the weighted average exercise price is \$10.48 (March 31, 2018 - \$10.45) and the weighted average remaining contractual life for all options outstanding is 5.9 years (March 31, 2018 - 6.9 years). The 1,727,854 options exercisable at March 31, 2019 have a weighted average exercise price of \$10.19 (March 31, 2018 - 1,359,354 options at \$9.76).

An analysis of the options outstanding at March 31, 2019 is as follows:

Grant date	Number of options outstanding	Vested	Expiry date	Exercise price
April 13, 2010	21,915	21,915	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	170,000	170,000	December 6, 2021	\$ 6.14
June 25, 2012	158,489	158,489	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	111,000	March 28, 2028	\$ 10.96
	<u>2,357,854</u>	<u>1,727,854</u>		

(b) Restricted share units

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

	For the three months ended <b>March 31,</b>	
	<b>2019</b>	2018
Balance, beginning of period	<b>44,000</b>	70,000
Granted	—	44,000
Exercised	<b>(44,000)</b>	—
Balance, end of period	<u>—</u>	<u>114,000</u>

During the three months ended March 31, 2019, personnel expenses and share-based compensation reserve included \$114,900 (2018 - \$128,200) relating to RSUs.

As of March 31, 2019, unrecognized non-cash compensation expense related to non-vested RSUs was \$nil (March 31, 2018 - \$553,000).



During the three months ended March 31, 2019, no RSUs were granted (2018 - 44,000) to directors. 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, are to be settled by the issue of Common Shares and expire in ten years. 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 (2018 - \$10.96).

During the three months ended March 31, 2019, 44,000 RSU's were exercised (2018 - nil). Upon exercise, the fair value of RSU's that had been expensed during the vesting period of \$482,200 (2018 - nil) was transferred from reserve to Common Share capital. For the RSUs exercised during the three months ended March 31, 2019, the weighted average share price at the date of exercise was \$11.10 (2018 - n/a).

## 15. 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 three months ended March 31, 2019:

Record date	Payment date	Cash dividend per share (\$)	Total dividend amount (\$ thousands)
December 31, 2018	January 15, 2019	\$ 0.070	\$ 1,240
January 31, 2019	February 15, 2019	\$ 0.070	1,236
February 28, 2019	March 15, 2019	\$ 0.070	1,236
			<u>\$ 3,712</u>

The following dividends were paid to Common Shareholders and Exchangeable Securities holders (included as non-controlling interest) during the three months ended March 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	1,261
			<u>\$ 3,789</u>

## 16. 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.

	For the three months ended <b>March 31,</b>	
	<b>2019</b>	2018
Weighted average number of common shares outstanding	<b>16,193,087</b>	16,548,369
Dilutive effect of options	<b>326,643</b>	316,332
Dilutive effect of restricted share units	<b>39,111</b>	71,467
Weighted average common shares outstanding for diluted earnings per share	<b>16,558,841</b>	16,936,168
Options excluded from calculation of diluted shares for the period due to their anti-dilutive effect	<b>930,000</b>	957,500

## 17. RELATED PARTY TRANSACTIONS

- a) The Company has no parent or other ultimate controlling party.  
b) The Company's key management consists of the President & Chief Executive Officer, Chief Financial Officer and the Board of Directors. Key management compensation is as follows:

	For the three months ended <b>March 31,</b>	
	<b>2019</b>	2018
	(\$ thousands)	
Salaries, fees and other short-term employee benefits	\$ <b>443</b>	\$ 373
Share-based compensation	<b>152</b>	189
Compensation expense of key management	\$ <b>595</b>	\$ 562

## 18. CASH FLOW SUPPLEMENTARY DISCLOSURE

	For the three months ended <b>March 31,</b>	
<i>Note</i>	<b>2019</b>	2018
	(\$ thousands)	
<b>Non-cash transactions</b>		
Common shares issued on exercise of RSUs	\$ <b>482</b>	\$ —

		For the three months ended	
		March 31,	
	Note	2019	2018
<b>Other non-cash items included in net income</b>			
Share-based compensation expense	14	\$ 225	\$ 262
Amortization of deferred financing costs	10	799	572
Financing costs - convertible debentures		—	(29)
Unrealized loss on investments		30	151
Interest expense - premises leases payable	8	42	—
Unrealized gain on interest rate derivatives		503	(759)
Unrealized loss on foreign exchange		82	36
		<u>\$ 1,681</u>	<u>\$ 233</u>
<b>Change in other net operating assets</b>			
Restricted funds		\$ 567	\$ (228)
Other assets		92	2,163
Accounts payable and other liabilities		(1,659)	(614)
Customer security deposits		(1,022)	367
		<u>\$ (2,022)</u>	<u>\$ 1,688</u>
<b>Borrowings – continuing operations</b>			
Draw-downs or proceeds from borrowings	10	\$ 84,824	\$ 101,593
Payments - borrowings	10	(60,165)	(44,747)
		<u>\$ 24,659</u>	<u>\$ 56,846</u>

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

Segment information is prepared in conformity with the accounting policies adopted for the Company's consolidated financial statements. The role of the "chief operating decision maker" with respect to resource allocation and performance assessment is embodied in the position of Chief Executive Officer. The performance of the segments is measured on the basis of net income or loss before tax. Net assets, which are defined as total segment assets less total segment liabilities, are used as the basis of assessing the allocation of resources. When compared with the last annual consolidated financial statements, there are no differences in the basis of segmentation or in the basis of measuring segment results.

Selected information by segment and geographically is as follows:

(\$ thousands)	Three months ended March 31, 2019				
	Equipment Financing - U.S.	Equipment Financing - Canada	Discontinued Operations (Note 5)	Corporate Overhead - Canada	Total
Interest revenue on leases and loans	\$ 23,275	\$ 3,422		\$ —	\$ 26,697
Ancillary finance and other fee income	2,860	1,132		68	4,060
Interest expense	(6,894)	(1,363)		—	(8,257)
Provision for credit losses	(6,941)	(401)		—	(7,342)
<b>Finance margin</b>	<b>12,300</b>	<b>2,790</b>		<b>68</b>	<b>15,158</b>
Personnel expenses	3,469	736		497	4,702
Share-based compensation expense	62	4		159	225
Other expenses	3,592	440		325	4,357
Depreciation	246	31		10	287
<b>Income before undernoted items</b>	<b>4,931</b>	<b>1,579</b>		<b>(923)</b>	<b>5,587</b>
Amortization - intangible assets	—	(333)		—	(333)
Fair value adjustments - investments	—	—		(30)	(30)
Unrealized loss on interest rate derivatives	(248)	—		(255)	(503)
Unrealized loss on foreign exchange	—	—		(82)	(82)
<b>Income before taxes</b>	<b>4,683</b>	<b>1,246</b>		<b>(1,290)</b>	<b>4,639</b>
Tax expense	919	341		239	1,499
<b>Income from continuing operations</b>	<b>3,764</b>	<b>905</b>		<b>(1,529)</b>	<b>3,140</b>
Loss from discontinued operations	—	—	\$ (69)	—	(69)
<b>Net income</b>	<b>\$ 3,764</b>	<b>\$ 905</b>	<b>\$ (69)</b>	<b>\$ (1,529)</b>	<b>\$ 3,071</b>
Net cash used in operating activities	\$ (18,579)	\$ 227	\$ 126	\$ (1,420)	\$ (19,646)
Net cash used in investing activities	\$ (72)	\$ —	\$ —	\$ —	\$ (72)
Net cash from financing activities	\$ 1,967	\$ (4,723)	\$ —	\$ 23,013	\$ 20,257
Total assets	\$ 613,040	\$ 208,991	\$ 1,637	\$ 6,764	\$ 830,432
Total liabilities	\$ 265,917	\$ 148,112	\$ —	\$ 255,858	\$ 669,887
Finance receivables	\$ 571,589	\$ 169,454	\$ —	\$ —	\$ 741,043
Goodwill and intangible assets	\$ 21,588	\$ 37,430	\$ —	\$ —	\$ 59,018
Property and equipment expenditures	\$ 72	\$ —	\$ —	\$ —	\$ 72

	Three Months Ended March 31, 2018				
	Equipment Financing - U.S.	Equipment Financing - Canada	Discontinued Operations (Note 5)	Corporate Overhead - Canada	Total
(\$ thousands)					
Interest revenue on leases and loans	\$ 19,095	\$ 3,135		\$ —	\$ 22,230
Ancillary finance and other fee income	1,817	1,023		115	2,955
Interest expense	(4,172)	(1,085)		—	(5,257)
Provision for credit losses	(4,074)	(445)		—	(4,519)
<b>Finance margin</b>	<b>12,666</b>	<b>2,628</b>		<b>115</b>	<b>15,409</b>
Personnel expenses	2,678	644		416	3,738
Share-based compensation expense	62	9		191	262
Other expenses	2,277	355		319	2,951
Depreciation	113	6		—	119
<b>Income before undernoted items</b>	<b>7,536</b>	<b>1,614</b>		<b>(811)</b>	<b>8,339</b>
Amortization - intangible assets	—	(513)		—	(513)
Fair value adjustments - convertible debentures and investments	—	—		(122)	(122)
Unrealized gain on interest rate derivatives	183	—		576	759
Unrealized loss on foreign exchange	—	—		(36)	(36)
<b>Income before taxes</b>	<b>7,719</b>	<b>1,101</b>		<b>(393)</b>	<b>8,427</b>
Tax expense (recovery)	1,604	281		644	2,529
<b>Income from continuing operations</b>	<b>6,115</b>	<b>820</b>		<b>(1,037)</b>	<b>5,898</b>
Income from discontinued operations	—	—	\$ 2	—	2
<b>Net income</b>	<b>\$ 6,115</b>	<b>\$ 820</b>	<b>\$ 2</b>	<b>\$ (1,037)</b>	<b>\$ 5,900</b>
Net cash used in operating activities	\$ (25,683)	\$ (5,343)	\$ 636	\$ 1,012	\$ (29,378)
Net cash used in investing activities	\$ (96)	\$ —	\$ —	\$ —	\$ (96)
Net cash from financing activities	\$ (8,601)	\$ 855	\$ —	\$ 39,823	\$ 32,077
Total assets	\$ 473,588	\$ 195,515	\$ 2,828	\$ 13,662	\$ 685,593
Total liabilities	\$ 118,164	\$ 138,581	\$ —	\$ 270,985	\$ 527,730
Finance receivables	\$ 434,681	\$ 156,374	\$ —	\$ —	\$ 591,055
Goodwill and intangible assets	\$ 20,831	\$ 38,762	\$ —	\$ —	\$ 59,593
Property and equipment expenditures	\$ 96	\$ —	\$ —	\$ —	\$ 96

# Chesswood Group Limited

## DIRECTORS, OFFICERS AND OTHER INFORMATION

### Directors

**Frederick W. Steiner**

Director, Chairman of Chesswood Group Limited

**Samuel Leeper**

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

**Clare Copeland**

Director, Chairman, Compensation Committee  
*C.E.O., Falls Management Company*

**David Obront**

Director  
*President, Carpool Two Ltd.*

**Robert Day**

Director  
*Former Chairman, Pawnee Leasing Corporation*

**Barry Shafran**

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

### Executive Team

**Barry Shafran**

*President & C.E.O.*

**Lisa Stevenson**

*Chief Financial Officer*

**Other Information****Auditors**

*BDO Canada LLP*

**Transfer Agent**

*TSX Trust Company*

**Corporate Counsel**

*McCarthy Tétrault LLP*

**Toronto Stock Exchange Symbol**

*CHW*

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