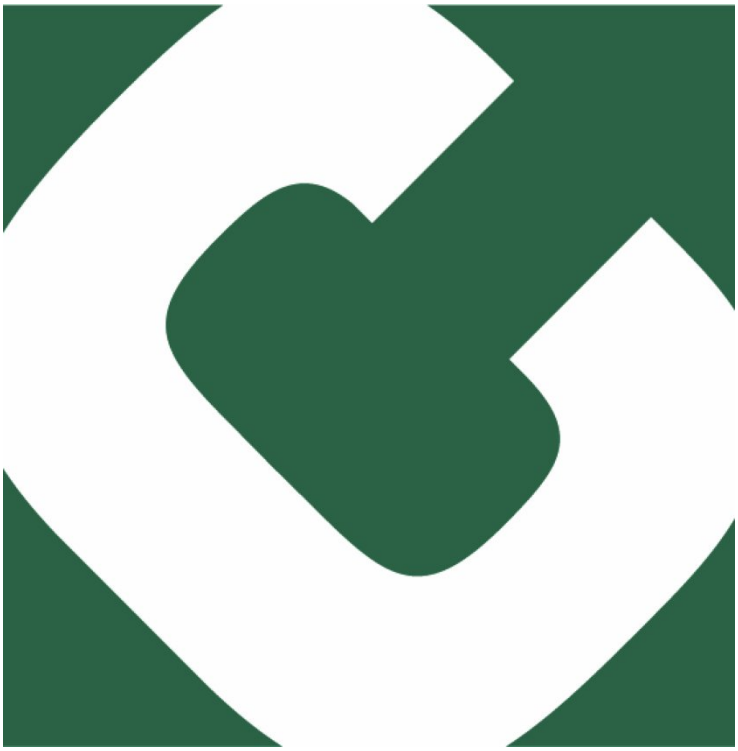
CHESSWOOD GROUP LIMITED

SECOND QUARTER REPORT TO SHAREHOLDERS

FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2018



Through its two wholly-owned subsidiaries in the U.S. and Canada, Chesswood Group Limited is North America's only publicly-traded commercial equipment finance company focused on small and medium-sized businesses. Our Colorado-based Pawnee Leasing Corporation, founded in 1982, finances a highly diversified portfolio of commercial equipment leases and loans through established relationships with over 600 independent brokers in the lower 48 states. In Canada, Blue Chip Leasing Corporation has been originating and servicing commercial equipment leases and loans since 1996, and today operates through a nationwide network of more than 50 independent brokers.

Based in Toronto, Canada, Chesswood's shares trade on the Toronto Stock Exchange under the symbol CHW. Learn more at www.ChesswoodGroup.com, www.PawneeLeasing.com and www.BlueChipLeasing.com.

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This Interim Report is intended to provide shareholders and other interested persons with selected information concerning Chesswood Group Limited ("Chesswood"). For further information, shareholders and other interested persons should consult Chesswood's other disclosure documents, such as its 2017 Annual Report and its Annual Information Form. Copies of Chesswood's continuous disclosure documents can be obtained at www.chesswoodgroup.com, from www.sedar.com, or from Investor Relations at the addresses shown at the end of this Interim Report. Readers should also review the notes further in this Interim Report, in the section titled Management's Discussion and Analysis, concerning the use of Non-GAAP Measures and Forward-Looking Statements, which apply to the entirety of this Interim Report.

All figures mentioned in this report are in Canadian dollars, unless otherwise noted.

TO OUR SHAREHOLDERS

We had another excellent quarter, characterized by strong originations, net charge-offs that were well in line with expectations and net income that was 150% ahead of our net income for the second quarter of last year, notwithstanding the challenges of comparative information described below.

Chesswood's gross portfolio now exceeds $800 million following our record second quarter originations of $114 million. Our gross finance receivables have therefore grown by $113 million since the start of the year, for a 32% annual growth rate.

Our net income for the quarter was $5.6 million compared to $3.7 million for the same quarter of 2017. For the six months ended June 30th we earned $11.5 million compared to $8.4 million for the first half of 2017.

Between the adoption of IFRS 9 in 2018, the repayment of our convertible debenture, and the change in foreign exchange rates, there is a lot of 'noise' in our operating income results, from a comparative perspective.

As many of our stakeholders are aware, we adopted IFRS 9 in 2018 which has the effect of increasing our allowance for doubtful accounts in comparison to prior years and thereby increasing the provision for credit losses on our income statement. When we take this into account, along with a weaker Canadian dollar and loan interest expense incurred on the debt we used to retire our convertible debenture in early January that is now included in the calculation of operating income, we show a year-over-year improvement in both quarterly and year-to-date operating income of $423 thousand and $1.8 million respectively over the same periods in 2017. Our Management's Discussion and Analysis includes tables with these calculations for both the quarter and six month periods.

In short, our teams continue to perform with the commitment and excellence that we have come to expect. This quarter is yet another quarter with record originations in Canada and the United States while our portfolio performance was well within expectations, helped by very strong recovery income which exceeded our targets.

Barry Shafran
President & CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

MD&A Table of Contents

This management's discussion and analysis (this "MD&A") is provided to enable readers to assess the financial condition and results of operations of Chesswood Group Limited ("Chesswood" or the "Company") as at and for the three and six months ended June 30, 2018. This discussion should be read in conjunction with the unaudited condensed consolidated interim financial statements and accompanying notes of the Company for the period, and the audited

consolidated financial statements and accompanying notes of the Company for the year ended December 31, 2017 set forth in the Company's 2017 Annual Report. Unless otherwise indicated, all financial information in this MD&A has been prepared in accordance with Generally Accepted Accounting Principles ("GAAP") and International Financial Reporting Standards ("IFRS"), and all amounts are expressed in Canadian dollars, unless specifically denoted otherwise. This MD&A is dated August 9, 2018.

Additional information relating to the Company, including its Annual Information Form, is available: on SEDAR at www.sedar.com, at the www.chesswoodgroup.com website, by email to investorrelations@chesswoodgroup.com, or via phone at 416-386-3099.

FORWARD-LOOKING STATEMENTS

In this document and in other documents filed with Canadian regulatory authorities or in other communications, the Company may from time to time make written or oral forward-looking statements within the meaning of applicable securities legislation. Forward-looking statements include, but are not limited to, statements regarding the Company's business plan and financial objectives. The forward-looking statements contained in this MD&A are used to assist readers in obtaining a better understanding of the Company's financial position and the results of operations as at and for the periods ended on the dates presented and may not be appropriate for other purposes.
Forward-looking statements typically use the conditional, as well as words such as prospect, believe, estimate, forecast, project, expect, anticipate, plan, may, should, could and would, or the negative of these terms, variations thereof or similar terminology. By their very nature, forward-looking statements are based on assumptions and involve inherent risks and uncertainties, both general and specific in nature. The Company operates in a dynamic environment that involves various risks and uncertainties, many of which are beyond its control and which could have an effect on the Company's business, revenues, operating results, cash flow and financial condition. It is therefore possible that the forecasts, projections and other forward-looking statements will not be achieved or will prove to be inaccurate. Although the Company believes the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct.

The Company cautions readers against placing undue reliance on forward-looking statements when making decisions, as actual results could differ considerably from the opinions, plans, objectives, expectations, forecasts, estimates and intentions expressed in such forward-looking statements due to various material factors. Among others, these factors include: continuing access to required financing; continuing access to products that allow the Company and its subsidiaries to hedge exposure to changes in interest rates; risks of increasing default rates on leases, loans and advances; the adequacy of the Company's provisions for credit losses; increasing competition (including, without limitation, more aggressive risk pricing by competitors); increased governmental regulation of the rates and methods we use in financing and collecting on our equipment leases or loans; dependence on key personnel; disruption of business models due to the emergence of new technologies; fluctuations in the Canadian dollar and U.S. dollar exchange rate; and general economic and business conditions. The Company further cautions that the foregoing list of factors is not exhaustive.

For more information on the risks, uncertainties and assumptions that would cause the Company's actual results to differ from current expectations, please also refer to "Risk Factors" in this MD&A and in the Company's annual information form, as well as to other public filings of the Company available at www.sedar.com. The Company does not undertake to update any forward-looking statements, whether oral or written, made by itself or on its behalf, except to the extent required by securities regulations.

NON-GAAP MEASURES

This MD&A makes reference to certain non-GAAP measures as supplementary information and to assist in assessing the Company's financial performance.

Management believes EBITDA and Adjusted EBITDA, as defined below, are useful measures in evaluating the performance of the Company. EBITDA and Adjusted EBITDA are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures presented by other issuers. Readers are cautioned that EBITDA and Adjusted EBITDA should not be construed as an alternative to net income determined in accordance with GAAP as indicators of performance, or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

"EBITDA" is defined as net income adjusted to exclude interest, income taxes, depreciation and amortization.

"Adjusted EBITDA" is EBITDA further adjusted for (i) interest on debt facilities, (ii) non-cash gain (loss) on interest rate derivatives, investments and convertible

debentures, (iii) non-cash unrealized gain (loss) on foreign exchange, (iv) non-cash share-based compensation expense, (v) non-cash change in finance receivable allowance for doubtful accounts ("ADA") (effective Q1 2018), (vi) acquisition costs, (vii) contingent consideration accretion or reduction, (viii) any unusual and material one-time gains or expenses and (ix) actual interest attributable to the period in respect of the convertible debentures.
"Free Cash Flow" or "FCF" is defined as Adjusted EBITDA less maintenance capital expenditures, tax effect of the non-cash change in ADA (effective Q1 2018) and tax expense.

"FCF L4PQ" is defined as FCF for the most recently completed four financial quarters for which the Company has publicly filed its consolidated financial statements (including its annual consolidated financial statements in respect of a fourth quarter).

"Maximum Permitted Dividends" is defined under Chesswood's credit facility as the maximum amount for cash dividends and purchases under its normal course issuer bid that the Company is permitted to pay in respect of a month, being 1/12 of 90% of the FCF L4PQ.

"Operating Income" is defined as "income before undernoted items" as presented in the consolidated statement of income.

COMPANY OVERVIEW

Chesswood is North America's only public company focused exclusively on commercial equipment finance for small and medium-sized businesses. As at June 30, 2018, its primary operations consisted of two wholly-owned subsidiaries:

- Pawnee Leasing Corporation ("Pawnee"), which finances micro and small-ticket commercial equipment for small and medium-sized businesses in the U.S.; and
- Blue Chip Leasing Corporation ("Blue Chip"), which provides commercial equipment financing to small and medium-sized businesses across Canada.

PAWNEE

The Company's U.S. operations are primarily conducted by Pawnee, which accounted for 83.0% of consolidated revenue and 79.8% of consolidated income from continuing operations before corporate overhead in the six months ended June 30, 2018.

Established in Fort Collins, Colorado in 1982, Pawnee specializes in providing equipment financing of up to U.S. $250,000 to small and medium-sized businesses in the U.S., with a wide range of credit profiles from start-up entrepreneurs to more established businesses, in prime and non-prime market segments, through a network of approximately 600 independent equipment finance broker firms. At June 30, 2018, approximately 48% of Pawnee's gross lease receivables were in the prime market segment.

Management believes Pawnee's track-record of success is attributable to several key aspects of its business model including: (1) credit parameters designed to mitigate risk; (2) a relationship-driven approach to originations through a well-established network of reputable broker firms; (3) portfolio diversification across geographies, industries, equipment classes, origination sources, vendors, equipment cost, and credit classes; and (4) risk management resources that include credit analyst reviews of most applications, a proprietary credit matrix to guide consistent analysis and decision-making, effectively pricing for risk, and a dedicated and efficient servicing and collection effort.

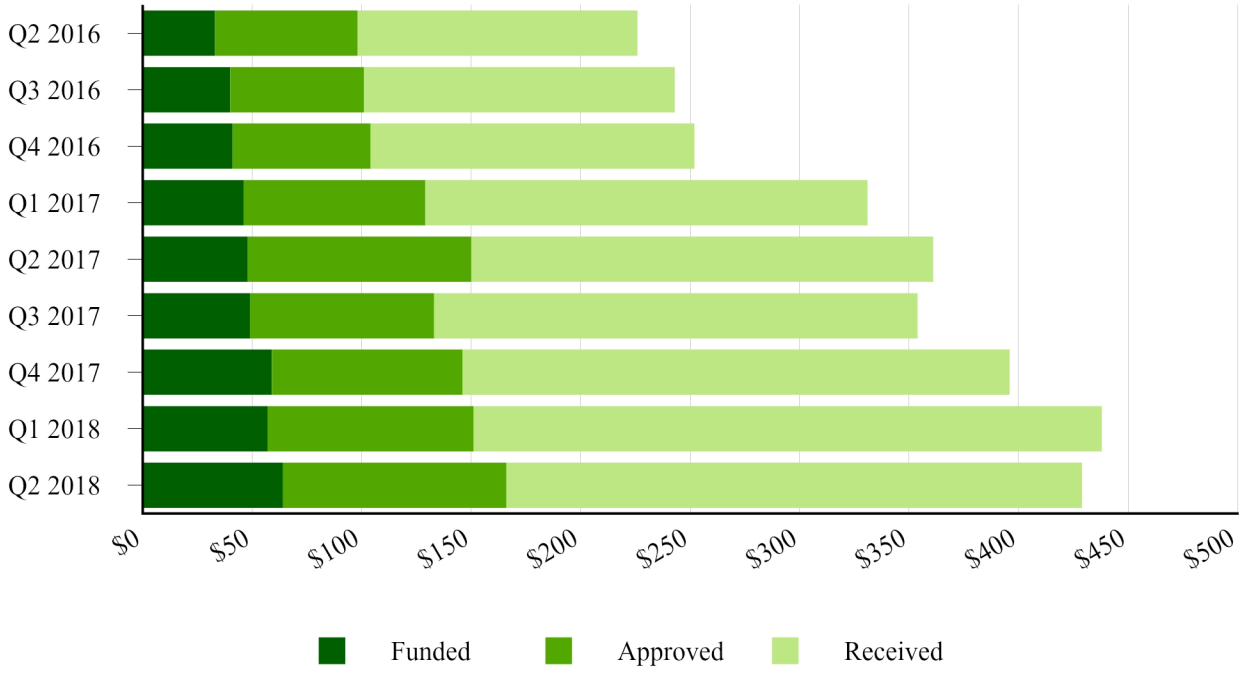
As of June 30, 2018, Pawnee employed 92 full-time equivalent employees.

Pawnee Key Portfolio Statistics *(in U.S.$ thousands except # of leases/loans and %'s)*

	Sep 30 2016	Dec 31 2016	Mar 31 2017	June 30 2017	Sep 30 2017	Dec 31 2017	Mar 31 2018[5]	June 30 2018
Number of leases and loans outstanding (#)	13,479	14,259	14,943	15,616	16,226	16,627	17,037	17,604
Gross lease and loan receivable ("GLR") [1]	$255,791	$280,929	$309,120	$337,276	$362,846	$398,053	$427,100	$465,526
Residual receivable	$15,659	$15,906	$16,041	$16,512	$16,849	$16,977	$17,101	$17,617
Net investment in leases and loans receivable, before allowance [4]	$203,189	$224,522	$248,557	$273,390	$296,655	$327,608	$352,431	$384,643
Security deposits (nominal value)[4]	$10,575	$10,812	$11,135	$11,510	$11,915	$12,325	$12,734	$13,330
Allowance for doubtful accounts ("ADA") [5]	$6,044	$7,240	$6,555	$6,848	$8,602	$8,482	$15,309	$15,895
Over 31 days delinquency (% of GLR) [2]	2.59%	2.74%	2.19%	2.21%	2.69%	2.30%	2.10%	1.97%
Net charge-offs for the three-months ended [3]	$2,373	$3,478	$3,698	$2,962	$3,101	$3,912	$3,765	$3,131
Provision for credit losses for the three-months ended [5]	$3,804	$4,740	$3,229	$3,334	$4,923	$3,857	$3,379	$3,717

Notes:
(1) Excludes residual receivable.
(2) Over 31-days delinquency includes non-accrual gross lease and loan receivables.
(3) Excludes the "charge-offs" of interest revenue on finance leases and loans on non-accrual leases recognized under IFRS prior to 2018.
(4) Excludes adjustment for discounting security deposits and increasing unearned income for interest savings on security deposits.
(5) Provision for credit losses and allowance for doubtful accounts ("ADA") included in the key portfolio statistics for the three months ended and as at March 31, 2018 and subsequent periods, were prepared in accordance with IFRS 9, Financial Instruments ("IFRS 9"). Prior period comparatives were prepared in accordance with IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") and have not been restated. Refer to Note 2 and Note 7 of the interim condensed consolidated interim financial statements for further details.

Pawnee Lease and Loan Application, Approval and Origination Volume *(in U.S.$ millions)*



BLUE CHIP

Chesswood's Canadian operations are conducted by Blue Chip, a specialist in micro and small-ticket equipment finance for small and medium-sized businesses since 1996. Blue Chip accounted for 16.6% of consolidated revenue and 17.6% of consolidated income from continuing operations before corporate overhead in the six months ended June 30, 2018.

Located in Toronto, Blue Chip provides equipment financing across Canada, through a nationwide network of more than 50 independent equipment finance broker firms and through direct, in-house origination efforts via equipment vendors.

Blue Chip's portfolio risk is mitigated by its diversification across geographies, industries, equipment types, equipment cost and credit classes. Blue Chip had 27 full-time equivalent employees at June 30, 2018.

Blue Chip Portfolio Statistics *(in $ thousands except # of leases/loans and %)*

	Sep 30 2016	Dec 31 2016	Mar 31 2017	June 30 2017	Sep 30 2017	Dec 31 2017	Mar 31 2018 (1)	June 30 2018
Number of leases and loans outstanding (#)	11,551	11,883	12,278	12,910	13,345	13,781	14,188	14,587
Gross lease and loan receivable ("GLR")	$144,984	$148,250	$152,502	$162,164	$166,505	$170,183	$175,681	$191,229
Net investment in leases and loans receivable ("NIL"), before allowance	$127,841	$130,965	$134,777	$143,310	$147,436	$150,951	$155,930	$168,745
Allowance for doubtful accounts ("ADA") (1)	$1,363	$1,342	$1,438	$1,621	$1,702	$1,284	$1,731	$1,974
Over 31 days delinquency (% of NIL)	0.87%	0.72%	0.66%	0.46%	0.36%	0.16%	0.34%	0.46%

(1) ADA as at March 31, 2018 and subsequent periods (included in the portfolio statistics above) was prepared in accordance with IFRS 9. Prior period comparatives were prepared in accordance with IAS 39 and have not been restated. Refer to Note 2 and Note 7 of the interim condensed consolidated interim financial statements for further details.

DISCONTINUED OPERATIONS AND WINDSET

WINDSET

For accounting purposes, Windset Capital Corporation ("Windset") is not considered a discontinued operation and its results continue to be grouped with Pawnee in the segment reporting note to the consolidated financial statements (see Note 18 - *Segment Information*).

Windset ceased accepting loan applications in September 2016, but continued to service its existing portfolio for the full-term of the loans. Almost all of the portfolio was collected in 2017.

DISCONTINUED OPERATIONS

Case Funding Inc. ("Case Funding"), a specialty provider of loans and funding solutions to attorneys and law firms, sold its assets in 2015, except for a small portfolio of receivables. At June 30, 2018, there were 145 advances and loans outstanding totaling $2.6 million (December 31, 2017 - 180 advances and loans totaling $3.4 million).

SELECTED FINANCIAL INFORMATION

As at and for the quarter-ended	2016		2017				2018 [5][6]	
($ thousands, except per share figures)	Q3	Q4	Q1	Q2	Q3	Q4[4]	Q1	Q2
Revenue [6]	$ 23,195	$ 23,671	$ 23,051	$ 24,286	$ 23,355	$ 24,632	$ 25,185	$ 27,012
Finance margin before expenses	13,698	12,974	14,859	16,130	13,014	14,969	15,409	15,736
Income before tax and other items (Operating Income) [1]	7,220	5,979	8,049	9,290	6,718	8,018	8,339	8,046
Income before tax	7,594	7,731	7,452	7,026	5,527	7,806	8,427	8,221
Provision for taxes [4]	2,375	2,545	2,768	3,080	2,220	(6,008)	2,529	2,572
Income from continuing operations	5,219	5,186	4,684	3,946	3,307	13,814	5,898	5,649
Income from discontinued operations	(136)	(83)	12	(197)	(119)	(16)	2	(33)
Net income	$ 5,083	$ 5,103	$ 4,696	$ 3,749	$ 3,188	$ 13,798	$ 5,900	$ 5,616
Basic EPS - continuing operations [2]	$0.29	$0.29	$0.26	$0.22	$0.19	$0.76	$0.33	$0.31
Diluted EPS - continuing operations [2]	$0.28	$0.29	$0.25	$0.21	$0.19	$0.74	$0.32	$0.31
Basic earnings per share [2]	$0.29	$0.28	$0.26	$0.21	$0.18	$0.76	$0.33	$0.31
Diluted earnings per share [2]	$0.27	$0.28	$0.25	$0.20	$0.18	$0.74	$0.32	$0.31
Total assets	$ 500,202	$ 527,937	$ 547,686	$ 573,414	$ 593,065	$ 643,612	$ 685,593	$ 748,732
Long-term liabilities	$ 330,468	$ 354,800	$ 377,735	$ 404,784	$ 428,752	$ 447,412	$ 515,590	$ 575,289
Other Data								
Adjusted EBITDA [1]	$ 7,168	$ 6,097	$ 8,092	$ 9,089	$ 6,669	$ 8,010	$ 8,033	$ 9,476
Dividends declared [3]	$ 3,479	$ 3,678	$ 3,779	$ 3,787	$ 3,790	$ 3,791	$ 3,784	$ 3,764
Dividends declared per share	$0.195	$0.205	$0.210	$0.210	$0.210	$0.210	$0.210	$0.210

(1) Adjusted EBITDA and Operating Income are non-GAAP measures. See “Non-GAAP Measures” above for the definitions.
(2) Based on weighted average shares outstanding during the period for income attributable to common shareholders.
(3) Includes dividends on Exchangeable Securities (non-controlling interest, as described below under "Statement of Financial Position").
(4) As a result of the 2017 U.S. Tax Cuts and Jobs Act, the U.S. subsidiaries’ net deferred tax liabilities were revalued, resulting in a $9.4 million reduction in future taxes expense and deferred tax liabilities which was recorded in Q4 2017.
(5) Provision for credit losses and ADA included in the selected financial information for Q1 and Q2 2018 were prepared in accordance with IFRS 9. Prior period comparatives were prepared in accordance with IAS 39, and have not been restated. Refer to Note 2 and Note 7 of the interim condensed consolidated interim financial statements for further details.
(6) IAS 39 required Chesswood to record Interest revenue on impaired finance leases and loans (an offsetting increase to provision for credit losses was recorded) which on average was approximately U.S.$147,000 on a quarterly basis. Under IFRS 9, this recognition of revenue on impaired loans is not required. Prior period comparatives have not been restated.

ADJUSTED EBITDA, FREE CASH FLOW, MAXIMUM PERMITTED DIVIDENDS [1]

For the quarter-ended	2016		2017				2018 [6]	
($ thousands)	Q3	Q4	Q1	Q2	Q3	Q4[5]	Q1	Q2
Net income [6]	$ 5,083	$ 5,103	$ 4,696	$ 3,749	$ 3,188	$ 13,798	$ 5,900	$ 5,616
Interest expense	2,522	2,758	3,131	3,538	3,868	4,731	5,257	6,211
Provision for taxes [5]	2,375	2,545	2,768	3,080	2,220	(6,008)	2,529	2,572
Amortization and depreciation	419	430	421	449	626	636	632	450
EBITDA [1]	10,399	10,836	11,016	10,816	9,902	13,157	14,318	14,849
Interest expense	(2,522)	(2,758)	(3,131)	(3,538)	(3,868)	(4,731)	(5,257)	(6,211)
Non-cash change in finance receivables ADA[7]							(628)	982
Share-based compensation expense	326	271	266	206	280	213	262	364
Financing costs - convertible debenture	300	510	(20)	710	(100)	540	(29)	—
Interest expense on convertible debenture	(328)	(328)	(321)	(324)	(328)	(328)	(61)	—
Contingent consideration accretion (reduction), acquisition costs	41	(885)	—	—	—	(538)	—	—
Unrealized loss (gain) on investments	(363)	(181)	544	1,117	876	332	151	—
Foreign exchange unrealized loss (gain)	(241)	389	(11)	3	31	95	36	52
Unrealized loss (gain) – interest rate derivatives	(444)	(1,757)	(251)	99	(124)	(730)	(759)	(560)
Adjusted EBITDA [1]	7,168	6,097	8,092	9,089	6,669	8,010	8,033	9,476
Maintenance capital expenditures	(27)	(30)	(7)	(102)	(6)	(68)	(69)	(10)
Tax impact of change in ADA[7]							166	(263)
Provision for taxes	(2,375)	(2,545)	(2,768)	(3,080)	(2,220)	6,008	(2,529)	(2,572)
Free Cash Flow ("FCF") [1]	$ 4,766	$ 3,522	$ 5,317	$ 5,907	$ 4,443	$ 13,950	$ 5,601	$ 6,631
FCF L4PQ divided by 4 [1][3]	$ 5,540	$ 5,454	$ 5,268	$ 4,912	$ 4,871	$ 4,824	$ 5,666	$ 7,452
Maximum Permitted Dividends [1][4]	$ 4,986	$ 4,909	$ 4,741	$ 4,421	$ 4,384	$ 4,342	$ 5,100	$ 6,707
Dividends declared [2]	$ 3,479	$ 3,678	$ 3,779	$ 3,787	$ 3,790	$ 3,791	$ 3,784	$ 3,764

(1) Adjusted EBITDA, EBITDA, Free Cash Flow, FCF L4PQ (Free Cash Flow for the last four published quarters) and Maximum Permitted Dividends are non-GAAP measures. See "Non-GAAP Measures" above for the definitions.
(2) Includes dividends on Exchangeable Securities (non-controlling interest, as described below under "Statement of Financial Position").
(3) The FCF L4PQ is calculated on a monthly basis as required by the terms of Chesswood's revolving credit line. This calculation uses Chesswood's most recent four quarters' published results at any one point in time, divided by twelve. The FCF L4PQ, in any one quarter, is the basis for the Maximum Permitted Dividends in that quarter (90% of FCF L4PQ) and will not include the FCF for the currently published quarter as they are released/published after the final month of the respective reporting period.
(4) Based on 90% of FCF L4PQ.
(5) As a result of the 2017 U.S. Tax Cuts and Jobs Act, the U.S. subsidiaries' net deferred tax liabilities were revalued, resulting in a $9.4 million reduction in future taxes expense and deferred tax liabilities which was recorded in Q4 2017.
(6) Provision for credit losses included in the net income for Q1 and Q2 2018 was prepared in accordance with IFRS 9. Prior period comparatives were prepared in accordance with IAS 39 and have not been restated. Refer to Note 2 and Note 7 of the interim condensed consolidated interim financial statements for further details.
(7) Effective for Q1 2018, and in keeping with the revised calculation of Free Cash Flow as agreed upon with our lenders, the formulas for Consolidated Adjusted EBITDA and Free Cash Flow have been amended to adjust for the non-cash change in finance receivables' ADA included in the provisions for credit losses in the income statement as well as the related tax effect of this non-cash change. As a result of this, on a go-forward basis since the first quarter of 2018, Consolidated Adjusted EBITDA and Free Cash Flow includes only the actual net credit losses incurred in the quarter. Management believes that this change enhances the usefulness of Adjusted EBITDA and Free Cash Flow as performance measures and is a more appropriate method of calculation as it removes the volatility associated with the effect of estimates and assumptions for a non-cash item.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017

The adoption of IFRS 9, the repayment of our convertible debentures, and the change in exchange rates, have significantly impacted our results from a comparative perspective, and therefore the table below adjusts for these factors for a more meaningful comparison of our operating income for the first six months of 2018:

Average FX rate	1.2781	1.3343	
	For the six months ended June 30,		
($ thousands)	2018	2017	Change
Operating income	$ 16,385	$ 17,339	$ (954)
IFRS 9 impact *(a)*	1,197	—	1,197
Impact of FX rate *(b)*	935	—	935
Interest expense on convertible debenture *(c)*	—	(650)	650
Operating income normalized	**$ 18,517**	**$ 16,689**	**$ 1,828**

For the first six months of 2018, consolidated operating income ("income before undernoted items") from continuing operations was $16.4 million, compared to $17.3 million in the same period in the prior year, a decrease of $954,000, or 5.5%, before considering the items noted in the chart above.

(a) While the provision for credit losses is down $95,000 in the six month period year-over-year, the Company's provision for credit losses would have been $1.2 million lower in the six months ended June 30, 2018 if the same accounting guidelines used in the prior year had been used in 2018. The provision for credit losses for the six months ended June 30, 2018 was calculated in accordance with IFRS 9. Prior period comparatives were prepared in accordance with IAS 39, and have not been restated.

(b) U.S. dollar results for the six months ended June 30, 2018 were converted at an exchange rate of 1.2781, which was the average exchange rate for the period (2017 - 1.3343). This lower exchange rate compared to the same period in 2017 understates the improvement in our 2018 U.S. operating results compared to the same period in 2017 by $935,000.

(c) Prior to redemption in January 2018, the convertible debenture interest expense was not part of operating income whereas the interest expense on the funds used to repay the debenture (from the corporate credit facility) is deducted as an expense in calculating operating income in 2018.

The Company reported consolidated net income of $11.5 million in the six months ended June 30, 2018 compared to $8.4 million in 2017, an increase of $3.1 million year-over-year. The increase is mostly comprised of a $3.1 million increase in net unrealized fair value adjustments and other items compared to 2017, a $747,000 decrease in tax expense due to a lower effective tax rate compared to the prior year, offset by the $954,000 decrease in operating income (discussed above).

By segment, Pawnee's and Windset's operating income decreased by $1.2 million compared to the same period in the prior year. The effects of a lower foreign exchange rate this year lowered operating income by $935,000 year-over-year, and the impact of IFRS 9 on Pawnee's provision for credit losses lowered operating income by $766,000, in addition to an increase in the cost of funds, primarily as a result of funding a larger portfolio.

Pawnee and Windset's revenue increased $3.8 million year-over-year. The $4.7 million growth in Pawnee's revenue due to growth in its portfolio was offset by an $847,000 decrease in Windset's revenue as Windset's portfolio completes its wind down.

Pawnee's interest expense totaled $9.1 million in the six months ended June 30, 2018, compared to $4.7 million in the same period in the prior year due to increased cost of funds from higher bank rates and higher debt levels, given the growth in our finance receivable portfolio. The first securitizations of our U.S. prime portfolio included higher fees, as expected, when the the securitization market is entered for the first time.

The provision for credit losses at Pawnee and Windset decreased by $361,000 in the six month period year-over-year. The $673,300 drop in Windset's provision for credit losses year-over-year netted against Pawnee's actual net charge-offs and change in Pawnee's allowance for doubtful accounts increases of $216,000 and $97,000 respectively were the primary reasons for the $361,000 decrease compared to the same period in 2017. As a result of the new requirements under IFRS 9, Pawnee's provision for credit losses is $766,000 higher in the six months ended June 30, 2018 compared to the prior year results which were prepared in accordance with IAS 39, and have not been restated.

Personnel and other expenses at Pawnee and Windset increased by $894,000 year-over-year, reflecting support for the growth in new business volumes and size of the portfolio. Pawnee had approximately 11 more staff during the six months ended June 30, 2018, compared to the same period in the prior year, when Pawnee was still building out its resources to support its very strong growth and customer

service levels. Year-over-year therefore the increase resulted in an increase in personnel expenses of $351,000. The growth in Pawnee's staffing slowed in late 2017, as expected, after several years of expansion in conjunction with our portfolio growth. The largest increase in other expenses was collection related costs, which increased $380,800 in the six months ended June 30, 2018 compared to the same period in the prior year; however, the increased funds recovered is netted against the provision for credit losses.

Blue Chip generated operating income of $3.4 million in the six months ended June 30, 2018, compared to $3.0 million in the same period in the prior year, an increase of $376,000 due to growth in the finance receivable portfolio while maintaining effective cost controls, and being impacted by the effects of IFRS 9 adoption. Blue Chip's provision for credit losses is $430,900 higher in the six months ended June 30, 2018 as a result of the new requirements under IFRS 9.

Corporate overhead before other items increased by $150,000 year-over-year, as a result of a $124,000 increase in share-based compensation expense, $37,000 increase in general expenses and professional fees, and a $49,000 increase in personnel expenses offset by a $60,000 increase in interest income on Chesswood's loan to EcoHome Financial Inc. ("EcoHome").

The Company's investment in Dealnet Capital Corp. ("Dealnet") common shares decreased in market value by $151,000 in the six months ended June 30, 2018 compared to a $1.7 million decrease in the same period in the prior year resulting in an increase in net income of $1.5 million year-over-year.

The non-cash unrealized mark-to-market adjustment gain on the Company's convertible debentures was an unrealized gain of $29,000 compared to an unrealized gain of $690,000 in the prior year, translating to an increase in net income of $719,000 year-over-year. The convertible debentures were redeemed in January 2018.

The non-cash unrealized mark-to-market adjustment on interest rate derivatives for the six months ended June 30, 2018 totaled a gain of $1.3 million compared to a gain of $152,000 in the same period in the prior year, translating to an increase in net income of $1.2 million year-over-year.

The provision for taxes for the six months ended June 30, 2018 totaled $5.1 million compared to $5.8 million in the same period in the prior year. The $5.1 million provision for taxes for the six months ended June 30, 2018 is comprised of $3.8 million in current tax expense, future tax expense of $880,000, and $389,000 in withholding tax expense on inter-company dividends. The effective tax rate differs from the Canadian statutory tax rate due to withholding taxes and permanent differences between accounting and taxable income, which include share-based compensation expense.

See Note 18 - *Segment Information* in the notes to the Company's unaudited condensed consolidated interim financial statements for a breakdown of operating results and other information by industry segment and geographic location.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2018 AND 2017

The adoption of IFRS 9, the repayment of our convertible debentures, and the change in exchange rates have significantly impacted our results from a comparative perspective, and therefore the table below adjusts for these factors for a more meaningful comparison of our operating income for the three months ended June 30, 2018:

Average FX rate	1.2911	1.3449	
($ thousands)	Q2 2018	Q2 2017	Change
Operating income	$ 8,046	$ 9,290	$ (1,244)
IFRS 9 impact *(a)*	900	—	900
Impact of FX rate *(b)*	442	—	442
Interest expense on convertible debenture *(c)*	—	(325)	325
Operating income normalized	**$ 9,388**	**$ 8,965**	**$ 423**

In the three months ended June 30, 2018, consolidated operating income ("income before undernoted items") from continuing operations was $8.0 million, compared to $9.3 million in the same period in the prior year, a decrease of $1.2 million, or 13.4%, before considering the items noted in the chart above.

(a) The provision for credit losses increased $447,000 in the three month period year-over-year, predominantly as a result of the new requirements under IFRS 9. The Company's provision for credit losses would have been $900,000 lower in the three months ended June 30, 2018 if the same accounting guidelines used in the prior year had been used in 2018. The provision for credit losses for the three months ended June 30, 2018 was calculated in accordance with IFRS 9. Prior period comparatives were prepared in accordance with IAS 39, and have not been restated.

(b) U.S. dollar results for the three months ended June 30, 2018 were converted at an exchange rate of 1.2911, which was the average exchange rate for Q2 2018 (Q2 2017 - 1.3449). This lower exchange rate compared to the same quarter in 2017 understates the improvement in our 2018 U.S. operating results compared to the same period in 2017 by $442,000.

(c) Prior to redemption in January 2018, the convertible debenture interest expense was not part of operating income whereas the interest expense on the funds used to repay the debenture (from the corporate credit facility) is deducted as an expense in calculating operating income in 2018.

The Company reported consolidated net income of $5.6 million for the three months ended June 30, 2018 compared to $3.7 million in the same period of 2017, an increase of $1.9 million year-over-year. The increase is comprised of a $2.4 million increase in net unrealized fair value adjustments and other items compared to 2017, $508,000 decrease in tax expense due to a lower effective tax rate compared to the prior year, offset by the $1.2 million decrease in operating income (discussed above).

By segment, Pawnee and Windset's operating income for the quarter decreased by $1.3 million compared to the same period in the prior year predominantly from the impact from IFRS 9 on Pawnee's provision for credit losses for the three months ended June 30, 2018, which lowered operating income by $606,000, the effects of a lower foreign exchange rate this year compared to last year, which lowered operating income by $442,000 year-over-year and the increased cost of funds, primarily as a result of financing a larger portfolio.

Personnel and other expenses at Pawnee and Windset increased by $708,000 in the quarter compared to the same period last year, predominantly as a result of an increase in Pawnee's collection related expenses of approximately $306,000 (the associated funds recovered are netted against provision for credit losses) and marketing and promotional expenses.

Blue Chip generated operating income of $1.8 million in the quarter compared to $1.6 million in the same period last year, an increase of $157,000, even with the effects of IFRS 9 on 2018 results. Blue Chip's provision for credit losses in the three months ended June 30, 2018 would have been $293,800 lower if using the same accounting method that was used in the 2017 comparative results.

Corporate overhead before other items increased by $102,000 year-over-year, mainly from a $121,000 increase in share-based compensation, offset by a $23,000 increase in interest income on Chesswood's loans to EcoHome.

At June 30, 2018, the market value of the Company's investment in Dealnet common shares remained unchanged since the beginning of the quarter, thus there was no impact to net income in three months ended June 30, 2018 compared to a decrease in value of $1.1 million in the same period of 2017 resulting in an increase in net income of $1.1 million year-over-year.

As the Company's convertible debentures were redeemed in January 2018, there was no non-cash unrealized mark-to-market adjustment in Q2 2018 compared to an unrealized loss of $710,000 in the same period in the prior year, translating to an increase in net income of $710,000 year-over-year.

The non-cash unrealized mark-to-market adjustment on interest rate derivatives for the three months ended June 30, 2018 totaled a gain of $560,000 compared to a loss of $99,000 in the same period in the prior year, translating to an increase in net income of $659,000 year-over-year.

Taxes for the three months ended June 30, 2018 totaled $2.6 million compared to the provision of taxes of $3.1 million in the same period in the prior year. The $2.6 million for the three months ended June 30, 2018 is comprised of current tax expense of $4.7 million, a reduction in future tax expense of $2.3 million, and $210,000 in withholding tax expense on inter-company dividends. The effective tax rate differs from the Canadian statutory tax rate due to higher foreign jurisdictional tax rates and permanent differences between accounting and taxable income, which primarily include share-based compensation expense.

The loss from discontinued operations in the three months ended June 30, 2018 totaled $33,000 compared to a loss of $197,000 recorded in the same period in 2017. The loss from discontinued operations relates to the wind-down of Case Funding's remaining legal finance receivables.

STATEMENT OF FINANCIAL POSITION

The total consolidated assets of the Company at June 30, 2018 were $748.7 million. This is an increase of $105.1 million from December 31, 2017. The U.S. dollar exchange rate on June 30, 2018 was 1.3168, compared to 1.2545 at December 31, 2017. The increase in the foreign exchange rate represents a increase of $21.7 million in assets.

Cash totaled $1.8 million at June 30, 2018 compared to $3.6 million at December 31, 2017, a decrease of approximately $1.8 million. 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. Please see the Liquidity and Capital Resources Overview section of this MD&A for a discussion of cash movements during the periods ended June 30, 2018 and 2017.

Assets held for sale consist of Case Funding's legal finance receivables for funds advanced to plaintiffs, attorneys, and for the purchase of medical liens relating to plaintiff cases. At June 30, 2018, there were 145 advances and loans outstanding totaling $2.6 million (December 31, 2017 - 180 advances and loans totaling $3.4 million). The advances and loans are due when the underlying cases are settled. The number of days the receivable is outstanding does not necessarily indicate the likelihood of impairment. It is normal for receivables in the legal finance industry to be outstanding anywhere from six months to 48 months (or longer). The collectability of loans and/or advances made by Case Funding depends on litigation outcomes in the form of judgments and/or settlements. Once an advance/loan is made, the timing of the collection cycle is out of Case Funding's control. Therefore, the timing of actual collections will be irregular.

Other assets totaled $14.0 million at June 30, 2018, a decrease of $3.6 million from December 31, 2017. Other assets included in this total relate to the sale of EcoHome in 2016 and totaled $6.5 million at June 30, 2018 compared to $10.3 million at December 31, 2017. In relation to the sale of EcoHome, the non-cash consideration received included a $2.5 million convertible note (repaid in Q1 2018) and 6,039,689 Dealnet common shares. The fair value of the common shares represents the trading price at each reporting date, and the value at June 30, 2018 totaled $483,000. Other assets also includes a loan receivable from EcoHome representing the inter-company warehouse funding for leases and loans that had not yet been securitized with EcoHome funders. The value at June 30, 2018 totaled $6.0 million. This loan matures in October 2020 and is secured by specific leases and loans as well as a general security agreement over all of the assets of EcoHome. The loan has fixed monthly principal payments, and related interest based on a floating interest rate plus a fixed margin. See Note 6 - *Other Assets* in the condensed consolidated interim financial statements for further details.

Finance receivables consist of the following:

	June 30, 2018	December 31, 2017
	($ thousands)	
U.S. equip. - Pawnee	$ 485,568	$ 398,969
Canada equip. - Blue Chip	169,550	151,574
Working capital loans - Windset	24	107
	$ 655,142	$ 550,650

Finance receivables increased by $104.5 million, or 19%, during the six months ended June 30, 2018. The increase in the foreign exchange rate led to an $19.8 million increase in finance receivables since December 31, 2017. In U.S. dollars, Pawnee's finance receivables increased by U.S.$50.7 million since December 31, 2017 and a 38.9% increase compared to June 30, 2017. Blue Chip's finance receivables increased by $18.0 million during the six months ended June 30, 2018, and an increase of 18.4% over June 30, 2017.

The $655.1 million in net investment in leases and loans is net of $22.9 million in allowance for doubtful accounts based on IFRS 9 (compared to $11.9 million in allowance for doubtful accounts at December 31, 2017). The allowance for doubtful accounts at December 31, 2017 is calculated based on IAS 39 and has not been restated.

On January 1, 2018, the Company adopted the new impairment and measurement requirements under IFRS 9. The IFRS 9 adoption adjustment increased the allowance for doubtful accounts by $9.6 million. IFRS 9 introduces an expected credit loss impairment ("ECL") model in determining the appropriate allowance for doubtful accounts for finance receivables. Application of the ECL model will depend 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 net 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 net credit losses expected over the remaining life of the lease or loan; and

(iii) Stage 3 - for leases or loans that are considered to be credit-impaired, a loss allowance equal to full life time expected net credit losses is recognized.

Finance 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 determined the previous methodology under IAS 39 covered Stages 2 and 3 and retained that methodology for those stages. For Stage 2, the Company considers non-prime 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 the non-prime 1-30 day delinquent leases and loans. For prime receivables 60 days delinquency is utilized to determine the required allowance for doubtful accounts for Stage 2.

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

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

The measurement of expected credit losses for Stage 1 and the assessment of significant increase in credit risk considers information about past events and current conditions, as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will also require judgment.

Pawnee charges off leases and loans when they become 154 days contractually past due, unless information indicates that an earlier charge-off is warranted. A high percentage of charge-offs are recognized before the subject leases/loans reach 154 days contractually past due. Blue Chip charges off leases and loans on an individual basis when there is no realistic prospect of recovery. Financial receivables that are charged-off could still be subject to collection efforts, with future recoveries possible.

Intangible assets totaled $19.2 million at June 30, 2018. Of the $509,000 decrease in intangible assets from December 31, 2017, $846,000 reflects amortization and $337,000 relates to the increase in the foreign exchange rate. The significant intangible assets of broker relationships and trade names do not require any outlay of cash to be maintained, as the creation of lease and loan receivables does not require an outlay of cash, other than commissions, which are separately expensed over the terms of the lease and loan receivables.

Goodwill totaled $40.5 million at June 30, 2018 compared to $39.9 million at December 31, 2017. The $670,000 increase in goodwill relates to the increase in the foreign exchange rate. Goodwill is typically tested annually for impairment unless certain circumstances arise that would require an assessment prior to an annual review. The Company's annual goodwill impairment assessment did not indicate any impairment as at December 31, 2017 and there were no unusual circumstances as at June 30, 2018 that required an impairment assessment to be conducted (prior to the 2018 annual review).

Accounts payable and other liabilities totaled $13.1 million at June 30, 2018 compared to $14.9 million at December 31, 2017, a decrease of $1.8 million. See Note 8 - *Accounts Payable and Other Liabilities* in the condensed consolidated interim financial statements for more detail on the balances that comprise accounts payable and other liabilities.

On December 16, 2013, the Company issued a total of $20.0 million principal amount of convertible debentures. The debentures were to mature on December 31, 2018, and bore interest at a rate of 6.5% per annum, paid semi-annually. The Company announced on December 12, 2017 that it would exercise its right to early redemption of the debentures. On January 17, 2018, Chesswood paid, in cash, the $20 million outstanding principal and the accrued and unpaid interest to the debenture holders as the redemption amount.

The debentures 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 profit or loss. The Company elected under *IAS 39.11A* to designate the entire debentures (and all the embedded derivatives) as a combined financial liability at fair value through net income or loss. The fair value of the debentures was based on their trading price on the Toronto Stock Exchange as at the end of each reporting period.

Borrowings totaled $539.5 million at June 30, 2018 compared to $412.2 million at December 31, 2017, an increase of $127.3 million. The $127.3 million increase in borrowings is supporting $104.5 million of growth in our net finance receivables, and the Company also utilized $20.0 million of its credit facility to redeem the convertible debenture in January 2018. The increase in the foreign exchange rate since December 31, 2017, led to a $16.8 million increase in the borrowing amount.

Chesswood was utilizing U.S.$200.8 million of its U.S. $250.0 million credit facility at June 30, 2018 compared to U.S.$165.0 million at December 31, 2017. The corporate credit facility allows Chesswood to internally manage the

allocation of capital to its various financial services businesses in Canada and the United States. The credit facility supports growth in finance receivables, provides for Chesswood's working capital needs and for general corporate purposes. The facility, available in U.S. or Canadian dollars, also improves the Company's financial flexibility by centralizing treasury management and making the provision of capital to individual businesses more efficient. The facility matures in December 2020.

The Company's borrowings under the credit facility are subject to, among other things, adhering to certain percentages of eligible gross lease/loan receivables. The credit facility is secured by substantially all of the Company's assets and contains covenants (including the maintaining of leverage and interest coverage ratios). Chesswood was in full compliance with all its bank covenants at June 30, 2018 and December 31, 2017 (and throughout the periods).

On October 16, 2017, Pawnee announced that it had closed its first U.S. non-recourse U.S.$75.0 million asset-backed facility secured by a portion of Pawnee's prime equipment finance receivable portfolio. On June 4, 2018, Pawnee obtained another U.S. non-recourse U.S.$50.0 million asset-backed facility with the same financial institution secured by a portion of Pawnee's prime equipment finance receivable portfolio. The repayment terms are based on the cash flow of the underlying leases and loans. Proceeds from these non-recourse facilities were applied to Chesswood's existing credit facility. As part of the servicing agreements related to Pawnee's non-recourse facilities, Pawnee is to comply with leverage ratio, interest coverage ratio, and tangible net worth covenants. At June 30, 2018 and throughout the period from October 2017 to June 30, 2018, Pawnee was in compliance with its covenants. The non-recourse facilities also required Pawnee to mitigate its interest rate risk by entering into interest rate caps for a notional amount that is not less than 80% of the aggregate outstanding balance. The interest rate caps are tied to the repayment terms of the underlying finance receivables portfolios supporting the facilities, through the maturity dates, with a floating index rate which is subject to a capped fixed rate. At June 30, 2018, the fair value of the interest rate caps was an asset of $719,000 (December 31, 2017 - $185,000).

Blue Chip has entered into master purchase and servicing agreements and bulk lease financing facilities with various financial institutions and life insurance companies (referred to collectively as the "Funders"). The funding facilities are advanced to Blue Chip on a tranche-by-tranche basis, with each tranche collateralized by a specific group of underlying finance receivables and any related security provided thereunder. 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. Blue Chip maintains either certain cash reserves as credit enhancements or provides letters of guarantee in return for release of cash reserves. Blue Chip continues to service these finance receivables on behalf of the Funders. As at June 30, 2018, Blue Chip had access to at least $57.3 million of committed bulk financing lines of funding from both financial and insurance companies, in addition to access to Chesswood's revolving facility. Blue Chip must meet certain financial covenants to support these securitization and bulk lease financing facilities. As at June 30, 2018 and December 31, 2017 (and throughout the periods), Blue Chip was in compliance with all covenants.

The $15.6 million (December 31, 2017 - $14.0 million) in customer security deposits relates to security deposits predominantly held by Pawnee. Pawnee's non-prime contracts require that the lessees\borrowers provide two payments as security deposit (not advance payments), which are held for the full term of the lease/loan and then returned or applied to the purchase option of the equipment at the lessee's/borrower's request, unless the contract is in default (in which case the deposit is applied against the receivable). Historically, a very high percentage of such deposits are either applied to the purchase option of the leased equipment at the end of the lease term or used to offset charge-offs.

The Company entered into interest rate swap agreements that provide for payment of an annual fixed rate, in exchange for a LIBOR-based floating rate amount. The interest rate swaps are intended to offset a portion of the variable interest rate risk on the credit facility. If the Company had terminated the swaps at June 30, 2018, the Company would have realized a gain of $788,000 compared to a cost to terminate of $43,000 at December 31, 2017.

Future taxes payable at June 30, 2018 totaled $20.2 million compared to $21.2 million at December 31, 2017, a decrease of $1.0 million. The tax impact of the IFRS 9 adoption led to a decrease of $2.46 million in future taxes payable. Offsetting this decrease was a $675,000 increase in future taxes payable due to the change in the foreign exchange rate, and a $760,000 increase in future tax expense. Taxes at Pawnee, Windset and Blue Chip are provided for using the asset and liability method of accounting. This method recognizes future tax assets and liabilities that arise from differences between the accounting basis of the subsidiary's assets and liabilities and their corresponding tax basis.

At June 30, 2018, there were 16,408,406 common shares outstanding (excluding the shares issuable in exchange for the Exchangeable Securities, as defined below) with a book value of $104.6 million. Including the Exchangeable

Securities, Chesswood would have had 17,886,943 common shares outstanding.

In August 2017, the Company's Board of Directors approved the repurchase for 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. The Company repurchased 293,096 of its common shares under this normal course issuer bid at an average cost of $10.5277 during the six months ended June 30, 2018.

The Company has entered into an automatic share purchase plan with a broker for the purpose of permitting us to repurchase our common shares under the normal course issuer bid at times when we would not be permitted to trade in our 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.

Non-controlling interest consists of 1,274,601 Class B common shares and 203,936 Class C common shares (the "Exchangeable Securities") of Chesswood US Acquisitionco Ltd. ("U.S. Acquisitionco"), which were issued as partial consideration for the acquisition of Pawnee and are fully exchangeable at any time for the Company's common shares, on a one-for-one basis, through a series of steps. Attached to the Exchangeable Securities are Special Voting Shares of the Company which provide the holders of the Exchangeable Securities voting equivalency to holders of common shares. Under IFRS, 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, have voting powers only in the parent company, and are fully exchangeable into the equity of the parent for no additional consideration and receive the same dividends as the common shares of the parent company). When the non-controlling interest was moved from Other Liabilities back to the shareholders' equity section on January 1, 2011 (the date Chesswood Income Fund was converted into the Company), per IFRS, the value attributed to the non-controlling interest was just the fair value of the equivalent common shares (closing value of the units of Chesswood Income Fund on the Toronto Stock Exchange on December 31, 2010) as the Exchangeable Securities are fully exchangeable into the Company's common shares. Their portion of the cumulative income and dividends from May 2006 to January 1, 2011 was not allocated to non-controlling interest; however, their portion of income and dividends has since been allocated to non-controlling interest.

On January 1, 2018, the Company was required to adopt IFRS 9. The IFRS 9 transition amount reduced retained earnings and non-controlling interest by $7.4 million after-tax. Please see Note 2 and Note 7 in the unaudited condensed consolidated interim financial statements for the six months ended June 30, 2018.

Reserves represent the accumulated share-based compensation expensed over the vesting term for options and restricted share units unexercised at June 30, 2018. There were 2,474,854 options and 44,000 restricted share units outstanding at June 30, 2018.

Accumulated other comprehensive income is the cumulative translation difference between the exchange rate on January 1, 2010, the IFRS adoption date, and the exchange rate on June 30, 2018 of self-sustaining foreign operations net assets.

LIQUIDITY AND CAPITAL RESOURCES

The primary sources of cash for the Company and its subsidiaries have been cash flows from operating activities, and borrowings under its, and its various subsidiaries' credit and securitization and bulk lease financing facilities. The primary uses of cash for the Company and its subsidiaries are to fund business operations, equipment leases and loans, support working capital, long-term debt principal repayments and dividends.

At June 30, 2018, the Company's continuing operations had approximately U.S.$49.2 million in additional borrowings available under the corporate credit facility and at least $57.3 million under Blue Chip's securitization and bulk lease financing facilities to fund business operations.

The Chesswood credit facility allows borrowings up to U.S. $250.0 million. The Chesswood credit facility is used to provide funding for operations (i.e. to provide financing for the purchase of assets that are to be the subject of leases and loans and support working capital). The financing facilities are not intended to directly fund dividends by the Company. Under the facility, the maximum amount of cash dividends and purchases under its normal course issuer bid in respect of a month is 1/12 of 90% of Free Cash Flow (see Dividend Policy below) for the most recently completed four financial quarters for which Chesswood has publicly filed its consolidated financial statements (including its annual consolidated financial statements in respect of a fourth quarter). Free Cash Flow is defined as the consolidated Adjusted EBITDA, less: maintenance capital expenditures, and tax expense, plus or minus the tax effect of change in ADA (effective Q1 2018). Please refer to the definitions of Non–GAAP Measures provided in this MD&A.

Cash Sources and Uses

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 period. Cash flows in foreign currencies have been translated at the average exchange rate for the period. Cash flow from operating activities comprises net income (loss) adjusted for non-cash items, changes in working capital and operational net assets. IFRS deems changes in finance receivables as operating assets for financial companies. Receipts and payments with respect to tax are included in cash from operating activities. Interest revenue and interest expense are included in operating activities and not investing or financing activities. Cash flow from investing activities comprises payments relating to the acquisition of companies, net of cash proceeds from the sale of discontinued operations, and payments relating to the purchase of property and equipment. Cash flow from financing activities comprises changes in borrowings, payment of dividends, proceeds from stock issues, exercise of stock options, and the purchase and sale of treasury stock.

For the six months ended June 30, 2018

In the six months ended June 30, 2018, there was a decrease in cash of $1.8 million compared to a decrease in cash of $5.6 million in the same period in the prior year as a result of reasons discussed below.

The Company's continuing operations utilized $81.6 million of cash during the six months ended June 30, 2018 compared to $56.5 million in the same period in the prior year, an increase in the utilization of cash of $25.1 million.

The net cash utilized to fund the growth in finance receivables (funds advanced, origination costs, security deposits, restricted cash, less principal payments) totaled $121.4 million in the six months ended June 30, 2018 compared to $91.1 million in the same period in the prior year, an increase of $30.3 million. The Company funded the growth in finance receivables from excess opening cash, cash from operations and $110.5 million in net borrowings (included in finance activities) in the six months ended June 30, 2018 (2017 - $58.2 million).

In the six months ended June 30, 2018, the Company made tax payments of $5.8 million compared to $8.1 million in the six months ended June 30, 2017, a decrease of $2.4 million year-over-year. The decrease in taxes paid, year-over-year, is predominantly as a result of the $3.5 million in taxes paid in Q1 2017 on the gain on sale of EcoHome which was sold in Q1 2016.

If the cash utilized to fund the growth in finance receivables and net tax payments (discussed above) is excluded from cash from operating activities, the continuing operations generated $45.6 million in cash from net income, non-cash items and other working capital changes compared to $42.7 million in the same period in the prior year, an increase of $2.9 million from the prior year.

Capital expenditures totaled $106,000 (2017 - $612,000) during the six months ended June 30, 2018.

The Company paid dividends to the holders of its common shares and Exchangeable Securities in the amount of $7.6 million during the six months ended June 30, 2018 relatively unchanged from the same period in the prior year. The Company received $297,000 (2017 - $123,000) from the exercise of options by employees during the six months ended June 30, 2018.

For the three months ended June 30, 2018

In the three months ended June 30, 2018, there was a decrease in cash of $4.5 million compared to a decrease in cash of $99,000 in the same period in the prior year as a result of reasons discussed below.

The Company's continuing operations utilized $51.6 million of cash during the three months ended June 30, 2018 compared to $30.5 million in the same period in the prior year, an increase in the utilization of cash of $21.1 million.

The net cash utilized to fund the growth in finance receivables (funds advanced, origination costs, security deposits, restricted cash, less principal payments) totaled $71.3 million in the three months ended June 30, 2018 compared to $49.6 million in the same period in the prior year, an increase of $21.7 million. The Company funded the growth in finance receivables from excess opening cash, cash from operations and $53.6 million in net borrowings (included in finance activities) in the three months ended June 30, 2018 (Q2 2017 - $34.6 million).

In the three months ended June 30, 2018, the Company made tax payments of $3.1 million, relatively unchanged from the three months ended June 30, 2017.

If the cash utilized to fund the growth in finance receivables and net tax payments (discussed above) is excluded from cash from operating activities, the continuing operations generated $22.8 million in cash from net income, non-cash items and other working capital changes compared to $22.2 million in the same period in the prior year, an increase of $651,000 from the prior year.

Capital expenditures totaled $10,000 (Q1 2017 - $453,000) during the three months ended June 30, 2018.

The Company paid dividends to the holders of its common shares and Exchangeable Securities in the amount of $3.8 million during the three months ended June 30, 2018 relatively unchanged from the same period in the prior year. The Company received $nil (2017 - $27,000) from the exercise of options by employees during the three months ended June 30, 2018.

Chesswood expects that current operations and planned capital expenditures for the foreseeable future of its subsidiaries will be financed using funds generated from operations, existing cash, and funds available under existing and/or new credit and financing facilities. Chesswood may require additional funds to finance future acquisitions and support significant internal growth initiatives relating to finance receivable portfolio growth. It will seek such additional funds, if necessary, through public or private equity, debt financings or securitizations from time to time, as market conditions permit.

Financial Covenants, Restrictions and Events of Default

The Company and its operating subsidiaries are subject to bank and/or funder covenants relative to leverage and/or working capital.

The Company's ability to access funding at competitive rates through various economic cycles enables it to maintain the liquidity necessary to manage its businesses, and its ability to continue to access funding is an important condition to its future success.

The Company's secured borrowing agreement and its subsidiaries' securitization and bulk lease financing facility agreements have financial covenants and other restrictions which must be met in order to obtain continued funding and avoid default.

Advances on the Chesswood revolving facility may be drawn at any time, subject to compliance with borrowing base calculations and compliance with the covenants set out therein. As of June 30, 2018, U.S.$200.8 million was outstanding under the U.S.$250.0 million facility and the Company had capacity to draw another U.S.$49.2 million and remain within the borrowing base under the facility. The Company had U.S.$5.3 million of letters of credit outstanding under the Chesswood credit facility.

Dividends to Shareholders

The Company declared monthly cash dividends of $0.07 per common share from January 2018 to June 30, 2018.

Dividend Policy

The Company's policy is to pay monthly dividends to shareholders of record on the last business day of each month by the 15th of the following month (or the next business day thereafter if the 15th is not a business day).

Under the Chesswood credit facility, the maximum amount of monthly cash dividends and repurchases under its normal course issuer bid is 1/12 of 90% of Free Cash Flow (as defined under Non–GAAP Measures in this MD&A) for the most recently completed four financial quarters for which Chesswood has publicly filed its consolidated financial statements.

The amount of any dividends payable by Chesswood is at the discretion of its Board of Directors, is evaluated on an ongoing basis, and may be revised subject to business circumstances and expected capital requirements depending on, among other things, Chesswood's earnings, financial requirements for its operating entities, growth opportunities, the satisfaction of applicable solvency tests for the declaration and payment of dividends and other conditions existing from time to time.

Minimum Payments The following are the contractual payments and maturities of financial liabilities and other commitments as at June 30, 2018 (including interest):

($ thousands)	2018	2019	2020	2021	2022	2023 and beyond	Total
Accounts payable and other liabilities	$ 13,074	$ —	$ —	$ —	$ —	$ —	$ 13,074
Borrowings (a)	64,277	110,151	350,201	49,881	15,406	986	590,902
Customer security deposits (b)	1,990	3,720	4,404	3,817	2,721	997	17,649
	79,341	113,871	354,605	53,698	18,127	1,983	621,625
Other financial commitments (c)	437	846	743	556	458	148	3,188
Total commitments	$ 79,778	$ 114,717	$ 355,348	$ 54,254	$ 18,585	$ 2,131	$ 624,813

a. Borrowings are described in Note 9 - *Borrowings* in the unaudited condensed consolidated interim financial statements, and include Chesswood's credit facility which is a line-of-credit; as such the balance can fluctuate. The Chesswood credit facility matures in December 2020. The amount above includes fixed interest payments on Pawnee and Blue Chip's facilities and estimated interest payments on the corporate credit facility, assuming the interest rate, debt balance and foreign exchange rate at June 30, 2018 remain the same until December 2020, which is the date of expiry of the credit facility.
b. 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.
c. The Company and its subsidiaries are committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, with expirations up to 2023, which represent the bulk of other financial commitments.

The Company has no material "off-balance sheet" financing obligations, except for long-term premises lease agreements and U.S. $5.3 million in letters of guarantee. Other commitments are disclosed in Note 18 - *Contingent liabilities and other financial commitments* in the 2017 audited consolidated financial statements.

OUTLOOK

The competitive landscape in both the U.S. and Canada continues to be aggressive in the midst of an environment of rising interest rates. As an independent finance company with our cost-of-funds tied to central bank rates and/or LIBOR, we have increased our rates twice in both markets while our bank competitors have moved only marginally.

Notwithstanding this aggressive behavior, the small business outlook continues to be very positive, especially in the U.S. We believe that we are seeing a positive impact from small business confidence that is supporting our originations in multiple product lines in addition to the results our expanded business development teams are generating.

We will continue to watch the risk-price behavior of the competition very closely and adjust our pricing and risk appetites on an ongoing basis, as our tolerances dictate.

RISK FACTORS

An investment in the Company's common shares entails certain risk factors that should be considered carefully.

Chesswood operates in a dynamic environment that involves various risks and uncertainties, many of which are beyond our control and which could have an effect on our business, revenues, operating results, cash flow and financial condition. Readers should carefully review the risk factors in the Company's annual information form filed with various Canadian securities regulatory authorities through SEDAR (the System for Electronic Document Analysis and Retrieval) at www.sedar.com, a summary of which are set out below.

Dependence on Key Personnel

Our operating companies depend to a large extent upon the abilities and continued efforts of their key operating personnel and senior management teams.

Relationships with Brokers and Other Origination Sources

Pawnee and Blue Chip have formed relationships with hundreds of origination sources, comprised primarily of equipment finance brokerage firms. They rely on these relationships to generate applications and originations. The failure to maintain effective relationships with their brokers and other origination sources or decisions by them to refer transactions to, or to sign contracts with, other financing sources could impede their ability to generate transactions, including Canada where Blue Chip gets a substantial portion of its origination volume from a few large equipment brokerage firms.

Risk of Future Legal Proceedings

Our operating companies are threatened from time to time with, or are named as defendants in, or may become subject to, various legal proceedings, fines or penalties in the ordinary course of conducting their respective businesses. A significant judgment or the imposition of a significant fine or penalty on an operating company (or on a company engaged in a similar business, to the extent the operating company operates in a similar manner) could have a material adverse impact on our business, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

Interest Rate Fluctuations

The Company and our operating companies are exposed to fluctuations in interest rates under their borrowings. Increases in interest rates (to the extent not mitigated by interest hedging arrangements or fixed rate securitizations) may have a material adverse impact on our businesses, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

The leases and loans are written at fixed interest rates and terms. Generally, the Company finances the activities of its operating companies with both fixed rate and floating rate funds. To the extent the operating companies finance fixed rate leases and loans with floating rate funds, they are exposed to fluctuations in interest rates such that an increase in interest rates could narrow or eliminate the margin between the yield on a lease and loan and the effective interest rate paid by the borrower.

At the customer level, non-prime segments of the micro and small-ticket equipment finance market have historically and typically been, and continue to be, more sensitive to monthly lease/loan payment amounts than to the effective rates of interest charged.

Portfolio Delinquencies; Inability to Underwrite Lease and Loan Applications

Pawnee's receivables consist primarily of lease and loan receivables originated under programs designed to serve small and medium-sized, often owner-operated businesses that have limited access to traditional financing. There is a high degree of risk associated with equipment financing for such parties. A portion of Pawnee's portfolio are start-up businesses that have not established business credit or a more established business that has experienced some business or personal credit difficulty at some time in its history. As a result, such leases or loans entail a relatively higher risk and may be expected to experience higher levels of delinquencies and loss levels. Pawnee cannot guarantee that the delinquency and loss levels of its receivables will correspond to the historical levels Pawnee has experienced on its portfolio and there is a risk that delinquencies and losses could increase significantly.

Analogous risks are faced by Blue Chip in its business.

In addition, since defaulted leases and loans and certain delinquent leases and loans cannot be used as collateral under our variable rate financing facilities, higher than anticipated lease defaults and delinquencies could adversely affect our liquidity by reducing the amount of funding available to us under our financing arrangements. Furthermore, increased rates of delinquencies or loss levels could result in adverse changes to the terms of future financing arrangements, including increased interest rates payable to lenders and the imposition of more burdensome covenants and increased credit enhancement requirements.

Deterioration in Economic or Business Conditions; Impact of Significant Events and Circumstances

The results of the Company's subsidiaries may be negatively impacted by various economic factors and business conditions, including the level of economic activity in the markets in which they operate. To the extent that economic activity or business conditions deteriorate, delinquencies and credit losses may increase. Delinquencies and credit losses generally increase during economic slowdowns or recessions such as that experienced in the United States from 2008-2013. As our operating companies extend credit primarily to small businesses, many of their customers may be particularly susceptible to economic slowdowns or recessions, and may be unable to make scheduled lease or loan payments during these periods. Unfavourable economic conditions may also make it more difficult for our operating companies to maintain new origination volumes and the credit quality of new leases and loans at levels previously attained. Unfavourable economic conditions could also increase funding costs or operating cost structures, limit access to

credit facilities, securitizations and other capital markets or result in a decision by lenders not to extend further credit.

In addition, the equipment finance industry generally may be affected by changes in accounting treatment for leases and loans, and negative publicity with respect to, among other things, fraud or deceptive practices by certain participants in the industry. Greater governmental scrutiny is also a risk, especially as to the tax treatment of certain transaction structures or other aspects of these transactions that, if changed, could result in additional tax, fee or other revenue to that governmental authority. Any of these factors may make leasing less attractive or diminish the profitability of the existing financing alternatives offered by our operating companies.

In addition to being impacted by factors or conditions in the United States or Canada, political, economic or other significant events or circumstances outside of North America (whether political unrest which impacts upon the prices of oil and other commodities or otherwise) can ultimately significantly impact upon North American economic conditions which, in turn, could result in the adverse implications described in the first paragraph under this heading. Similarly, natural disasters in any part of the world may directly (through impact on supplies of goods or equipment to our businesses) or indirectly impact Chesswood's operations or results.

Losses from Leases and Loans; The Risk/Yield Trade-off

Losses from leases and loans in excess of our operating companies' expectations would have a material adverse impact on our businesses, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

Changes in economic conditions, the risk characteristics and composition of the portfolio, bankruptcy laws, and other factors could impact our operating companies' actual and projected net credit losses and the related allowance for credit losses. Should there be a significant change in the above noted factors, then our operating companies may have to set aside additional reserves which could have a material adverse impact on their respective business, financial condition and results of operations and on the amount of cash available for dividends to our shareholders.

Determining the appropriate level of the allowance is an inherently uncertain process and therefore the determination of this allowance may prove to be inadequate to cover losses in connection with a portfolio of leases and loans. Factors that could lead to the inadequacy of an allowance for credit losses may include the inability to appropriately underwrite credit risk of new originations, effectively manage collections, or anticipate adverse changes in the economy or discrete events adversely affecting specific customers, industries or geographic areas.

Pawnee began offering its prime product in 2015 - financing for higher credit rated lessees and borrowers, and this product represents an increasing part of the composition of Pawnee's portfolio. While it is expected that the losses and allowance for doubtful accounts in respect of this part of Pawnee's portfolio will be lower - commensurate with the prime credit rating of the lessees/borrowers - the spread between the rates that Pawnee can charge over our cost of funds is also considerably smaller.

Adverse Events or Legal Determinations in Areas with High Geographic Concentrations of Leases or Loans

If judicial or other governmental rulings or actions or interpretations of laws adverse to the equipment finance industry and\or the working capital loan industry in general or to business practices engaged in by our operating companies, or adverse economic conditions or the occurrence of other significant events such as natural disasters and terrorist attacks, were to occur in a geographic region with a high concentration of leases/loans or equipment financed from our operating companies, there could be a material adverse impact on our business, financial condition and results of operations, and the amount of cash available for dividends to our shareholders.

"Characterization" Risks

If an applicable court or regulatory authority were to make an adverse finding, or take an adverse action on the basis that one of Pawnee's form of lease is not a true lease for commercial law, tax law, or other legal purposes, adverse consequences could result with respect to leases entered into in such form including the loss of preferred creditor status (which would impact upon Pawnee's rights to recover on its claim), limitations on finance charges and other fees that can be enforced, and additional federal, state and other (income or sales) taxes payable by Pawnee.

Case Funding's non-recourse advances may be re-characterized in certain jurisdictions as loans, or determined to be improper fee-splitting, which would adversely affect the collectability of the advances.

Defenses to Enforcement of a Significant Number of Leases and Loans

Certain defenses and recovery impediments are more common in micro and small-ticket equipment finance transactions than with respect to equipment finance providers

in other segments of the equipment finance industry. Management believes that certain of these risks are sufficiently addressed in the existing documentation and related business practices of our operating companies. However, there are other risks that they have not addressed for various reasons, including that certain of these risks are not susceptible to being addressed either at all or without incurring cost inefficiencies or taking other measures deemed unacceptable by management based on a risk-reward assessment. Our operating companies have never experienced any material occurrence of these risks nor have these risks historically had a material adverse impact on them. However, there is no assurance that these risks will not have a material adverse impact on their business, financial condition and results of operations in the future.

Origination, Funding and Administration of Transactions

Our operating companies' origination, funding and transaction administration practices could result in certain vulnerabilities in their enforcement rights. For example, certain leases and loans are assignments of transactions already documented by brokers. Acquiring leases/loans by this "indirect" process subjects our operating companies to various risks, including risks that might arise by reason of the broker's insolvency, administrative inadequacies or fraudulent practices, as well as any third party claims against the broker or its rights with respect to the assigned lease or loan. Our operating companies may be subject to risks related to broker practices, whether or not our operating companies have actual legal responsibility for broker conduct. Any of these broker related risks can impair our operating companies' rights with respect to recovering the rents and/or property under leases and loans. Pawnee has not been involved in any claims or litigation in relation to such risks and Pawnee does not conduct lien searches in the name of, require lien releases from, or file financing statements against the lease broker.

If the lessee/borrower or broker is the party to whom the vendor of the equipment has agreed to sell the property at the time of its delivery, then under applicable commercial law, the lessee/borrower or broker, as applicable, may be deemed to have acquired title to the property prior to our operating companies having funded the transaction. It has not been their practice to ensure that the title to the leased property has not already passed or to obtain assurances that it is acquiring good title to that property free of liens and other third party claims. The manner in which our operating companies purchase the equipment is typical in this market segment, especially with respect to similarly situated equipment financing providers. They have not yet faced any meaningful challenge or adverse consequence from this practice, but there can be no assurance that such a challenge or consequence will not occur in the future.

In most circumstances where the equipment is less than U.S. $15,000 (or U.S.$10,000 if for a home business) for Pawnee's core product and U.S.$35,000 for the "B" product, and U.S. $100,000 for "A", Pawnee's practice of requiring only a verbal confirmation that the property has been delivered and irrevocably accepted under the subject lease or loan, and/or inspecting the property to confirm the same, could make Pawnee vulnerable to certain defenses. By way of example, Pawnee's deemed failure to deliver conforming property under the lease or loan documents could be a defense to a lessee/borrower's "unconditional" obligation to pay the rents and certain other amounts. Pawnee has not suffered any material losses relating to these practices, however, there can be no assurance that it would not in the future.

Analogous risks are faced by Blue Chip.

Changes in Governmental Regulations, Licensing and Other Laws and Industry Codes of Practice

Finance companies are subject to laws and regulations relating to extending financing generally and are also members of industry associations which have adopted, among other things, codes of business practice. Laws, regulations and codes of business practice may be adopted with respect to existing leases and loans or the leasing, marketing, selling, pricing, financing and collections processes which might increase the costs of compliance, or require them to alter their respective business, strategy or operations, in a fashion that could hamper the ability to conduct business in the future.

Licensing Requirements

If an applicable court or regulatory authority were to make an adverse finding or otherwise take adverse action with respect to our operating companies based on their failure to have a finance lender's or other license or registration required in the applicable jurisdiction, our operating companies would have to change business practices and could be subject to financial or other penalties. Further, certain jurisdictions may enact or change administrative practices in respect of licensing requirements for our operating companies or their referring brokers. For example, California requires that referring brokers have a lenders' license, which may impact loan referrals from certain brokers for funding to California residents.

Fees, Rates and Charges

Some of our operating companies' documents require payment of late payment fees, late charge interest, and other

charges either relating to the non-payment under, or enforcement, of their leases and loans. It could be determined that these fees and/or the interest rates charged exceed applicable statutory or other legal limits. If the charges are deemed to be punitive and not compensatory, or to have other attributes that are inconsistent with, or in violation of, applicable laws, they could be difficult to enforce. A number of charges payable with respect to equipment finance transactions in the micro and small-ticket equipment finance market have been the subject of litigation by customers against financing parties in the past. Although our subsidiaries are not currently the subject of any such litigation, there can be no assurance that a lessee/borrower or a group of lessees/borrowers will not attempt to bring a lawsuit against our subsidiaries in relation to fees and charges, which our subsidiaries may or may not be successful in defending.

Our operating companies believe that their fee programs are designed and administered so as to comply with legal requirements and are within the range of industry practices in their market segments. Nevertheless, certain attributes of these fees or charges, and their practices, including that their leases and loans typically provide for several different fees and charges resulting in a substantial amount of fee income and the possibility that the fees and charges may exceed actual costs involved or may otherwise be deemed excessive, could attract litigation, including class actions, that would be costly even if our subsidiaries were to prevail and as to which no assurance can be given of their successful defense. In addition to the risk of litigation, fee income is important to our subsidiaries and the failure of our subsidiaries to continue to collect most of these fees could have a material adverse impact on our business, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

Insurance

To ensure that the lessor or lender of the leased or financed property suffering a loss receives the related insurance proceeds, the lease or loan also requires that the lessor or lender be named as a loss payee under the requisite casualty coverage. However, each lessee/borrower is ultimately relied upon to obtain and maintain the required coverage for financed equipment but there is no certainty that they will obtain the requisite coverage either conforming to the requirements of the lease or loan, or at all. Additionally, there are often policy provisions including exclusions, deductibles and other conditions that by their terms, or by reason of a breach, could limit, delay or deny coverage. There can be no assurance that any insurance will protect our operating companies interests in the equipment, and the failure by the lessee/borrower to obtain insurance or the failure by the operating companies to receive the proceeds from such insurance policies could have a material adverse impact on our business, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

Lessor Liability

There is a risk that a lessor, such as Pawnee or Blue Chip, could be deemed liable for harm to persons or property in connection with, among other things, the ownership or leasing of the leased property, or the conduct or responsibilities of the parties to the lease relating to that property. The liability may be contractual (such as warranties regarding the equipment), statutory (such as federal, state or provincial environmental liability) or pursuant to various legal theories (such as negligence). There have been cases in which a lessor has been held responsible for damage caused by leased property without a showing of negligence or wrong-doing on the lessor's part. Even if a lessor ultimately succeeds in defending itself or settling any related litigation, the related costs and any settlement amount could be significant.

Liability for Misuse of Leased Equipment

There is no practical manner to ensure that leased equipment or a leased vehicle will be used, maintained or caused to comply with applicable law. Pawnee and Blue Chip require its lessees to deliver evidence of compliance with same as a condition to funding but have no assurance that a lessee will take the appropriate actions during the lease term to address any use, maintenance or compliance issues which may arise. A lessee's conduct (or lack thereof) could subject Pawnee or Blue Chip, as applicable, to liability to third parties.

Estimates Relating to Value of Leases

Based on the particular terms of a lease, equipment finance companies estimate the residual value of the financed equipment, which is recorded as an asset on its statement of financial position. At the end of the lease term, equipment finance companies seek to realize the recorded residual for the equipment by selling the equipment to the lessee or in the secondary market or through renewal of the lease by the lessee. The ultimate realization of the recorded residual values depends on numerous factors, including: accurate initial estimate of the residual value; the general market conditions and interest rate environment at the time of expiration of the lease; the cost of comparable new equipment; the obsolescence of the leased equipment; any unusual or excessive wear and tear on or damage to the equipment; and the effect of any additional or amended government regulations.

If Pawnee or Blue Chip (in connection with those leases where the lessee is not obligated to either purchase the equipment or guarantee the residual value of the equipment at the end of the term of the lease) is unable to accurately estimate or realize the residual values of the leased equipment subject to their leases, the amount of recorded assets on its statement of financial position will have been overstated.

Competition from Alternative Sources of Financing

The business of micro and small-ticket equipment finance in the United States is highly fragmented and competitive. Pawnee focuses some its business on the segment of the micro and small-ticket equipment finance market involving start-up businesses that have not established business credit or established businesses that have experienced some credit difficulty in their history that do not meet the credit standards of more traditional financing sources. Pawnee's main competition comes from equipment finance companies, banks, commercial lenders, home equity loans, and credit cards.

As Pawnee expands its suite of products to target potential lessees with higher credit scores or if the creditworthiness of its potential customers increases for various external reasons, it expects to face competition from more traditional financing sources as well, including: national, regional and local finance companies; captive finance and equipment finance companies affiliated with major equipment manufacturers; and financial services companies, such as commercial banks, thrifts and credit unions.

Many of the firms and institutions providing financing alternatives are substantially larger than Pawnee and have considerably greater financial, technical and marketing resources. Some of them may have a lower cost of funds and access to funding sources that are unavailable to Pawnee. A lower cost of funds could enable a competitor to offer leases and loans with pricing lower than that of Pawnee, potentially forcing Pawnee to decrease its prices or lose origination volume. In addition, some financing sources may have higher risk tolerances or different risk assessments, which could allow them to establish more origination sources and customer relationships to increase their market share.

Further, because there are fewer barriers to entry with respect to the micro and small-ticket equipment finance market, new competitors could enter this market at any time, especially if an improvement in the economy leads to a greater ability of small and medium-sized businesses to establish improved levels of creditworthiness.

Similarly, competition from a variety of other funding sources may result in a decrease in demand for Blue Chip's financing products.

With the ever advancing improvements in technology, financial-technology ("Fintech") firms have been emerging with new business models, based on new technology that often includes an internet component, for offering financial services to businesses and consumers. It is possible that advancements by Fintech firms could negatively impact Pawnee and/or Blue Chips' business in a significant manner.

Fraud by Lessees, Borrowers, Vendors or Brokers

While our operating companies make every effort to verify the accuracy of information provided to them when making a decision whether to underwrite a lease or loan and have implemented systems and controls to protect against fraud, in a small number of cases in the past our operating companies have been a victim of fraud by lessees/borrowers, vendors and brokers. In cases of fraud, it is difficult and often unlikely that our operating companies will be able to collect amounts owing under a lease or loan or repossess the related equipment. Our operating companies may be subject to risks related to broker practices whether or not our operating companies have actual legal responsibility for broker conduct. Increased rates of fraud could have a material adverse impact on our business, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

Protection of Intellectual Property

Chesswood's operating subsidiaries continually develop and improve their brand recognition and proprietary systems and processes, which is an important factor in maintaining a competitive market position. No assurance can be given that competitors will not independently develop substantially similar branding, systems or process. Despite the efforts of our operating subsidiaries to protect their proprietary rights, unauthorized parties may attempt to obtain and use information the subsidiaries regard as proprietary. Preventing unauthorized use of such proprietary rights may be difficult, time-consuming and costly, and without any assurance of success.

Uncertainty of Outcome of Cases

The returns on loans and/or advances made by Case Funding, and thus the returns for Chesswood, depend on litigation outcomes in the form of judgments or settlements. Litigation of individual cases entails a large degree of uncertainty. It is also possible that a claimant may die or abandon his or her case, that the lawyer may abandon the plaintiff's case, or that

the defendant, the law firm, or the defendant's insurance carrier may declare bankruptcy. Case Funding is also reliant on the capabilities of the attorneys handling the cases in which it provides funding to effectively litigate claims with due skill and care. Although Case Funding sought to weigh such uncertainties in the due diligence conducted before making its funding decisions, and intended to reduce risk by funding in a broad array of cases, there can be no assurance that the outcome of any given litigated claim or basket of claims can be predicted, whether or not the probabilities were correctly assessed by Case Funding.

Uncertainty in the Timing of Litigation Settlements and Awards

The nature of litigation recoveries, including the timing and amounts recovered, are outside the control of Case Funding. Individual claims may be resolved over drastically varying times: for example, as short as one month, or longer than three years. Case Funding will be required to wait for an indeterminate period of time after an advance/loan is made to fully collect money from judgment recoveries.

Case Funding May Have Difficulty Collecting on its Investments

If plaintiffs or law firms to which Case Funding has advanced or loaned funds do not pay Case Funding pursuant to the terms of the advances/loans made, Case Funding may be required to pursue costly legal actions to collect. It is also possible that a plaintiff's attorney or a law firm may attempt to renegotiate the ultimate amount owed to Case Funding or that there is not enough proceeds from the case to repay Case Funding in full. In these situations, Case Funding may have to accept a smaller return than anticipated in order to accommodate and maintain business relationships or avoid litigation. In either event, the inability of Case Funding to collect or the necessity of legal action to collect, could harm or reduce the potential cash flow.

Failure of Computer and Data Processing Systems

Our operating companies are dependent upon the successful and uninterrupted functioning of their computer and data processing systems. The failure of these systems could interrupt operations or materially impact the ability of our operating companies to originate and service their lease and loan portfolio and broker networks. If sustained or repeated, a system failure could negatively affect these operations. Our operating companies maintain confidential information regarding lessees and borrowers in their computer systems. This infrastructure may be subject to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. A security breach of computer systems could disrupt operations, damage reputation and result in liability.

Security Risks

Despite implementation of network security measures, the infrastructure of our subsidiaries' websites and our management network is potentially vulnerable to computer break-ins and similar disruptive problems.

Risks Related to our Structure and Exchange Rate Fluctuations

The dividends expected to be paid to our shareholders will be denominated in Canadian dollars. However, a significant percentage of our revenues are expected to be derived from the revenues of our U.S. operations, which are received in U.S. dollars. Changes in the value of the U.S. dollar could have a negative impact on our Canadian dollar results, and in turn, on the amount in Canadian dollars available for dividends to our shareholders.

Unpredictability and Volatility of Share Price

A publicly-traded company will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which our common shares will trade cannot be predicted. The market price of the common shares could be subject to significant fluctuations in response to variations in quarterly operating results and other factors. The annual yield on the common shares as compared to the annual yield on other financial instruments may also influence the price of common shares in the public trading markets. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the common shares.

Leverage, Restrictive Covenants

The Company and its subsidiaries have third party debt service obligations under their respective credit and securitization and bulk lease financing facilities. The degree to which our subsidiaries are leveraged could have important consequences to our shareholders, including: (i) the ability to obtain additional financing for working capital in the future may be limited; (ii) a portion of the cash flow from the assets of such subsidiaries may be dedicated to the payment of the principal of and interest on their respective indebtedness, thereby reducing funds available for distribution to the Company; and (iii) certain of the respective borrowings of such subsidiaries will be at variable rates of interest, which will expose them to the risk of increased interest rates. The ability of such subsidiaries to make scheduled payments of

the principal of or interest on, or to refinance, their indebtedness will depend on their future cash flow, which is subject to their respective assets, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond their control.

Possible Acquisitions

Acquisitions, if they occur, may increase the size of the operations as well as increase the amount of indebtedness that may have to be serviced by Chesswood and its subsidiaries. There is no assurance that such acquisitions can be made on satisfactory terms, or at all. The successful integration and management of acquired businesses involve numerous risks that could adversely affect the growth and profitability of Chesswood and its subsidiaries. There is no assurance that such acquisitions will be successfully integrated.

Restrictions on Potential Growth

The payout by our operating companies of a significant portion of their earnings available for distribution will make additional capital and operating expenditures dependent upon increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of our operating companies and their cash flow.

Canadian Income Tax Matters

The income of the Company's operating companies must be computed in accordance with applicable Canadian, U.S, or foreign tax laws, and the Company is subject to Canadian tax laws, all of which may be changed in a manner that could adversely affect the amount of distributable cash.

United States Income Tax Matters

There can be no assurance that U.S. federal and state income tax laws and administrative policies will not develop or be changed in a manner that adversely affects our shareholders.

On December 22, 2017, the U.S. government enacted new tax legislation effective January 1, 2018. However, the legislation makes broad and complex changes to the U.S. tax code and, accordingly, it will take time to assess and interpret the changes. Consequently, the provisional recovery recorded by the Company in our financial statements 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Understanding the Company's accounting policies is essential to understanding the results of the Company's operations and financial condition. The Company's significant accounting policies are described in notes to the Company's audited consolidated financial statements for the year ended December 31, 2017, this same section of the Company's December 31, 2017 MD&A and in Note 2 - *New Accounting Standards* in the unaudited condensed consolidated interim financial statements for the six months ended June 30, 2018. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our consolidated financial statements. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

FUTURE ACCOUNTING STANDARDS

A listing of the recent accounting pronouncements not yet adopted by the Company is included in Note 2 - *New Accounting Standards* in the unaudited condensed consolidated interim financial statements for the six months ended June 30, 2018.

RELATED PARTY TRANSACTIONS

See Note 16 - *Related Party Transactions* in the unaudited condensed consolidated interim financial statements for the disclosure of key management compensation.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Chief Executive Officer and the Director of Finance (the "Certifying Officers"), along with other members of management, have designed, or caused to be designed under their supervision, Disclosure Controls and Procedures ("DC&P") to provide reasonable assurance that (i) material information relating to the Company is made known to them

by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

The Certifying Officers have assessed the design effectiveness of the Company's DC&P as at June 30, 2018 and have concluded that the design of the Company's DC&P is effective as at that date.

Internal Control over Financial Reporting

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") in 2013, to design the Company's ICFR.

During the quarter ended June 30, 2018, there has been no significant change in the Company's ICFR that would have materially affected, or would be reasonably likely to materially affect, the Company's ICFR.

Limitations of an Internal Control System

The Certifying Officers believe that any DC&P or ICFR, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues, including instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include, amongst other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) breakdowns could occur because of undetected errors; and (iii) controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override.

The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

MARKET FOR SECURITIES

The Company's common shares are traded on the Toronto Stock Exchange under the symbol CHW. The following table summarizes the high and low sales prices of the common shares and the average daily trading volume for each month in the six months ended June 30, 2018.

	Common Shares		
	High	Low	Average Daily Volume
January	$12.49	$11.33	13,221
February	$11.60	$9.83	17,700
March	$11.45	$9.04	32,225
April	$10.88	$10.49	19,643
May	$10.80	$10.01	20,146
June	$11.20	$10.30	15,396
	$12.49	$9.04	21,030

CHESSWOOD GROUP LIMITED

NOTICE TO READERS

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

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

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

	Note	June 30, 2018	December 31, 2017
		(unaudited)	*(audited)*
ASSETS			
Cash		**$ 1,846**	$ 3,640
Restricted funds	*9*	**11,505**	5,971
Assets held for sale	*5*	**2,642**	3,371
Other assets	*6*	**13,957**	17,564
Finance receivables	*7*	**655,142**	550,650
Deferred tax assets		**635**	755
Interest rate derivatives		**1,507**	185
Property and equipment		**1,796**	1,935
Intangible assets		**19,175**	19,684
Goodwill		**40,527**	39,857
TOTAL ASSETS		**$ 748,732**	$ 643,612
LIABILITIES			
Accounts payable and other liabilities	*8*	**$ 13,074**	$ 14,889
Convertible debentures		**—**	20,090
Borrowings	*9*	**539,469**	412,155
Customer security deposits		**15,640**	14,012
Interest rate derivatives		**—**	43
Deferred tax liabilities		**20,180**	21,202
		588,363	482,391
SHAREHOLDERS' EQUITY			
Common shares	*12*	**104,587**	105,208
Non-controlling interest		**13,340**	13,230
Share-based compensation reserve		**4,976**	5,295
Accumulated other comprehensive income		**15,088**	10,776
Retained earnings		**22,378**	26,712
		160,369	161,221
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 748,732**	$ 643,612

Please see notes to the condensed consolidated interim financial statements.

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

		Three months ended June 30,		Six months ended June 30,	
	Note	**2018**	2017	**2018**	2017
Finance revenue					
Interest revenue on finance leases and loans		**$ 22,715**	$ 20,126	**$ 43,858**	$ 39,610
Ancillary finance and other fee income		**4,297**	4,160	**8,339**	7,727
		27,012	24,286	**52,197**	47,337
Finance expenses					
Interest expense		**6,211**	3,538	**11,468**	6,669
Provision for credit losses	*7*	**5,065**	4,618	**9,584**	9,679
		11,276	8,156	**21,052**	16,348
Finance margin		**15,736**	16,130	**31,145**	30,989
Expenses					
Personnel expenses		**4,138**	3,865	**8,138**	7,561
Other expenses		**3,435**	2,861	**6,386**	5,889
Depreciation - property and equipment		**117**	114	**236**	200
		7,690	6,840	**14,760**	13,650
Income before undernoted items		**8,046**	9,290	**16,385**	17,339
Amortization - intangible assets		**(333)**	(335)	**(846)**	(670)
Unrealized loss on investments held		**—**	(1,117)	**(151)**	(1,661)
Financing costs - convertible debentures		**—**	(710)	**29**	(690)
Unrealized gain (loss) on interest rate derivatives		**560**	(99)	**1,319**	152
Unrealized gain (loss) on foreign exchange		**(52)**	(3)	**(88)**	8
Income before taxes		**8,221**	7,026	**16,648**	14,478
Tax expense		**(2,572)**	(3,080)	**(5,101)**	(5,848)
Income from continuing operations		**5,649**	3,946	**11,547**	8,630
Loss from discontinued operations		**(33)**	(197)	**(31)**	(185)
Net income		**$ 5,616**	$ 3,749	**$ 11,516**	$ 8,445
Attributable to:					
Common shareholders		**$ 5,153**	$ 3,442	**$ 10,569**	$ 7,751
Non-controlling interest		**$ 463**	$ 307	**$ 947**	$ 694
Basic earnings per share	*15*	**$ 0.31**	$ 0.21	**$ 0.64**	$ 0.47
Diluted earnings per share	*15*	**$ 0.31**	$ 0.20	**$ 0.63**	$ 0.45

Please see notes to the condensed consolidated interim financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
Net income	**$ 5,616**	$ 3,749	**$ 11,516**	$ 8,445
Other comprehensive income:				
Unrealized gain (loss) on translation of foreign operations	**2,099**	(2,956)	**4,698**	(3,904)
Comprehensive income	**$ 7,715**	$ 793	**$ 16,214**	$ 4,541
Attributable to:				
Common shareholders	**$ 7,078**	$ 728	**$ 14,880**	$ 4,168
Non-controlling interest	**$ 637**	$ 65	**$ 1,334**	$ 373

Please see notes to the condensed consolidated interim financial statements.

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

	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 on January 1, 2018	*1*	**—**	**—**	**(602)**	**—**	**—**	**(6,753)**	**(7,355)**
Restated balance at January 1, 2018		**16,575**	**105,208**	**12,628**	**5,295**	**10,776**	**19,959**	**153,866**
Net income		**—**	**—**	**947**	**—**	**—**	**10,569**	**11,516**
Dividends declared	*14*	**—**	**—**	**(621)**	**—**	**—**	**(6,927)**	**(7,548)**
Share-based compensation	*13*	**—**	**—**	**—**	**626**	**—**	**—**	**626**
Exercise of restricted share units	*13*	**70**	**806**	**—**	**(806)**	**—**	**—**	**—**
Exercise of options	*13*	**56**	**436**	**—**	**(139)**	**—**	**—**	**297**
Repurchase of common shares under issuer bid	*12*	**(293)**	**(1,863)**	**—**	**—**	**—**	**(1,223)**	**(3,086)**
Unrealized gain on translation of foreign operations		**—**	**—**	**386**	**—**	**4,312**	**—**	**4,698**
Shareholders' equity - June 30, 2018		**16,408**	**$ 104,587**	**$ 13,340**	**$ 4,976**	**$ 15,088**	**$ 22,378**	**$ 160,369**

	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		—	—	694	—	—	7,751	8,445
Dividends declared	*14*	—	—	(621)	—	—	(6,945)	(7,566)
Share-based compensation	*13*	—	—	—	472	—	—	472
Exercise of restricted share units	*13*	38	387	—	(387)	—	—	—
Exercise of options	*13*	18	175	—	(52)	—	—	123
Unrealized loss on translation of foreign operations		—	—	(321)	—	(3,583)	—	(3,904)
Shareholders' equity - June 30, 2017		16,570	105,158	12,801	4,813	14,613	18,079	155,464
Net income		—	—	1,392	—	—	15,594	16,986
Dividends declared		—	—	(621)	—	—	(6,961)	(7,582)
Share-based compensation		—	—	—	493	—	—	493
Exercise of options		5	50	—	(11)	—	—	39
Unrealized loss on translation of foreign operations		—	—	(342)	—	(3,837)	—	(4,179)
Shareholders' equity - December 31, 2017		16,575	$ 105,208	$ 13,230	$ 5,295	$ 10,776	$ 26,712	$ 161,221

Please see notes to the condensed consolidated interim financial statements.

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

(in thousands of dollars, unaudited)		Three months ended June 30,		Six months ended June 30,	
	Note	**2018**	2017	**2018**	2017
OPERATING ACTIVITIES					
Income from continuing operations		**$ 5,649**	$ 3,946	**$ 11,547**	$ 8,630
Non-cash items included in net income					
Amortization and depreciation		**450**	449	**1,082**	870
Provision for credit losses *(excluding recoveries)*		**7,293**	6,560	**14,075**	13,319
Amortization of origination costs		**5,689**	4,629	**10,884**	9,138
Tax expense		**2,572**	3,080	**5,101**	5,848
Other non-cash items	*17*	**484**	2,436	**717**	3,234
		16,488	17,154	**31,859**	32,409
Cash from operating activities before change in net operating assets		**22,137**	21,100	**43,406**	41,039
Funds advanced on origination of finance receivables		**(113,722)**	(87,744)	**(207,375)**	(166,569)
Origination costs paid on finance receivables		**(2,101)**	(7,738)	**(10,320)**	(14,869)
Principal collections of finance receivables		**48,862**	45,539	**100,513**	89,806
Change in other net operating assets	*17*	**(3,636)**	2,067	**(1,948)**	2,866
Cash used in operating activities before undernoted		**(48,460)**	(26,776)	**(75,724)**	(47,727)
Interest paid on convertible debentures		**—**	(650)	**(61)**	(650)
Income taxes paid - net		**(3,100)**	(3,056)	**(5,789)**	(8,147)
Cash used in operating activities - continuing operations		**(51,560)**	(30,482)	**(81,574)**	(56,524)
Cash from operating activities - discontinued operations	*5*	**209**	435	**845**	1,237
Cash used in operating activities		**(51,351)**	(30,047)	**(80,729)**	(55,287)
INVESTING ACTIVITIES					
Purchase of property and equipment		**(10)**	(453)	**(106)**	(612)
Cash used in investing activities		**(10)**	(453)	**(106)**	(612)
FINANCING ACTIVITIES					
Borrowings, net	*17*	**53,648**	34,623	**110,494**	58,247
Payment of financing costs		**(1,180)**	(352)	**(1,180)**	(352)
Redemption of convertible debentures		**—**	—	**(20,000)**	—
Proceeds from exercise of options		**—**	27	**297**	123
Repurchase of common shares under issuer bid		**(1,808)**	—	**(3,086)**	—
Cash dividends paid		**(3,771)**	(3,785)	**(7,559)**	(7,563)
Cash from financing activities		**46,889**	30,513	**78,966**	50,455
Unrealized foreign exchange gain (loss) on cash		**(58)**	(112)	**75**	(187)
Net decrease in cash		**(4,530)**	(99)	**(1,794)**	(5,631)
Cash, beginning of period		**6,376**	5,911	**3,640**	11,443
Cash, end of period		**$ 1,846**	$ 5,812	**$ 1,846**	$ 5,812

Please see notes to the condensed consolidated interim financial statements.

TABLE OF NOTES

1. NATURE OF BUSINESS AND BASIS OF PREPARATION

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

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

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

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

Discontinued operations include:

- Case Funding - holds a portfolio of legal finance receivables in the United States.

The consolidated financial statements, including comparatives:

- have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board (“IASB”). The term IFRS also includes all International Accounting Standards (“IAS”) and all interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).
- have been prepared in accordance with IAS 34, *Interim Financial Reporting,* on a basis consistent with the accounting policies disclosed in the audited consolidated financial statements for the year ended December 31, 2017, except for the effects of adopting IFRS 9, *Financial Instruments*, see Note 2 - *New Accounting Standards*.
- have been prepared on the going concern and historical cost bases, except for derivative financial instruments and hybrid financial liabilities designated as at fair value through net income or loss, which have been measured at fair value.
- include the financial statements of the Company and its subsidiaries as noted above. Subsidiaries are consolidated using the purchase method from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated as long as control is held. The financial statements of all subsidiaries are prepared for the same reporting period as the Company, using uniform accounting policies in accordance with IFRS 10, *Consolidated Financial Statements.* All intra-group balances and items of income and expense resulting from intra-group transactions are eliminated in full. Transaction costs in connection with business combinations are expensed as incurred.
- should be read in conjunction with the Company’s most recently issued Annual Report which includes information necessary, or useful, to understanding the Company’s businesses and financial reporting.
- are unaudited (except otherwise noted).
- reflect adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for a fair statement of results for the interim periods in accordance with IFRS. The results reported in these condensed consolidated interim financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

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

The reporting currency is the Canadian dollar and the financial statements are presented in thousands of Canadian dollars except per share amounts and as otherwise noted. The functional currency of the Company, Chesswood Holdings Ltd., Blue Chip and Lease-Win Limited is the Canadian dollar. The functional currency of U.S. Acquisitionco, Pawnee, Windset and Case Funding is the United States dollar. Income and expenses of subsidiaries with a different functional currency than the Company’s presentation currency are translated in the Company’s consolidated financial statements at the average U.S. dollar exchange rate for the reporting period [for the six months ended June 30, 2018 - 1.2781; 2017 - 1.3343], and assets and liabilities are translated at the closing rate [as at June 30, 2018 - 1.3168; December 31, 2017 - 1.2545].

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

The Company’s unaudited condensed consolidated interim financial statements were authorized for issue on August 9, 2018 by the Board of Directors.

2. NEW ACCOUNTING STANDARDS

New accounting standards and amendment adopted in 2018

The Company adopted the following effective January 1, 2018.

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

IFRS 9 uses a single principles-based approach to determine the classification and measurement of financial assets (either fair value or amortized cost) based on the entity's business model and the nature of the contractual cash flows derived from the asset. IFRS 9 did not have any effect on the Company's classification or measurement of financial assets or liabilities, other than impairment losses of financial receivables.

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

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

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

Calculation of interest income

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

IFRS 15 Revenue from Contracts with Customers
The standard establishes principles for recognizing revenues based on a five-step model which is to be applied to all contracts with customers. Revenue arising from lease contracts accounted for under IAS 17 is outside of the scope of the new standard. The Company adopted the new standard on January 1, 2018, with no effect on ancillary finance and other fee revenue.

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

<u>Accounting standard not yet effective</u>

IFRS 16 Leases

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

The Company does not expect any substantive changes to the Company's finance receivables. The Company will be required to recognize new assets and liabilities for the operating leases of its office premises at the Pawnee and Blue Chip locations. In addition, the nature of expenses related to those leases will now change from straight-line operating lease expense to a depreciation charge for right-of-use assets and interest expense on the lease liabilities. The expected amount for the new asset and liability would be the net present value amount of the lease commitments included in Other financial commitments in Note 10 - *Minimum Payments*.

3. FINANCIAL INSTRUMENTS

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

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

Financial assets

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

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

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

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

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

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

gain or loss recognized in other comprehensive income is reclassified from equity to net income or loss and presented as a reclassification adjustment within other comprehensive income.

The Company's plaintiff advances are designated as at fair value through other comprehensive income. See Note 5 - *Discontinued Operations*.

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

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

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

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

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

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

(a) Categories and measurement hierarchy
The categories to which the financial instruments are allocated are:

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

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

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

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

					June 30, 2018
	Category	Level 1	Level 2	Level 3	Carrying Value
ASSETS					*($ thousands)*
Cash *(iii)*	L&R	$ 1,846	$ —	$ —	$ 1,846
Restricted funds *(iii)*	L&R	11,505	—	—	11,505
Other assets	L&R	—	6,014	—	6,014
Other assets	FVTP	483	—	—	483
Loan receivables *(i)*	L&R	—	236,085	—	236,085
Interest rate derivatives *(v)*	FVTP	—	1,507	—	1,507
LIABILITIES					
Accounts payable and other liabilities *(iii)*	L&B	—	(13,074)	—	(13,074)
Borrowings *(ii)*	L&B	—	(539,469)	—	(539,469)
Customer security deposits	L&B	—	(15,640)	—	(15,640)

					December 31, 2017
	Category	Level 1	Level 2	Level 3	Carrying Value
					($ thousands)
ASSETS					
Cash *(iii)*	L&R	$ 3,640	$ —	$ —	$ 3,640
Restricted funds *(iii)*	L&R	5,971	—	—	5,971
Other assets	L&R	—	9,629	—	9,629
Other assets	FVTP	634	—	—	634
Loan receivables *(i)*	L&R	—	177,879	—	177,879
Interest rate derivatives *(v)*	FVTP	—	185	—	185
LIABILITIES					
Accounts payable and other liabilities *(iii)*	L&B	—	(14,889)	—	(14,889)
Borrowings *(ii)*	L&B	—	(412,155)	—	(412,155)
Customer security deposits	L&B	—	(14,012)	—	(14,012)
Convertible debentures *(iv)*	FVTP	(20,090)	—	—	(20,090)
Interest rate derivatives *(v)*	FVTP	—	(43)	—	(43)

(i) There is no organized market for the finance receivables. Therefore the carrying value is the amortized cost using the effective interest rate method. The contractual interest rates approximate current market rates.

(ii) The stated value of the borrowings approximates fair values, as the interest rates attached to these instruments are representative of current market rates, for loans with similar terms, conditions and maturities.

(iii) Carrying amounts are expected to be reasonable approximations of fair value for cash, restricted funds and for financial instruments with short maturities, including accounts payable and other liabilities.

(iv) The convertible debentures have several embedded derivative features which were determined to not meet the criteria for treatment as equity components and would otherwise be required to be recognized as separate financial instruments, measured at fair value through net income or loss. Prior to January 1, 2018, the Company had elected under IAS 39.11A to designate the entire convertible debentures (and all the embedded derivatives) as a combined financial liability at fair value through net income or loss. The fair value of the convertible debentures at December 31, 2017 is based on their trading price on the Toronto Stock Exchange. The debentures were repaid during the three months ended March 31, 2018.

(v) The Company determines the fair value of its interest rate derivatives under the income valuation technique using a discounted cash flow model. Significant inputs to the valuation model include the contracted notional amount, LIBOR rate yield curves

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

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

(b) Gains and losses on financial instruments

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

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	**2018**	2017
	($ thousands)			
Loans and receivables:				
Provision for credit losses	**$ (5,065)**	$ (4,618)	**$ (9,584)**	$ (9,679)
Designated as at fair value through net income or loss:				
Convertible debentures	**—**	(710)	**29**	(690)
Fair value through net income or loss:				
Investment in Dealnet common shares	**—**	(1,117)	**(151)**	(1,661)
Interest rate derivatives	**560**	(99)	**1,319**	152
Net loss	**$ (4,505)**	$ (6,544)	**$ (8,387)**	$ (11,878)

4. FINANCIAL RISK MANAGEMENT

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

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

5. DISCONTINUED OPERATIONS

On February 3, 2015, Case Funding sold certain assets and operations to a private equity firm (the "Purchaser"). Case Funding retained approximately $9.4 million in finance receivables with a current balance of $2.6 million and pays a servicing fee of 5% of collections to administer the remaining portfolio. For further details on Case Funding and a discussion on significant judgments and estimates used in valuing legal finance receivables, refer to Note 5(c) - *Discontinued Operations* of the 2017 annual audited consolidated financial statements.

Case Funding's net loss, included in loss from discontinued operations, for the six months ended June 30, 2018 totaled $31,000 compared to $185,000 recorded in the same period in the prior year. For the six months ended June 30, 2018, Case Funding generated cash flows from operations of $845,000 compared to $1.2 million recorded in the same period in the prior year. For the three months ended June 30, 2018, Case Funding's net loss totaled $33,000 compared to $197,000 net loss recorded in the same period in the prior year. For the three months ended June 30, 2018, Case Funding generated cash flows from operations of $209,000 compared to $435,000 recorded in the same period in the prior year.

At Case Funding, management reviews each attorney loan and medical lien receivable on an individual basis for collectability and for reserve requirements, if any. At June 30, 2018, it was determined an allowance of $80,000 (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:	**June 30, 2018**	December 31, 2017
	($ thousands)	
Attorney loans and medical liens	**$ 52**	$ 68
Plaintiff advances	**2,590**	3,303
Legal finance receivables *(net of allowance)*	**2,642**	3,371
Current portion *(i)*	661	838
Long-term portion	$ 1,981	$ 2,533

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

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

ASSETS HELD FOR SALE					**June 30, 2018**
($ thousands)	Category	Level 1	Level 2	Level 3	Carrying Value
Attorney loans and medical liens *(ii)*	L&R	$ —	$ 52	$ —	$ 52
Plaintiff advances	FVOCI	—	—	2,590	2,590

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

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

6. OTHER ASSETS

Other assets comprise:

		June 30, 2018	December 31, 2017
		($ thousands)	
Property tax receivable		**$ 411**	$ 527
Tax receivable		**5,496**	5,763
Sales tax receivable		**389**	342
Prepaid expenses and other current assets		**1,164**	669
Loan receivable - EcoHome	*a*	**6,014**	7,129
Common shares - Dealnet	*b*	**483**	634
Convertible note - Dealnet	*c*	**—**	2,500
Other assets		**13,957**	17,564
Current portion		8,999	9,801
Long-term portion		$ 4,958	$ 7,763

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

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

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

7. FINANCE RECEIVABLES

Finance receivables comprise:

	June 30, 2018	December 31, 2017
	($ thousands)	
Net investment in leases	**$ 419,057**	$ 372,771
Loan receivables	**236,085**	177,879
	$ 655,142	$ 550,650

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

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

	June 30, 2018	December 31, 2017
	($ thousands)	
Total minimum payments	**$ 803,497**	$ 669,656
Residual values of leased equipment	**23,396**	21,482
	826,893	691,138
Unearned income, net of initial direct costs of acquisition	**(151,626)**	(130,469)
Net investment in finance receivables before allowance for doubtful accounts	**675,267**	560,669
Allowance for doubtful accounts *(b)*	**(22,904)**	(11,926)
	652,363	548,743
Reserve receivable on securitized financial contracts	**2,779**	1,907
Net investment in finance receivables	**655,142**	550,650
Current portion	229,100	194,919
Long-term portion	$ 426,042	$ 355,731

(b) Allowance for doubtful accounts

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	For the six months ended June 30,				
	Stage 1	Stage 2	Stage 3		
	12-month ECL[(i)]	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	**2018 Total**	2017[(i)]
			($ thousands)		
Balance, beginning of period, per IAS 39	$ —	$ 4,729	$ 7,197	**$ 11,926**	$ 12,253
Adoption of IFRS 9	9,636	—	—	**9,636**	
Balance, January 1, 2018 per IFRS 9	9,636	4,729	7,197	**21,562**	
Transfer to 12-month ECL (Stage 1)	1,059	(863)	(196)	—	
Transfer to lifetime ECL non credit-impaired (Stage 2)	(2,823)	2,906	(83)	—	
Transfer to ECL credit-impaired (Stage 3)	(10,527)	(2,345)	12,872	—	
Net remeasurement of loss allowance	10,658	(444)	(4,510)	**5,704**	
New receivables originated	2,905	472	579	**3,956**	
Changes in models/risk parameters	(76)	—	—	**(76)**	
Provision for credit losses	1,196	(274)	8,662	**9,584**	9,679
Charge-offs	—	—	(13,724)	**(13,724)**	(14,930)
Recoveries of amounts previously charged off	—	—	4,491	**4,491**	3,956
Net charge-offs	—	—	(9,233)	**(9,233)**	(10,974)
Impact of change in foreign exchange rates	487	204	300	**991**	(323)
Balance, end of period	**$ 11,319**	**$ 4,659**	**$ 6,926**	**$ 22,904**	$ 10,635

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

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

(c) Finance receivables past due

The following aging represents the total carrying amount of the lease and loan receivables and not just the payments that are past due. The balances presented exclude the $15.6 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.

												As of June 30, 2018
($ thousands)		**Current**		**1-30 days**		**31 - 60 days**		**61 - 90 days**		**Over 90 days**		**Total**
Equipment lease receivables	**$**	**417,972**	**$**	**6,300**	**$**	**3,093**	**$**	**1,364**	**$**	**2,106**	**$**	**430,835**
Loan receivables		**239,607**		**2,725**		**716**		**638**		**746**		**244,432**
		657,579		**9,025**		**3,809**		**2,002**		**2,852**		**675,267**
Credit impaired		**828**		**347**		**1,383**		**1,975**		**2,393**		**6,926**
Past due but not impaired	**$**	**—**	**$**	**8,678**	**$**	**2,426**	**$**	**27**	**$**	**459**	**$**	**11,590**

												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

(d) Modifications

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

The net investment in finance receivables that have been modified (in 2018 or prior) and are current at June 30, 2018 is $13.2 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 six months ended June 30, 2018 had a total net investment in finance receivable balance at the time of modification of $13.0 million (2017 - $13.7 million). These amounts reflect the net investment in finance receivable balances prior to payments collected since modification, or leases that terminated early after modifications or leases charged-off after modification.

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

		Minimum payments		Present value
		($ thousands)		
2018	$	156,595	$	115,695
2019		269,484		210,708
2020		196,517		163,763
2021		117,786		103,443
2022		54,943		50,582
2023 and thereafter		8,172		7,680
Total minimum payments	$	803,497	$	651,871

8. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprise:

	June 30, 2018	December 31, 2017
	($ thousands)	
Dividend payable	**$ 1,253**	$ 1,264
Accounts payable	**1,191**	1,598
Sales tax payable	**729**	761
Customer deposits and prepayments	**726**	704
Unfunded finance receivables	**5,669**	5,610
Taxes payable	**82**	2,174
Payroll related payables and accruals	**1,642**	1,068
Accrued expenses and other liabilities	**1,782**	1,710
	$ 13,074	$ 14,889

9. BORROWINGS

Borrowings are comprised of:

		June 30, 2018	December 31, 2017
		($ thousands)	
Chesswood credit facility	*(a)*	**$ 257,075**	$ 200,405
Deferred financing costs		**(2,329)**	(2,536)
Borrowings - Chesswood		**254,746**	197,869
Pawnee credit facility	*(b)*	**139,957**	87,241
Deferred financing costs – Pawnee		**(2,441)**	(2,142)
Borrowings – Pawnee		**137,516**	85,099
Securitization and bulk lease financing facilities - Blue Chip	*(c)*	**147,207**	129,187
		$ 539,469	$ 412,155

(a) The Chesswood revolving credit facility allows borrowings of up to U.S.$250.0 million subject to, among other things, certain percentages of eligible gross finance receivables. This credit facility is secured by substantially all of the Company's assets, contains covenants including maintaining leverage and interest coverage ratios, and expires on December 8, 2020. At June 30, 2018, the Company was utilizing U.S.$200.8 million (December 31, 2017 - U.S.$165.0 million) of its credit facility and had approximately U.S.$49.2 million in additional borrowings available under the corporate credit facility. At June 30, 2018 and December 31, 2017, and throughout the periods presented, the Company was compliant with all covenants. Based on average debt levels, the effective interest rate during the six months ended June 30, 2018 was 4.76% (year-ended December 31, 2017 - 4.62%).

(b) Pawnee has a combined U.S.$125 million non-recourse asset-backed facilities with Capital One ("Pawnee facility"), through subsidiaries, Pawnee Receivable Fund I and II LLC. The Pawnee 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 facility requires 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 June 30, 2018 and throughout the period from October, when the loan was obtained, to December 2017, Pawnee was compliant with all covenants. Based on average debt levels, the effective interest rate during the six months ended June 30, 2018 was 5.31% (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 June 30, 2018, Blue Chip had access to the following committed lines of funding: (i) $60.0 million annual limit from a life insurance company; (ii) $80.0 million rolling limit from a financial institution; and (iii) approved funding from another financial institution with no annual or rolling limit. As at June 30, 2018, Blue Chip had $147.2 million (December 31, 2017 - $129.2 million) in securitization and bulk lease financing facilities debt outstanding, was utilizing $112.7 million (December 31, 2017 - $73.6 million) of their available financing and had access to at least $57.3 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 six months ended June 30, 2018 was 3.21% (for the year ended December 31, 2017 - 3.15%). As at June 30, 2018, Blue Chip had provided $7.3 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 June 30, 2018 and December 31, 2017, and throughout the periods presented, Blue Chip was compliant with all covenants.

Movements in borrowings:	Chesswood credit facility *(a)*	Chesswood deferred financing costs	Pawnee credit facility *(b)*	Pawnee deferred financing costs	Securitization and bulk lease 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	148,272	—	63,864	—	50,746	262,882
Repayments	(102,758)	—	(16,904)	—	(32,726)	(152,388)
Payment of financing costs	—	(393)	—	(787)	—	(1,180)
Amortization of deferred financing costs	—	600	—	600	—	1,200
Foreign currency translation adjustment	11,156	—	5,756	(112)	—	16,800
Net as of June 30, 2018	**$ 257,075**	**$ (2,329)**	**$ 139,957**	**$ (2,441)**	**$ 147,207**	**$ 539,469**

(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.

	June 30, 2018	December 31, 2017
	($ thousands)	
Restricted - cash in collection accounts	**$ 6,513**	$ 2,939
Restricted - cash reserves	**4,992**	3,032
Restricted funds	**$ 11,505**	$ 5,971

10. MINIMUM PAYMENTS

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

($ thousands)		2018	2019	2020	2021	2022	2023 +	**Total**
Accounts payable and other liabilities		$ 13,074	$ —	$ —	$ —	$ —	$ —	**$ 13,074**
Borrowings	*(i)*	64,277	110,151	350,201	49,881	15,406	986	**590,902**
Customer security deposits	*(ii)*	1,990	3,720	4,404	3,817	2,721	997	**17,649**
		79,341	113,871	354,605	53,698	18,127	1,983	**621,625**
Other financial commitments	*(iii)*	437	846	743	556	458	148	**3,188**
Total commitments		$ 79,778	$ 114,717	$355,348	$ 54,254	$ 18,585	$ 2,131	**$ 624,813**

i. Borrowings are described in Note 9 - *Borrowings*, and include fixed payments for Pawnee and Blue Chip's securitization facilities and the Chesswood credit facility, which is a line-of-credit and, as such, the balance can fluctuate. The amount above includes fixed interest payments on Pawnee and Blue Chip's credit facilities and estimated interest payments on the Chesswood credit facility, assuming the interest rate, debt balance and foreign exchange rate at June 30, 2018 remain the same until December 8, 2020, which is the date of expiry of the credit facility.

ii. The Company's experience has shown the actual contractual payment streams will vary depending on a number of variables including: prepayment rates, charge-offs and modifications. Accordingly, the scheduled contractual payments of customer security deposits shown in the table above are not to be regarded as a forecast of future cash payments.

iii. The Company and its subsidiaries are committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, with expirations up to 2023, which represent the bulk of other financial commitments.

The Company has no material "off-balance sheet" financing obligations, except for long-term premises lease agreements and U.S. $5.6 million in letters of guarantee. For contingent liabilities and other commitments, refer to Note 18 - *Contingent Liabilities and Other Financial Commitments* of the 2017 annual audited consolidated financial statements.

11. CAPITAL MANAGEMENT

The Company's capital consists of shareholders' equity, which at June 30, 2018 amounted to $160.4 million (December 31, 2017 - $161.2 million). The Company's objectives when managing capital are to safeguard the Company's long-term ability to continue as a going concern and to provide adequate returns for shareholders. The Company's share capital is not subject to external restrictions.

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

Chesswood's three-year revolving senior secured U.S.$250 million credit facility supports growth in finance receivables, provides the Company's working capital needs and for general corporate purposes. The facility, available in U.S. or Canadian dollars, also improves the Company's financial flexibility by centralizing treasury management and making the provision of capital to individual businesses more efficient. This credit facility is secured by substantially all of the Company's assets, contains covenants including

maintaining leverage and interest coverage ratios, and expires on December 8, 2020. At June 30, 2018 and December 31, 2017, and throughout the periods presented, the Company was compliant with all covenants.

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

12. COMMON SHARES

		Common shares		Amount
		(# '000s)		*($ thousands)*
Balance, December 31, 2016		16,514	$	104,596
Exercise of restricted share units		38		386
Exercise of options		23		226
Balance, December 31, 2017		16,575	$	105,208
Exercise of restricted share units (*Note 13(b)*)		70		806
Exercise of options *(Note 13(a))*		56		436
Repurchase of common shares under issuer bid	*(a)*	(293)		(1,863)
Balance, June 30, 2018		**16,408**	**$**	**104,587**

(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. During the six months ended June 30, 2018, the Company repurchased 293,096 of its shares under the normal course issuer bid at an average cost of $10.5277. The excess of the purchase price over the average stated value of Common Shares purchased for cancellation was charged to retained earnings.

The Company has entered into an automatic share purchase plan with a broker for the purpose of permitting the Company to purchase its Common Shares under the normal course issuer bid at such times when the Company would not be permitted to trade in its own shares during internal blackout periods, including during regularly scheduled quarterly blackout periods. Such purchases will be determined by the broker in its sole discretion based on parameters the Company has established.

13. COMPENSATION PLANS

(a) Share options

During the six months ended June 30, 2018, personnel expenses and the share-based compensation reserve included $302,500 (2017 - $287,400) relating to option expense.

As of June 30, 2018, unrecognized non-cash compensation expense related to the outstanding options was $671,600 (June 30, 2017 - $792,100), which is expected to be recognized over the remaining vesting period.

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

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	**2018**	2017
Balance, beginning of period	**2,485,854**	1,825,489	**2,155,989**	1,837,989
Granted	**—**	362,500	**405,000**	362,500
Exercised	**—**	(6,000)	**(56,135)**	(18,500)
Forfeited	**(11,000)**	—	**(30,000)**	—
Balance, end of period	**2,474,854**	2,181,989	**2,474,854**	2,181,989

During the six months ended June 30, 2018, 56,135 options were exercised (2017 - 18,500) for total cash consideration of $297,000 (2017 - $123,000). On exercise, the fair value of options that had been expensed to date during the vesting period of $139,000 (2017 - $52,000) was transferred from reserve to Common Share capital (Common Share capital was also increased by the cash consideration received upon exercise). For the options exercised in the six months ended June 30, 2018, the weighted average share price at the date of exercise was $10.78 (2017 - $12.86).

At June 30, 2018, the weighted average exercise price is $10.45 (June 30, 2017 - $10.24) and the weighted average remaining contractual life for all options outstanding is 6.7 years (June 30, 2017 - 7.0 years). The 1,568,354 options exercisable at June 30, 2018 have a weighted average exercise price of $10.09 (June 30, 2017 - 1,301,989 options at $9.52).

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

Grant date	Number of options outstanding	Vested	Expiry date	Exercise price
April 13, 2010	32,415	32,415	April 13, 2020	$ 4.49
April 25, 2011	197,500	197,500	April 24, 2021	$ 7.79
June 10, 2011	50,000	50,000	June 9, 2021	$ 7.73
December 6, 2011	180,000	180,000	December 6, 2021	$ 6.14
June 25, 2012	164,489	164,489	June 24, 2022	$ 7.45
December 6, 2012	125,000	125,000	December 6, 2022	$ 8.86
April 29, 2014	265,000	265,000	April 29, 2024	$ 14.12
April 16, 2015	180,000	180,000	April 16, 2025	$ 12.53
April 29, 2015	150,000	150,000	April 29, 2025	$ 12.24
August 15, 2016	370,450	117,450	August 15, 2026	$ 10.17
June 19, 2017	355,000	106,500	June 19, 2027	$ 12.15
March 28, 2018	405,000	—	March 28, 2028	$ 10.96
	2,474,854	1,568,354		

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 three months ended June 30,		For the six months ended June 30,	
	2018	2017	**2018**	2017
Balance, beginning of period	**114,000**	70,000	**70,000**	70,000
Granted	**—**	38,000	**44,000**	38,000
Exercised	**(70,000)**	(38,000)	**(70,000)**	(38,000)
Balance, end of period	**44,000**	70,000	**44,000**	70,000

During the six months ended June 30, 2018, personnel expenses and share-based compensation reserve included $323,100 (2017 - $184,600) relating to RSUs. As of June 30, 2018, unrecognized non-cash compensation expense related to non-vested RSUs was $358,000 (June 30, 2017 - $446,800).

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

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

The weighted average remaining contractual life for all RSUs outstanding is 9.7 years (June 30, 2017 - 6.3 years).

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

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

14. DIVIDENDS

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

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

Record date	Payment date	Cash dividend per share ($)	Total dividend amount
			($ thousands)
December 29, 2017	January 15, 2018	$ 0.070	$ 1,264
January 31, 2018	February 15, 2018	$ 0.070	1,264
February 28, 2018	March 15, 2018	$ 0.070	1,260
March 29, 2018	April 16, 2018	$ 0.070	1,260
April 30, 2018	May 15, 2018	$ 0.070	1,254
May 31, 2018	June 15, 2018	$ 0.070	1,257
			$ 7,559

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

Record date	Payment date	Cash dividend per share ($)	Total dividend amount
			($ thousands)
December 31, 2016	January 16, 2017	$ 0.070	$ 1,259
January 31, 2017	February 15, 2017	$ 0.070	1,260
February 28, 2017	March 15, 2017	$ 0.070	1,260
March 31, 2017	April 17, 2017	$ 0.070	1,260
April 28, 2017	May 15, 2017	$ 0.070	1,260
May 31, 2017	June 15, 2017	$ 0.070	1,264
			$ 7,563

15. EARNINGS PER SHARE

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

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	**2018**	2017
Weighted average number of common shares outstanding	**16,408,406**	16,542,982	**16,497,677**	16,529,613
Dilutive effect of options	**325,873**	456,431	**333,265**	449,835
Dilutive effect of restricted share units	**44,000**	59,956	**22,851**	64,950
Weighted average common shares outstanding for diluted earnings per share	**16,778,279**	17,059,369	**16,853,793**	17,044,398
Options (and in 2017 convertible debentures) excluded from calculation of diluted shares for the period due to their anti-dilutive effect	**950,000**	1,255,589	**950,000**	1,255,589

16. RELATED PARTY TRANSACTIONS

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

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

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	**2018**	2017
		($ thousands)		
Salaries, fees and other short-term employee benefits	**$ 327**	$ 372	**$ 700**	$ 680
Share-based compensation	**247**	132	**436**	314
Compensation expense of key management	**$ 574**	$ 504	**$ 1,136**	$ 994

17. CASH FLOW SUPPLEMENTARY DISCLOSURE

	For the three months ended June 30,			For the six months ended June 30,	
	2018	2017	*Note*	**2018**	2017
			($ thousands)		
Non-cash transactions					
Common shares issued on exercise of restricted share units	**$ 806**	$ 387		**$ 806**	$ 387

	For the three months ended June 30,			For the six months ended June 30,	
	2018	2017	*Note*	**2018**	2017
			($ thousands)		
Other non-cash items included in net income					
Share-based compensation expense	**$ 364**	$ 206	*13*	**$ 626**	$ 472
Amortization of deferred financing costs	**628**	321	*9*	**1,200**	610
Financing costs - convertible debentures	**—**	710		**(29)**	690
Unrealized loss on investments	**—**	1,117		**151**	1,661
Escrow receivable fair value adjustment	**—**	(20)		**—**	(39)
Unrealized (gain) loss on interest rate derivatives	**(560)**	99		**(1,319)**	(152)
Unrealized loss (gain) on foreign exchange	**52**	3		**88**	(8)
	$ 484	$ 2,436		**$ 717**	$ 3,234
Change in other net operating assets					
Restricted funds	**$ (4,856)**	$ —		**$ (5,084)**	$ —
Other assets	**1,404**	1,112		**3,567**	(162)
Accounts payable and other liabilities	**(727)**	601		**(1,341)**	2,447
Customer security deposits	**543**	354		**910**	581
	$ (3,636)	$ 2,067		**$ (1,948)**	$ 2,866
Borrowings – continuing operations					
Draw-downs or proceeds from borrowings	**$ 161,289**	$ 78,347	*9*	**$ 262,882**	$ 135,432
Payments - borrowings	**(107,641)**	(43,724)	*9*	**(152,388)**	(77,185)
	$ 53,648	$ 34,623		**$ 110,494**	$ 58,247

18. SEGMENT INFORMATION

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

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

Segment information is prepared in conformity with the accounting policies adopted for the Company's consolidated financial statements. The role of the "chief operating decision maker" with respect to resource allocation and performance assessment is embodied in the position of Chief Executive Officer. The performance of the segments is measured on the basis of net income or loss before tax. Net assets, which are defined as total segment assets less total segment liabilities, are used as the basis of assessing

the allocation of resources. When compared with the last annual consolidated financial statements, there are no differences in the basis of segmentation or in the basis of measuring segment results.

Selected information by segment and geographically is as follows:

	Six months ended June 30, 2018				
($ thousands)	**Equipment Financing - U.S.**	**Equipment Financing - Canada**	**Discontinued Operations** *(Note 5)*	**Corporate Overhead - Canada**	**Total**
Interest revenue on leases and loans	$ 37,356	$ 6,502		$ —	$ 43,858
Ancillary finance and other fee income	5,955	2,180		204	8,339
Interest expense	(9,139)	(2,329)		—	(11,468)
Provision for credit losses	(8,658)	(926)		—	(9,584)
Finance margin	**25,514**	**5,427**		**204**	**31,145**
Personnel expenses	5,388	1,280		844	7,512
Share-based compensation expense	154	20		452	626
Other expenses	4,987	746		653	6,386
Depreciation - property and equipment	225	11		—	236
Income before undernoted items	**14,760**	**3,370**		**(1,745)**	**16,385**
Amortization - intangible assets	—	(846)		—	(846)
Fair value adjustments - convertible debentures and investments	—	—		(122)	(122)
Unrealized gain on interest rate derivatives	510	—		809	1,319
Unrealized loss on foreign exchange	—	—		(88)	(88)
Income before taxes	**15,270**	**2,524**		**(1,146)**	**16,648**
Tax expense	3,142	664		1,295	5,101
Income from continuing operations	**12,128**	**1,860**		**(2,441)**	**11,547**
Loss from discontinued operations	—	—	$ (31)	—	(31)
Net income	**$ 12,128**	**$ 1,860**	**$ (31)**	**$ (2,441)**	**$ 11,516**
Net cash used in operating activities	$ (63,811)	$ (18,250)	$ 845	$ 487	$ (80,729)
Net cash used in investing activities	$ (106)	$ —	$ —	$ —	$ (106)
Net cash from financing activities	$ 46,174	$ 17,970	$ —	$ 14,822	$ 78,966
Total assets	$ 528,077	$ 209,060	$ 2,642	$ 8,953	$ 748,732
Total liabilities	$ 177,025	$ 154,883	$ —	$ 256,455	$ 588,363
Finance receivables	$ 485,592	$ 169,550	$ —	$ —	$ 655,142
Goodwill and intangible assets	$ 21,273	$ 38,429	$ —	$ —	$ 59,702
Property and equipment expenditures	$ 106	$ —	$ —	$ —	$ 106

	Six months ended June 30, 2017				
($ thousands)	**Equipment Financing - U.S.**	**Equipment Financing - Canada**	**Discontinued Operations** *(Note 5)*	**Corporate Overhead - Canada**	**Total**
Interest revenue on leases and loans	$ 33,968	$ 5,642		$ —	$ 39,610
Ancillary finance and other fee income	5,504	2,079		144	7,727
Interest expense	(4,653)	(2,016)		—	(6,669)
Provision for credit losses	(9,019)	(660)		—	(9,679)
Finance margin	**25,800**	**5,045**		**144**	**30,989**
Personnel expenses	5,037	1,257		795	7,089
Share-based compensation expense	107	37		328	472
Other expenses	4,526	747		616	5,889
Depreciation - property and equipment	190	10		—	200
Income before undernoted items	**15,940**	**2,994**		**(1,595)**	**17,339**
Amortization - intangible assets	—	(670)		—	(670)
Fair value adjustments - convertible debentures and investments	—	—		(2,351)	(2,351)
Unrealized gain on interest rate derivatives	—	—		152	152
Unrealized gain on foreign exchange	—	—		8	8
Income before taxes	**15,940**	**2,324**		**(3,786)**	**14,478**
Tax expense	4,602	676		570	5,848
Income from continuing operations	**11,338**	**1,648**		**(4,356)**	**8,630**
Loss from discontinued operations	—	—	$ (185)	—	(185)
Net income	**$ 11,338**	**$ 1,648**	**$ (185)**	**$ (4,356)**	**$ 8,445**
Net cash used in operating activities	$ (41,682)	$ (10,155)	$ 1,237	$ (4,687)	$ (55,287)
Net cash used in investing activities	$ (599)	$ (13)	$ —	$ —	$ (612)
Net cash from financing activities	$ —	$ 14,516	$ —	$ 35,939	$ 50,455
Total assets	$ 374,458	$ 184,067	$ 4,320	$ 10,569	$ 573,414
Total liabilities	$ 40,546	$ 132,104	$ —	$ 245,300	$ 417,950
Finance receivables	$ 345,413	$ 143,190	$ —	$ —	$ 488,603
Goodwill and intangible assets	$ 20,964	$ 40,397	$ —	$ —	$ 61,361
Property and equipment expenditures	$ 599	$ 13	$ —	$ —	$ 612

	Three months ended June 30, 2018				
($ thousands)	**Equipment Financing - U.S.**	**Equipment Financing - Canada**	**Discontinued Operations** *(Note 5)*	**Corporate Overhead - Canada**	**Total**
Interest revenue on leases and loans	$ 19,348	$ 3,367		$ —	$ 22,715
Ancillary finance and other fee income	3,051	1,157		89	4,297
Interest expense	(4,967)	(1,244)		—	(6,211)
Provision for credit losses	(4,584)	(481)		—	(5,065)
Finance margin	**12,848**	**2,799**		**89**	**15,736**
Personnel expenses	2,710	636		428	3,774
Share-based compensation expense	92	11		261	364
Other expenses	2,710	391		334	3,435
Depreciation - property and equipment	112	5		—	117
Income before undernoted items	**7,224**	**1,756**		**(934)**	**8,046**
Amortization - intangible assets	—	(333)		—	(333)
Unrealized gain on interest rate derivatives	327	—		233	560
Unrealized loss on foreign exchange	—	—		(52)	(52)
Income before taxes	**7,551**	**1,423**		**(753)**	**8,221**
Tax expense	1,538	383		651	2,572
Income from continuing operations	**6,013**	**1,040**		**(1,404)**	**5,649**
Loss from discontinued operations	—	—	$ (33)	—	(33)
Net income	**$ 6,013**	**$ 1,040**	**$ (33)**	**$ (1,404)**	**$ 5,616**
Net cash used in operating activities	$ (38,128)	$ (12,907)	$ 209	$ (525)	$ (51,351)
Net cash used in investing activities	$ (10)	$ —	$ —	$ —	$ (10)
Net cash from financing activities	$ 54,775	$ 17,115	$ —	$ (25,001)	$ 46,889
Property and equipment expenditures	$ 10	$ —	$ —	$ —	$ 10

	Three months ended June 30, 2017				
($ thousands)	**Equipment Financing - U.S.**	**Equipment Financing - Canada**	**Discontinued Operations** *(Note 5)*	**Corporate Overhead - Canada**	**Total**
Interest revenue on leases and loans	$ 17,251	$ 2,875		$ —	$ 20,126
Ancillary finance and other fee income	2,978	1,116		66	4,160
Interest expense	(2,531)	(1,007)		—	(3,538)
Provision for credit losses	(4,263)	(355)		—	(4,618)
Finance margin	**13,435**	**2,629**		**66**	**16,130**
Personnel expenses	2,634	616		409	3,659
Share-based compensation expense	48	18		140	206
Other expenses	2,122	390		349	2,861
Depreciation - property and equipment	108	6		—	114
Income before undernoted items	**8,523**	**1,599**		**(832)**	**9,290**
Amortization - intangible assets and contingent consideration reversal	—	(335)		—	(335)
Fair value adjustments - convertible debentures and investments	—	—		(1,827)	(1,827)
Unrealized loss on interest rate derivatives	—	—		(99)	(99)
Unrealized loss on foreign exchange	—	—		(3)	(3)
Income before taxes	**8,523**	**1,264**		**(2,761)**	**7,026**
Tax expense	2,457	379		244	3,080
Income from continuing operations	**6,066**	**885**		**(3,005)**	**3,946**
Loss from discontinued operations	—	—	$ (197)	—	(197)
Net income	**$ 6,066**	**$ 885**	**$ (197)**	**$ (3,005)**	**$ 3,749**
Net cash used in operating activities	$ (23,688)	$ (6,781)	$ 435	$ (13)	$ (30,047)
Net cash used in investing activities	$ (440)	$ (13)	$ —	$ —	$ (453)
Net cash from financing activities	$ —	$ 9,673	$ —	$ 20,840	$ 30,513
Property and equipment expenditures	$ 440	$ 13	$ —	$ —	$ 453

Chesswood Group Limited

DIRECTORS, OFFICERS AND OTHER INFORMATION

Directors

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

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

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

David Obront
Director
President, Carpool Two Ltd.

Robert Day
Director
Former Chairman, Pawnee Leasing Corporation

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

Executive Team

Barry Shafran
President & C.E.O.

Lisa Stevenson
Chief Financial Officer

Other Information
Auditors
BDO Canada LLP

Transfer Agent
TSX Trust Company

Corporate Counsel
McCarthy Tétrault LLP

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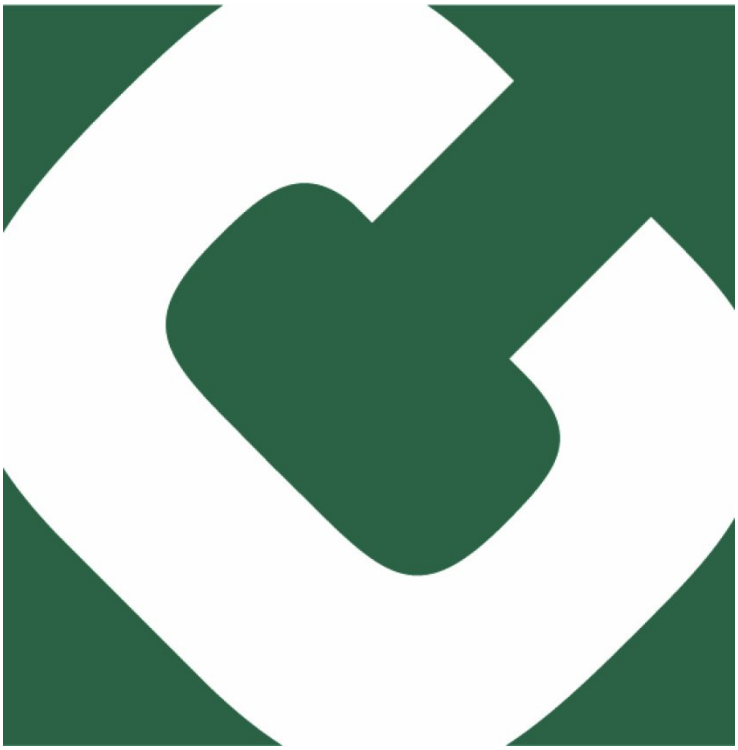

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