CHESSWOOD GROUP LIMITED

FIRST QUARTER REPORT TO SHAREHOLDERS

FOR THE THREE MONTHS ENDED

MARCH 31, 2019

Through its three wholly-owned subsidiaries in the U.S. and Canada, Chesswood Group Limited ("Chesswood") 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. Tandem Finance Inc., which Chesswood launched in early 2019, provides small and medium sized businesses of all credit profiles with financing for their equipment purchases through equipment vendors and distributors in the U.S.

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, www.TandemFinance.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. For further information, shareholders and other interested persons should consult Chesswood's other disclosure documents, such as its 2018 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 a very busy quarter, highlighted by the launch of Tandem Finance Inc., our new vendor-channel equipment finance business in the U.S. Tandem provides equipment financing to equipment manufacturers and distributors (vendors) across the U.S., in contrast to our other U.S. equipment finance business, Pawnee Leasing, that does business entirely through the broker or "third party" channel.

The vendor market is many times larger than our traditional broker market and is characterized, in general, by partnerships which can last for years, between lenders such as Tandem and manufacturers and distributors of equipment. It is also generally serviced by finance companies that do not have credit appetites beyond prime transactions, resulting in vendor partnerships that are often strained by a lack of timely service and funding for qualified non-prime equipment buyers who need financing. In fact, many long-time vendor finance businesses have been sending their non-prime opportunities to Pawnee for potential funding for years. Tandem has a unique value proposition in that it offers financing for all credit classes, leveraging our decades of knowledge in funding non-prime small-ticket commercial customers throughout the U.S.

Tandem, located in Houston, Texas, is headed up by a senior team of professionals with decades of experience in equipment finance, and in the vendor channel specifically. As of the date of this report, Tandem has funded its first million dollars of lease transactions. So we are off to a very good start.

As a new business in a channel with sales cycles that can be lengthy, we have modest expectations for 2019 as we look to build a strong foundation for long-term value creation. As we indicated in our 2018 Annual Report, we estimate that Tandem will have net expenses this year of between $2.0 - $3.0 million as we build out a new but tenured team along with all of the systems and processes the business requires. We are very excited by the opportunity this market segment of equipment finance offers.

Our first quarter results were heavily impacted by two non-cash charges: our allowance for credit losses, which increased by $1.8 million in the quarter, and our interest rate swaps' mark-to-market loss of $503,000. By comparison, our allowance decreased last year by $628,000 for a year-over-year increase in provision of $2.5 million while we had a mark-to-market gain in the first quarter of 2018 of $759,000, for a difference year-over-year of $1.3 million. While neither of these charges affected our cash flow or our free cash flow, they nevertheless reduced our pre-tax earnings by $3.8 million in comparison to the same quarter last year (see page 8 in this report).

Our operating income before the increase in our allowance (see page 8), totaled $7.8 million, approximately $136,000 ahead of 2018's results. This is the measure, in management's opinion, of operational performance.

As we discussed in our 2018 Annual Report as well as in the third quarter of last year, we are first and foremost focused on managing risk at this time in the business cycle. Competitive behavior is, in our opinion, highly aggressive today and is mismatching price and risk, led noticeably by bank-owned competitors that are prepared to work with very thin margins. As a result of this focus and the related market dynamics, we expect lower growth this year, consistent with our first quarter activity, while Tandem adds incremental new portfolio volume.

Lastly, notwithstanding our current lower growth environment and this quarter's non-cash charges (which did not affect our free cash flow), our payout ratio - the percentage of maximum available cash flow available for dividends - remains in an excellent range at just over 60%.

My thanks to our entire North-American team for their very hard work and dedication each day. They are the key to our success. Much appreciated!

Barry Shafran
President & CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 months ended March 31, 2019. 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, 2018 set forth in the Company's 2018 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 May 14, 2019.

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.

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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.

"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 credit losses (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.

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

"Free Cash Flow" or "FCF" is defined as Adjusted EBITDA less maintenance capital expenditures, tax effect of the non-cash change in the allowance for credit losses 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 on commercial equipment finance for small and medium-sized businesses. As at March 31, 2019, 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.

In early 2019, the Company launched Tandem Finance Inc. ("Tandem"), which provides small and medium sized businesses of all credit profiles with financing for their equipment purchases through equipment vendors and distributors in the U.S. (the "vendor market" or "vendor channel"). The vendor market is many times larger than the third-party market served by Pawnee and Blue Chip. While the vendor channel has a longer sales cycle than our traditional channel, equipment vendors and distributors generally form long-term partnerships with funders that usually result in multi-year programs that generate originations and revenues over many years. Chesswood, therefore, has modest revenue expectations for Tandem in its first year of operations, and expects that Tandem will incur net expenses in 2019 that will be significant and could total as much as $2.0 - $3.0 million. Tandem had seven employees at March 31, 2019 and had net expenses for the quarter of $435,000, which are reflected in our operating results and income before taxes.

PAWNEE

The Company's U.S. operations are primarily conducted by Pawnee, which accounted for 85.2% of consolidated revenue and 82.2% of consolidated operating income from continuing operations before corporate overhead in the three months ended March 31, 2019. As of March 31, 2019, Pawnee employed 97 full-time equivalent employees.

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 (also referred to as the "third-party market" or "third-party channel"). At March 31, 2019, approximately 54% of Pawnee's gross finance receivables were in the prime market segment.

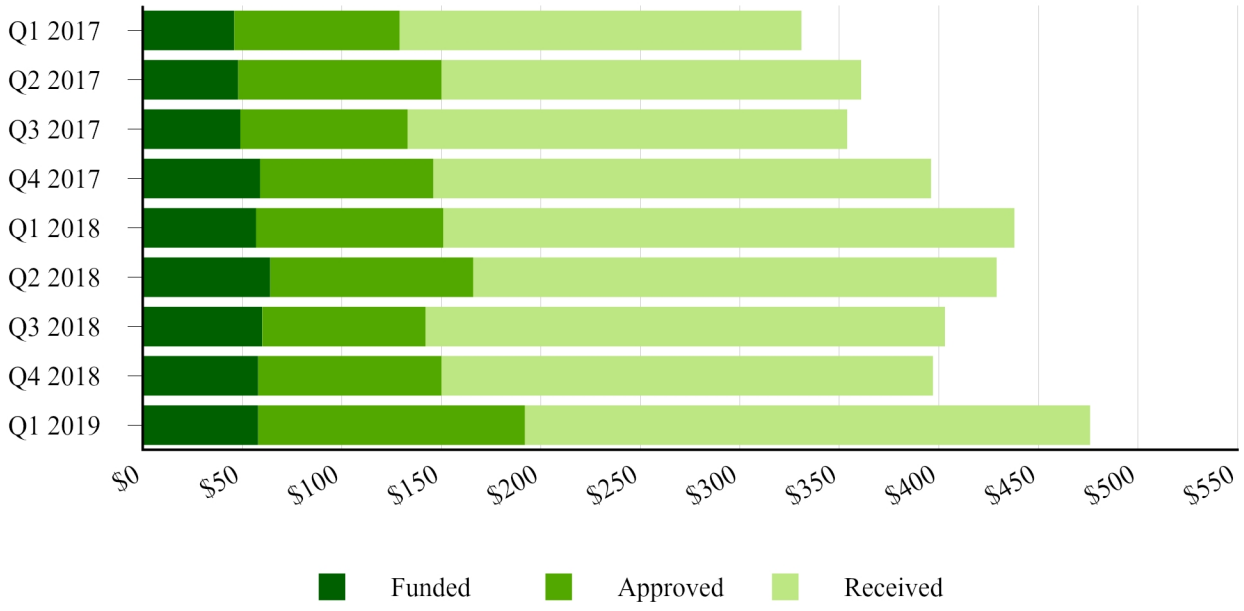
Management believes Pawnee's long track-record of success is attributable to several key aspects of its business model, including: (1) credit underwriting parameters designed to mitigate risk; (2) a relationship-driven approach to origination through a well-established and trained network of reputable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

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

	June 30 2017	Sep 30 2017	Dec 31 2017	Mar 31 2018[5]	June 30 2018	Sep 30 2018	Dec 31 2018	Mar 31 2019
Number of leases and loans outstanding (#)	15,616	16,226	16,627	17,037	17,604	17,974	18,179	18,351
Gross lease and loan receivable ("GLR") [1]	$337,276	$362,846	$398,053	$427,100	$465,526	$493,370	$515,439	$535,525
Residual receivable	$16,512	$16,849	$16,977	$17,101	$17,617	$18,175	$18,725	$19,347
Net investment in leases and loans receivable, before allowance [4]	$273,390	$296,655	$327,608	$352,431	$384,643	$408,957	$426,065	$444,376
Security deposits (nominal value)[4]	$11,510	$11,915	$12,325	$12,734	$13,330	$13,763	$13,787	$12,936
Allowance for credit losses[5]	$6,848	$8,602	$8,482	$15,309	$15,895	$15,489	$15,904	$17,211
Over 31 days delinquency (% of GLR) [2]	2.21%	2.69%	2.30%	2.10%	1.97%	1.83%	1.89%	2.13%
Net charge-offs for the three-months ended [3]	$2,962	$3,101	$3,912	$3,765	$3,131	$3,208	$3,986	$3,800
Provision for credit losses for the three-months ended [5]	$3,334	$4,923	$3,857	$3,379	$3,717	$2,802	$4,059	$5,106

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 credit losses 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.

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. 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 accounted for 14.8% of consolidated revenue and 24.2% of consolidated operating income from continuing operations before corporate overhead in the three months ended March 31, 2019.

Blue Chip's portfolio risk is mitigated by its diversification across geographies, industries, equipment types, equipment cost and credit classes. Blue Chip had 32 employees at March 31, 2019.

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

	June 30 2017	Sep 30 2017	Dec 31 2017	Mar 31 2018 (1)	June 30 2018	Sep 30 2018	Dec 31 2018	Mar 31 2019
Number of leases and loans outstanding (#)	12,910	13,345	13,781	14,188	14,587	14,494	14,253	14,066
Gross lease and loan receivable ("GLR")	$162,164	$166,505	$170,183	$175,681	$190,466	$191,365	$189,917	$189,960
Net investment in leases and loans receivable ("NIL"), before allowance	$143,310	$147,436	$150,951	$155,930	$168,745	$169,657	$168,631	$168,745
Allowance for credit losses(1)	$1,621	$1,702	$1,284	$1,731	$1,974	$2,127	$2,233	$2,278
Over 31 days delinquency (% of NIL)	0.46%	0.36%	0.16%	0.34%	0.46%	0.19%	0.25%	0.34%

(1) Allowance for credit losses as at March 31, 2018 and subsequent periods (included in the portfolio statistics above) were prepared in accordance with IFRS 9. Prior period comparatives were prepared in accordance with IAS 39 and have not been restated.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

Our results for the first quarter, in comparison to the first quarter of last year, were highly influenced by changes to two large non-cash items; our allowance for credit losses and its effects on our provision for credit losses and the effects of the mark-to-market valuation on our interest rate swaps and caps.

As the table below illustrates, our provision for credit losses increased over 2018 by $2.5 million as a result of the change in our allowance while our mark-to-market loss on our interest rate swaps and caps in this first quarter of $503,000 was a change from the first quarter of last year of $1.3 million. Together, these two non-cash items reduced our operating income and income before taxes by $2.8 million and $3.8 million, respectively. The changes from these two items from 2018 did not affect Free Cash Flow for the period.

Average FX rate	1.3295	1.2647	
	For the three months ended March 31,		
($ thousands)	2019	2018	Change
Revenue[1]	$ 30,757	$ 25,185	$ 5,572
Interest expense	(8,257)	(5,257)	(3,000)
Net charge-offs	(5,517)	(5,147)	(370)
	16,983	14,781	2,202
Expenses excluding Tandem:			
Personnel	(4,625)	(4,000)	(625)
Other expenses[1]	(4,242)	(2,951)	(1,291)
Amortization	(269)	(119)	(150)
Operating income before change in allowance and Tandem net expenses	7,847	7,711	136
Change in allowance for credit losses - (increase) reduction	(1,825)	628	(2,453)
Tandem Finance net expenses	(435)	—	(435)
Operating income	5,587	8,339	(2,752)
M2M interest rate derivatives	(503)	759	(1,262)
Broker network amortization and other charges	(445)	(671)	226
Income before taxes	$ 4,639	$ 8,427	$ (3,788)

(1) IFRS 16 required a gross-up of revenue and other expenses by $871,000 in Q1 2019, prior year results were not restated.

U.S. dollar results for the three months ended March 31, 2019 were converted at an exchange rate of 1.3295, which was the average exchange rate for the period (Q1 2018 - 1.2647).

The Company reported consolidated net income of $3.1 million in the three months ended March 31, 2019 compared to $5.9 million in 2018, a decrease of $2.8 million year-over-year. Consolidated operating income ("income before undernoted items") from continuing operations was $5.6 million, compared to $8.3 million in the same period in the prior year, a decrease of $2.8 million, or 33.0%. The decrease in operating income is primarily due to a $2.5 million increase in the non-cash provision for credit losses, while actual net charge-offs remained similar year-over-year, and an increase in interest expense as a result of three factors: a much larger portfolio of finance receivables and a corresponding increase in debt, rising interest rates and some significant fees incurred in the execution of Pawnee's first securitizations and warehousing facilities.

As a result of the adoption of IFRS 16, effective January 1, 2019, which required the capitalization and amortization of certain premises leases, other expenses were $181,000 lower (rent expense), depreciation expense (on right-to-use asset) was $170,000 higher, and interest expense was $42,000 higher (notional interest on premises leases payable) in the three months ended March 31, 2019.

See Note 19 - *Segment Information* in the notes to the Company's consolidated financial statements for a breakdown of operating results and other information by industry segment and geographic location.

Pawnee's revenue totaled $26.1 million, an increase of $5.2 million year-over-year. Pawnee's ancillary finance and other fee income increased $1.0 million compared to the same period in the prior year; of which $777,000 is due to the Company's January 1, 2019 adoption of IFRS 16 - *Leases*, which increased ancillary finance and other fee income (with an offsetting increase of equal amount in Other expenses). Prior year comparatives were not restated.

Pawnee's interest expense totaled $6.9 million in the three months ended March 31, 2019, compared to $4.2 million in the same period of the prior year. The increased interest expense is as a result of three factors: a much larger portfolio of finance receivables and a corresponding increase in debt, rising interest rates and some significant fees incurred in the execution of Pawnee's first securitizations and warehousing facilities. Higher fees are expected when initially entering the securitization markets, in order to build out new legal, banking, and compliance structures and processes needed to support this type of treasury activity.

The 31 days past due delinquency in Pawnee's portfolio increased at March 31, 2019 compared to the prior period end, which increased the required allowance for credit losses, resulting in a $2.9 million increase in the provision for credit

losses year-over-year was the predominant reason for the $2.6 million decrease in Pawnee's operating income compared to the same period in the prior year.

Personnel and other expenses at Pawnee increased by $2.2 million year-over-year. Pawnee and Tandem had on average 11.5 more staff during the three months ended March 31, 2019 compared to the prior year, which resulted in an increase in personnel expenses of $791,000. The Company's January 1, 2019 adoption of IFRS 16 - *Leases* increased Other expenses by $777,000 in the three month period compared to the same period in the prior year, as certain lessor costs, predominantly property taxes that are paid by the lessee to the lessor, are required to be presented at their gross amounts in the statements of income. Prior year comparatives were not restated.

Blue Chip generated operating income of $1.6 million in the three months ended March 31, 2019, a decrease of $35,000, primarily due to increased interest costs on the financing of a larger portfolio. As a result of the adoption of IFRS 16, in the three months ended March 31, 2019, other expenses are $33,000 lower (rent expense), depreciation expense (on right-to-use asset) is $30,000 higher, and interest expense is $8,000 higher (notional interest on premises lease payable) compared to the same period in the prior year. As well, Blue Chip's ancillary finance and other fee income increased by $94,000 (with an offsetting increase of equal amount in Other expenses). Prior year comparatives were not restated.

Corporate overhead before other items increased by $112,000 year-over-year, as a result of a $81,000 increase in personnel expenses, a $47,000 decrease in interest revenue on the loan to EcoHome Financial Inc. ("EcoHome"), and a $6,000 increase in general and administrative expenses, offset by a $32,000 decrease in share-based compensation expense.

The non-cash unrealized mark-to-market adjustment on interest rate derivatives for the three months ended March 31, 2019 totaled a loss of $503,000 compared to a gain of $759,000 in the same period of the prior year, translating to a decrease in net income of $1.3 million year-over-year.

The Company's investment in Dealnet Capital Corp. ("Dealnet") common shares decreased in market value by $30,000 in the three months ended March 31, 2019 compared to a $151,000 decrease in the same period in the prior year resulting in an increase in net income of $121,000 year-over-year.

The Company's convertible debentures were redeemed in January 2018. Prior to redemption, there was an unrealized gain of $29,000 in the prior year, translating to a decrease in net income of $29,000 year-over-year.

The provision for taxes for the three months ended March 31, 2019 totaled $1.5 million, compared to $2.5 million in the same period in the prior year. The $1.5 million provision for taxes for the three months ended March 31, 2019 is comprised of $1.7 million in current tax expense, future tax recovery of $369,000, and $146,000 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.

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 March 31, 2019, there were 106 advances and loans outstanding totaling $1.6 million (December 31, 2018 - 110 advances and loans totaling $1.9 million).

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

For the quarter-ended				2017				2018 [5]	2019
($ thousands)	Q1	Q2	Q3	Q4[4]	Q1	Q2	Q3	Q4	Q1
Net income [5]	$ 4,696	$ 3,749	$ 3,188	$ 13,798	$ 5,900	$ 5,616	$ 6,092	$ 5,277	$ 3,071
Interest expense	3,131	3,538	3,868	4,731	5,257	6,211	7,213	7,966	8,257
Provision for taxes [4]	2,768	3,080	2,220	(6,008)	2,529	2,572	3,007	1,265	1,499
Amortization and depreciation	421	449	626	636	632	450	458	478	620
EBITDA [1]	11,016	10,816	9,902	13,157	14,318	14,849	16,770	14,986	13,447
Interest expense	(3,131)	(3,538)	(3,868)	(4,731)	(5,257)	(6,211)	(7,213)	(7,966)	(8,257)
Non-cash change in finance receivables allowance for credit losses[6]					(628)	982	(368)	242	1,825
Share-based compensation expense	266	206	280	213	262	364	233	235	225
Financing costs - convertible debenture	(20)	710	(100)	540	(29)	—	—	—	—
Interest expense on convertible debenture	(321)	(324)	(328)	(328)	(61)	—	—	—	—
Contingent consideration reduction	—	—	—	(538)	—	—	—	—	—
Unrealized loss on investments	544	1,117	876	332	151	—	—	30	30
Foreign exchange unrealized loss (gain)	(11)	3	31	95	36	52	58	(117)	82
Unrealized loss (gain) – interest rate derivatives	(251)	99	(124)	(730)	(759)	(560)	(256)	870	503
Adjusted EBITDA [1]	8,092	9,089	6,669	8,010	8,033	9,476	9,224	8,280	7,855
Maintenance capital expenditures	(7)	(102)	(6)	(68)	(69)	(10)	(56)	(50)	(72)
Tax impact of change in allowance for credit losses[6]					166	(263)	98	(53)	(451)
Provision for taxes	(2,768)	(3,080)	(2,220)	6,008	(2,529)	(2,572)	(3,007)	(1,265)	(1,499)
Free Cash Flow[1]	$ 5,317	$ 5,907	$ 4,443	$ 13,950	$ 5,601	$ 6,631	$ 6,259	$ 6,912	$ 5,833
FCF L4PQ divided by 4 [1][3]	$ 5,268	$ 4,912	$ 4,871	$ 4,824	$ 5,666	$ 7,452	$ 7,596	$ 7,959	$ 7,524
Maximum Permitted Dividends [1][3]	$ 4,741	$ 4,421	$ 4,384	$ 4,342	$ 5,100	$ 6,707	$ 6,837	$ 7,163	$ 6,772
Dividends declared [2]	$ 3,779	$ 3,787	$ 3,790	$ 3,791	$ 3,784	$ 3,764	$ 3,759	$ 3,737	$ 3,713

(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) 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 included in the net income for 2018 and 2019 was prepared in accordance with IFRS 9. Prior period comparatives were prepared in accordance with IAS 39 and have not been restated.
(6) 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' allowance for credit losses 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.

SELECTED FINANCIAL INFORMATION

As at and for the quarter-ended				2017				2018 [5]	2019
($ thousands, except per share figures)	Q1	Q2	Q3	Q4[4]	Q1	Q2	Q3	Q4	Q1
Revenue [6]	$ 23,051	$ 24,286	$ 23,355	$ 24,632	$ 25,185	$ 27,012	$ 28,898	$ 29,491	$ 30,757
Finance margin before expenses	14,859	16,130	13,014	14,969	15,409	15,736	17,574	15,797	15,158
Income before tax and other items (Operating Income) [1]	8,049	9,290	6,718	8,018	8,339	8,046	9,415	7,904	5,587
Income before tax	7,452	7,026	5,527	7,806	8,427	8,221	9,280	6,788	4,639
Provision for taxes [4]	2,768	3,080	2,220	(6,008)	2,529	2,572	3,007	1,265	1,499
Income from continuing operations	4,684	3,946	3,307	13,814	5,898	5,649	6,273	5,523	3,140
Income from discontinued operations	12	(197)	(119)	(16)	2	(33)	(181)	(246)	(69)
Net income	$ 4,696	$ 3,749	$ 3,188	$ 13,798	$ 5,900	$ 5,616	$ 6,092	$ 5,277	$ 3,071
Basic EPS - continuing operations [2]	$0.26	$0.22	$0.19	$0.76	$0.33	$0.31	$0.35	$0.32	$0.17
Diluted EPS - continuing operations [2]	$0.25	$0.21	$0.19	$0.74	$0.32	$0.31	$0.34	$0.31	$0.17
Basic earnings per share [2]	$0.26	$0.21	$0.18	$0.76	$0.33	$0.31	$0.34	$0.30	$0.17
Diluted earnings per share [2]	$0.25	$0.20	$0.18	$0.74	$0.32	$0.31	$0.33	$0.29	$0.17
Total assets	$ 547,686	$ 573,414	$ 593,065	$ 643,612	$ 685,593	$ 748,732	$ 766,310	$ 818,187	$ 830,432
Long-term liabilities	$ 377,735	$ 404,784	$ 428,752	$ 447,412	$ 515,590	$ 575,289	$ 589,702	$ 639,092	$ 656,840
Other Data									
Adjusted EBITDA [1]	$ 8,092	$ 9,089	$ 6,669	$ 8,010	$ 8,033	$ 9,476	$ 9,224	$ 8,280	$ 7,855
Dividends declared [3]	$ 3,779	$ 3,787	$ 3,790	$ 3,791	$ 3,784	$ 3,764	$ 3,759	$ 3,737	$ 3,713
Dividends declared per share	$0.21	$0.21	$0.21	$0.21	$0.21	$0.21	$0.21	$0.21	$0.21

(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 allowance for credit losses included in the selected financial information for 2018 and 2019 were prepared in accordance with IFRS 9. Prior period comparatives were prepared in accordance with IAS 39, and have not been restated.

STATEMENT OF FINANCIAL POSITION

The total consolidated assets of the Company at March 31, 2019 were $830.4 million, an increase of $12.2 million from December 31, 2018. The U.S. dollar exchange rate on March 31, 2019 was 1.3363, compared to 1.3642 at December 31, 2018. The decrease in the foreign exchange rate represents a decrease of $12.3 million in assets.

Cash totaled $2.8 million at March 31, 2019 compared to $2.3 million at December 31, 2018, an increase of approximately $512,000. 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 March 31, 2019 and 2018.

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 March 31, 2019, there were 106 advances and loans outstanding totaling $1.6 million (December 31, 2018 - 110 advances and loans totaling $1.9 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 is irregular.

Other assets totaled $7.2 million at March 31, 2019, a decrease of $1.5 million from December 31, 2018. Included

in this total are assets that relate to the sale of EcoHome in 2016, which totaled $4.8 million at March 31, 2019 compared to $5.4 million at December 31, 2018. The non-cash consideration received on the sale included 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 March 31, 2019 totaled $423,000. The warehouse loan receivable from EcoHome at March 31, 2019 totaled $4.3 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 consolidated financial statements for further details. As a result of the adoption of IFRS 16 - *Leases* (see Note 2 in the unaudited condensed consolidated interim financial statements), the property tax charged to the lessee is considered a lease payment and as such the estimated receivable for property taxes has been reclassified to Finance receivables from Other assets. The prior period balance has not been reclassified.

Finance receivables consist of the following:

	March 31, 2019	December 31, 2018
	($ thousands)	
U.S. equipment - Pawnee	$ 571,589	$ 559,542
Canadian equip. - Blue Chip	169,454	169,382
	$ 741,043	$ 728,924

Finance receivables increased by $12.1 million, or 2%, during the three months ended March 31, 2019, even though the decrease in the foreign exchange rate had the effect of decreasing finance receivables by $11.4 million since December 31, 2018. In U.S. dollars, Pawnee's finance receivables increased by U.S.$17.6 million since December 31, 2018, and a 26.9% increase compared to March 31, 2018. Blue Chip's finance receivables increased by $72,000 during the three months ended March 31, 2019.

The $741.0 million in net investment in leases and loans is net of $25.3 million in allowance for credit losses based on IFRS 9 (compared to $23.9 million in allowance for credit losses at December 31, 2018). Finance receivables at Pawnee and Blue Chip are composed of a large number of homogenous leases and loans, with relatively small balances. As such, the evaluation of the allowance for credit losses is performed collectively for the lease and loan receivable portfolios. The measurement of expected credit losses and the assessment of 'significant increase' (per IFRS 9) 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 also requires judgment when calculating the allowance for credit losses.

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. Finance receivables that are charged-off could still be subject to collection efforts, with future recoveries possible.

The Company's right-to-use assets and premises leases payable relate to the operating leases of its office premises at the Pawnee and Blue Chip locations and were recorded on January 1, 2019 on adoption of IFRS 16 (see Note 2 and Note 8 in the unaudited condensed consolidated interim financial statements for more information). The right-to-use assets will be amortized on a straight-line basis over the life of the underlying premises leases. The premises leases payable are amortized under the effective interest rate method using the interest rate inherent in the underlying leases and lease payments that will include both a principal and interest component. The Company has leases of certain office equipment that are considered of low value that have been excluded. Pawnee's two premises lease extensions from 2025 to 2035 have been excluded from the measurement of lease obligations and right-to-use assets (as we get closer to those years, there could be a re-measurement of the premises lease obligation payable).

Intangible assets totaled $18.3 million at March 31, 2019. Of the $484,000 decrease in intangible assets from December 31, 2018, $333,000 reflects amortization and $151,000 relates to the decrease 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 $40.7 million at March 31, 2019 compared to $41.0 million at December 31, 2018. The $300,000 decrease in goodwill relates to the decrease 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, 2018 and there were no unusual circumstances as at March 31, 2019 that

required an impairment assessment to be conducted (prior to the 2019 annual review).

Accounts payable and other liabilities totaled $13.0 million at March 31, 2019 compared to $15.6 million at December 31, 2018, a decrease of $2.6 million. See Note 9 - *Accounts Payable and Other Liabilities* in the consolidated financial statements for more detail on the balances that comprise accounts payable and other liabilities.

Borrowings totaled $617.7 million at March 31, 2019 compared to $601.5 million at December 31, 2018, an increase of $16.2 million. The $16.2 million increase in borrowings is supporting $12.1 million of growth in net finance receivables. The decrease in the foreign exchange rate since December 31, 2018, led to a $9.2 million decrease in the borrowing amount.

Chesswood was utilizing U.S.$199.3 million of its U.S. $250.0 million revolving credit facility at March 31, 2019 compared to U.S.$178.7 million at December 31, 2018. This revolving credit facility allows Chesswood to internally manage the allocation of capital to its 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 revolving 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 March 31, 2019 and December 31, 2018 (and throughout the periods).

Pawnee has two non-recourse asset-backed loans that are secured by a portion of Pawnee's prime equipment finance receivable portfolio. At March 31, 2019, the balance of these loans was U.S.$74.9 million compared to the original value of the loans of U.S.$125.0 million. 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 corporate credit facility. As part of the servicing agreements related to these non-recourse facilities, Pawnee is to comply with leverage ratio, interest coverage ratio, and tangible net worth covenants. At March 31, 2019 and December 31, 2018, (and throughout the periods), Pawnee was in compliance with its covenants. The interest rate risk on these non-recourse facilities is mitigated by interest rate caps for an amount that is not less than 80% of the aggregate outstanding balance.

Pawnee's U.S.$250 million warehouse facility, which was entered into in August 2018, funds most of Pawnee's prime receivables before they are securitized and provides an improved cost of capital and better advance rate than Chesswood's revolving facility, which was primarily structured for non-prime commercial leases and loans and will continue to be utilized for those originations. At March 31, 2019, Pawnee was utilizing U.S.$94.0 million of this facility (December 31, 2018 - U.S.$83.0 million).

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"). Funds under each securitization facility 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 March 31, 2019, Blue Chip had access to at least $113.8 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 March 31, 2019 and December 31, 2018 (and throughout the periods), Blue Chip was in compliance with all covenants.

The $15.4 million (December 31, 2018 - $16.8 million) in customer security deposits relates to security deposits predominantly held by Pawnee. Pawnee's non-prime contracts require that the lessees\borrowers provide one or 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 March 31, 2019, the Company would have realized a gain of $190,000 compared to $455,000 at December 31, 2018.

Pawnee's non–recourse asset–backed facility requires Pawnee to mitigate interest rate risk by entering into an interest rate cap for a notional amount of not less than 80% of the aggregate outstanding balance. The interest rate cap is tied to the repayment terms of the underlying finance receivables portfolio supporting the Pawnee facility, through the maturity date, with a floating index rate based on USD–LIBOR–BBA, but subject to a capped fixed rate. At March 31, 2019, the fair value of the interest rate caps was an asset of $182,000 (2018 - $441,000).

Future taxes payable at March 31, 2019 totaled $20.0 million compared to $20.8 million at December 31, 2018, a decrease of $754,000. The decrease in future taxes payable is comprised of a $404,000 future tax recovery offset by a decrease of $349,000 due to the change in the foreign exchange rate. Taxes at Pawnee 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 March 31, 2019, there were 16,238,806 common shares outstanding (excluding the shares issuable in exchange for the Exchangeable Securities, as defined below) with a book value of $103.9 million. Including the common shares issuable in exchange for the Exchangeable Securities, Chesswood had 17,717,343 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. During the period from January 1, 2018 to 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 per share.

In August 2018, the Company's Board of Directors approved the repurchase for cancellation of up to 1,043,895 of the Company's outstanding common shares for the period commencing August 25, 2018 and ending on August 24, 2019. From August 25, 2018 to December 31, 2018, the Company repurchased 206,340 of its common shares under this normal course issuer bid at an average cost of $10.2412 per share.

From January 1, 2019 to March 31, 2019, the Company repurchased 60,760 of its shares under the normal course issuer bid at an average cost of $10.7884 per share. Decisions regarding the timing and extent of purchases are based on market conditions, regulations governing issuer repurchses and other factors.

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.

Reserves represent the accumulated share-based compensation expensed over the vesting term for options and restricted share units unexercised at March 31, 2019. There were 2,357,854 options (and no restricted share units) outstanding at March 31, 2019.

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 March 31, 2019 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, share repurchases and dividends.

At March 31, 2019, the Company's continuing operations had approximately U.S.$50.7 million in additional borrowings available under the revolving credit facility, U.S.$156.0 million under Pawnee's warehouse facility and at least $113.8 million under Blue Chip's securitization and bulk lease financing facilities, to fund business operations.

The Chesswood revolving credit facility allows borrowings up to U.S.$250.0 million. This 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 the allowance for credit losses. 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 three months ended March 31, 2019

In the three months ended March 31, 2019, there was an increase in cash of $512,000 compared to an increase in cash of $2.7 million in the same period in the prior year as a result of reasons discussed below.

The Company's continuing operations utilized $19.8 million of cash during the three months ended March 31, 2019 compared to $30.0 million in the same period in the prior year, a decrease in the utilization of cash of $10.2 million.

The net cash utilized to fund the growth in finance receivables (funds advanced, origination costs, security deposits, restricted cash, less principal payments) totaled $39.3 million in the three months ended March 31, 2019 compared to $50.1 million in the same period in the prior year, a decrease of $10.7 million. The Company funded the growth in finance receivables from excess opening cash, cash from operations and $24.7 million in net borrowings (included in finance activities) in the three months ended March 31, 2019 (Q1 2018 - $56.8 million).

In the three months ended March 31, 2019, the Company made tax payments of $2.0 million compared to $2.7 million in the three months ended March 31, 2018, a decrease of $678,000 year-over-year.

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 $21.6 million in cash from net income, non-cash items and other working capital changes compared to $22.8 million in the prior year, a decrease of $1.2 million from the prior year.

On January 17, 2018, Chesswood repaid, in cash, the $20 million outstanding principal and accrued and unpaid interest to debenture holders as the redemption amount.

Capital expenditures totaled $72,000 (Q1 2018 - $96,000) during the three months ended March 31, 2019.

The Company received $153,000 (Q1 2018 - $297,000) from the exercise of options by employees during the three months ended March 31, 2019.

The Company repurchased 60,760 of its common shares under normal course issuer bids at an average cost of $10.7884 during the three months ended March 31, 2019 totaling $656,000 (Q1 2018 - 123,130 shares at an average cost of $10.3786 totaling $1.3 million).

The Company paid dividends to the holders of its common shares and Exchangeable Securities in the amount of $3.7 million during the three months ended March 31, 2019 relatively unchanged from the same period in the prior year.

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' warehousing, 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 credit facility may be drawn at any time, subject to compliance with borrowing base calculations and compliance with the covenants set out therein. As of March 31, 2019, U.S.$199.3 million was outstanding under the U.S.$250.0 million facility and the Company had capacity to draw another U.S.$21.7 million and remain within the borrowing base under the facility. The Company had U.S.$7.7 million of letters of credit outstanding under the Chesswood corporate credit facility.

Dividends to Shareholders

The Company declared monthly cash dividends of $0.07 per common share from January 2019 to March 31, 2019.

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 March 31, 2019 (including interest):

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

a. The Company and its subsidiaries are committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, with expirations up to 2025.
b. Borrowings are described in Note 10 - *Borrowings* in the consolidated financial statements, and include Chesswood's corporate credit facility and Pawnee's warehousing facility which are lines-of-credit; as such the balances can fluctuate. The amount above includes fixed interest payments on Pawnee and Blue Chip's facilities and estimated interest payments on the Chesswood corporate credit facility, assuming the interest rate, debt balance and foreign exchange rate at March 31, 2019 remain the same until its expiry date of December 2020.
c. The Company's experience has shown the actual contractual payment streams will vary depending on a number of variables, including: prepayment rates, charge-offs and modifications. Accordingly, the scheduled contractual payments of customer security deposits shown in the table above are not to be regarded as a forecast of future cash payments.

The Company has no material "off-balance sheet" financing obligations, except for U.S.$7.7 million in letters of guarantee. Other commitments are disclosed in Note 18 - *Contingent liabilities and other financial commitments* in the 2018 audited consolidated financial statements.

OUTLOOK

As a non-bank independent finance company, we passed on more of the rate increases from the last two years to our customers than have our bank-owned competitors, which puts expected pressure on our originations. In addition, we are focused more on the quality of those originations rather than the volumes we are generating. At this later stage in the economic cycle when conventional wisdom holds that we are closer to a correction. We believe this is a prudent approach.

The first quarter's originations reflected this approach and we do not believe that anything has changed in our markets, so that we expect this trend to continue throughout the year. Industry sources indicate that equipment purchases in the U.S. in the first quarter of 2019 were down by 10% compared to the same quarter last year, although there are also many positive signs in the U.S. economy, including record setting low unemployment levels and modest inflation.

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 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 or loaning 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. Further, tariffs or duties imposed by a country could adversely impact upon industries in which companies to which our operating companies have provided financing or seek to provide financing, which may 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 credit losses 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 and targets potential lessees/borrowers with better credit scores, it faces competition from more traditional financing sources, 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 Blue Chip 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 and Blue Chip. A lower cost of funds could enable a competitor to offer leases and loans with pricing lower than that of Pawnee and/or Blue Chip, potentially forcing Pawnee and Blue Chip to decrease 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.

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. The legislation made broad and complex changes to the U.S. tax code. The tax provision 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.

Environmental risk

Chesswood and its activities have no direct significant impact on the environment, although there can be no assurance that its may be the subject of claims in this regard (see for example, "Lessor Liability" above).

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Understanding the Company's accounting policies is essential to understanding the results of operations and financial condition. 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. Estimates are based on historical experience and on various other assumptions that we believe are 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.

Net Investment in Leases

The leases entered into are considered to be finance leases in nature, based on an evaluation of all the terms and conditions and the determination that substantially all the risks and rewards of legal ownership of the underlying assets have been transferred to the lessee. Interest revenue on finance leases is recognized using the effective interest method. The effective interest method of income recognition applies a constant rate of interest equal to the internal rate of return on the lease.

Allowance for Credit Losses

The carrying value of net investment in leases and loans is net of an allowance for credit losses.

As of January 1, 2018, the Company adopted IFRS 9 which replaced the incurred loss model with an expected credit loss ('ECL') impairment method for calculating allowance for credit losses. Please see Note 2 - *New Accounting Standards* in the 2018 audited consolidated financial statements for further disclosure.

Application of the ECL 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 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 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, all 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 leases and loans in those stages. For Stage 2, leases and loans are considered 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 Stage 3, leases and loans are considered credit impaired if they are delinquent for more than 90 days or if the individual leases and loans are otherwise classified as non-accrual.

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 Company utilizes static pool loss data applied to recent origination levels along with forward-looking macroeconomic assumptions under the ECL methodology. The estimation and application of forward-looking information also requires 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. Finance receivables that are charged-off could still be subject to collection efforts, with future recoveries possible.

The resulting projections of probable net credit losses are inherently uncertain, and as a result we cannot predict with certainty the amount of such losses. Changes in economic conditions, the risk characteristics and composition of the portfolio, bankruptcy laws, and other factors could impact the actual and projected net credit losses and the related allowance for credit losses.

Impairment of Goodwill

Goodwill is evaluated for impairment on an annual basis, or more frequently if certain events or circumstances exist. The Company's impairment test of goodwill is based on the value-in-use which is estimated using a discounted cash flow model. The cash flows are derived from budgets for the next five years, excluding restructuring activities and future investments. Impairment testing is applied on an individual asset basis unless an asset does not generate cash inflows that are largely independent of the cash inflows generated by other assets or groups of assets. None of the Company's non-financial assets generate independent cash inflows and therefore all non-financial assets are allocated to cash generating units ("CGU") for purposes of assessing impairment.

CGUs are defined as the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized when the carrying amount of a CGU exceeds the recoverable amount, which is the greater of the CGU's fair value less cost to sell and its value in use. Value-in-use is the present value of the estimated future cash flows from the CGU discounted using a pre-tax rate that reflects current market rates and the risks inherent in the business of each CGU. If the recoverable amount of the CGU is less than its carrying amount, the CGU is considered impaired and is written down to its recoverable amount. The impairment loss is allocated to reduce the carrying amount of the assets of the CGU, first to reduce the carrying amount of the CGU's goodwill and then to the other assets of the CGU allocated pro-rata on the basis of the carrying amount of each asset. Other than the cash flow estimates, the value-in-use is most sensitive to the discount rate used and the growth rate applied beyond the five year estimate. Changes in these estimates and assumptions could have a significant impact on the value-in-use and/or goodwill impairment.

Share-based Payments

The Black-Scholes model is used to fair value options issued by the Company. The model requires the use of subjective assumptions, including expected share price volatility. In addition, the options issued have characteristics different from those of traded options so the Black-Scholes option-pricing model may not provide a reliable single measure of the fair value of options issued. Changes in the subjective

assumptions can have a material effect on the fair value estimate.

Interest rate derivatives

Financial instruments accounting requires recognition of the fair value of all derivative instruments on the statement of financial position as either assets or liabilities. Changes in a derivative's fair value are recognized currently in earnings unless specific hedge accounting criteria are met. Gains and losses on derivative hedging instruments must be recorded in either other comprehensive income or current earnings, depending on the nature and designation of the instrument.

Interest rate derivatives are not considered trading instruments as the Company intends to hold them until maturity. Nonetheless, interest rate derivatives do not qualify as a hedge for accounting purposes, and are therefore recorded as separate derivative financial instruments. Accordingly, the estimated fair value of interest rate derivatives is recorded as an asset or a liability on the accompanying consolidated statement of financial position. Payments made and received pursuant to the terms of the interest rate derivatives are recorded as an adjustment to interest expense, and adjustments to the fair value of the interest rate derivatives are recorded as gain or loss on interest rate derivatives. The fair value of interest rate derivatives is based upon the estimated net present value of cash flows.

Taxes

Accounting for tax requires the resolution of many complexities and the exercise of significant management judgement, including the following: (a) Pawnee and Blue Chip use the asset and liability method to account for taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax base. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In contrast, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. (b) Deferred tax assets are only recognized to the extent that they are more than 50% likely to be realized. (c) Pawnee and Blue-Chip account for their lease arrangements as operating leases for tax reporting purposes. This results in temporary differences between financial and tax reporting for which deferred taxes have been provided.

Leased Premises

As of January 1, 2019, the Company adopted IFRS 16 *Leases*, which replaced IAS 17 *Leases*. See Note 2 to these unaudited condensed consolidated interim financial statements. IFRS 16 removed the distinction between finance and operating leases and requires lessees to recognize right-of-use assets and lease liabilities for all leases, subject to certain optional exceptions, on the commencement of a lease.

On January 1, 2019, the Company recorded a right-of-use asset and a corresponding lease liability of $3.8 million, with no net impact on retained earnings. Under the new accounting policy, the nature of expenses related to those leases changed from straight-line operating lease expense to a depreciation charge for the right-to-use assets and interest expense on the lease liabilities. The effect on the Company's performance is not material for the three months ended March 31, 2019.

RELATED PARTY TRANSACTIONS

See Note 17 - *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 March 31, 2019 and have concluded that the design of the Company's DC&P is effective as at that date.

The Certifying Officers have also evaluated the operating effectiveness of the Company's DC&P and have concluded that the Company's DC&P was effective as at March 31, 2019.

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"), to design the Company's ICFR.

The Certifying Officers have also evaluated the operating effectiveness of the Company's ICFR and have concluded that the Company's ICFR was effective as at March 31, 2019.

During the quarter ended March 31, 2019, 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 three months ended March 31, 2019.

	Common Shares		
	High	Low	Average Daily Volume
January	$11.90	$10.25	25,126
February	$11.94	$11.41	18,200
March	$12.45	$10.83	24,820
	$12.45	$10.25	22,900

CHESSWOOD GROUP LIMITED

NOTICE TO READERS

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

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

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

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

Please see notes to the condensed interim consolidated financial statements.

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

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

Please see notes to the condensed interim consolidated financial statements.

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

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

Please see notes to the condensed interim consolidated financial statements.

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

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

	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		—	—	(602)	—	—	(6,753)	(7,355)
Net income		—	—	484	—	—	5,416	5,900
Dividends declared	*15*	—	—	(310)	—	—	(3,473)	(3,783)
Share-based compensation	*14*	—	—	—	262	—	—	262
Exercise of options	*14*	56	435	—	(138)	—	—	297
Repurchase of common shares under issuer bid	*13*	(123)	(782)	—	—	—	(496)	(1,278)
Unrealized gain on translation of foreign operations			—	213	—	2,386	—	2,599
Shareholders' equity - March 31, 2018		16,508	104,861	13,015	5,419	13,162	21,406	157,863
Impact of adopting IFRS 9 & 15		—	—	(243)	—	—	(2,691)	(2,934)
Net income		—	—	1,405	—	—	15,580	16,985
Dividends declared		—	—	(932)	—	—	(10,329)	(11,261)
Share-based compensation		—	—	—	832	—	—	832
Exercise of restricted share units		70	371	—	(806)	—	—	(435)
Exercise of options		27	741	—	(31)	—	—	710
Repurchase of common shares under issuer bid	*13*	(376)	(2,397)	—	—	—	(1,524)	(3,921)
Unrealized gain on translation of foreign operations			—	468	—	5,188	—	5,656
Shareholders' equity - December 31, 2018		16,229	$ 103,576	$ 13,713	$ 5,414	$ 18,350	$ 22,442	$ 163,495

Please see notes to the condensed interim consolidated financial statements.

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

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

Please see notes to the condensed interim consolidated 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, Tandem Finance Inc., incorporated in Colorado, and Windset Capital Corporation ("Windset"), incorporated in Delaware, United States. In addition, Pawnee holds, through consolidated, wholly-owned Special Purpose Entities ("SPEs"), a portfolio of leases and loans which are financed through arm's length financial institutions. See Note 7 - *Finance Receivables* and Note 10(b) - *Borrowings*.

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

- Pawnee - micro and small-ticket equipment financing to small and medium-sized businesses in the United States.
- Tandem - small-ticket equipment financing through equipment vendors and distributors in the U.S.
- Blue Chip - commercial equipment financing to small and medium businesses in Canada.

Discontinued operations include:

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

The consolidated financial statements, including comparatives:

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

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

The reporting currency is the Canadian dollar and the financial statements are presented in thousands of Canadian dollars except per share amounts and as otherwise noted. The functional currency of the Company, Chesswood Holdings Ltd., Blue Chip and Lease-Win Limited is the Canadian dollar. The functional currency of U.S. Acquisitionco, Pawnee, Windset and Case Funding is the United States dollar. Income and expenses of subsidiaries with a different functional currency than the Company's presentation currency are translated in the Company's consolidated financial statements at the average U.S. dollar exchange rate for the reporting period [for the three months ended March 31, 2019 - 1.3295; 2018 - 1.2647], and assets and liabilities are translated at the closing rate [as at March 31, 2019 - 1.3363; December 31, 2018 - 1.3642].

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

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

2. NEW ACCOUNTING STANDARDS

New accounting standards adopted in 2019

IFRS 16 Leases

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

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

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

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

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

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

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

3. FINANCIAL INSTRUMENTS

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

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

Financial assets

Financial assets are categorized for subsequent measurement as follows:

Amortized cost
Financial assets that are held in a business model with the objective of collecting contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI") are measured at amortized cost ("AC"). The Company's cash, restricted funds, net investment in leases, and loan receivables are measured at amortized cost. Broker commissions related to the origination of finance leases are deferred and recorded as an adjustment to the yield of the net investment in finance leases as part of the

effective interest rate. Gains and losses are recognized in the statement of income when the loans or receivables are derecognized or impaired.

Financial assets at fair value through net income or loss
Financial assets that are held for trading and derivative assets are required to be measured at fair value through net income or loss ("FVTP"). Financial assets that meet certain conditions may be designated at fair value through net income or loss upon initial recognition. Upon initial recognition, attributable transaction costs are recognized in net income or loss as incurred.

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

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

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

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

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

Financial liabilities
Financial liabilities are categorized as follows for subsequent measurement:

Amortized cost
Financial liabilities that are not otherwise measured as at fair value through net income or loss or designated at fair value are measured at amortized cost using the effective interest rate method. Any host contract in a hybrid instrument is also measured at amortized cost. Gains and losses are recognized in net income or loss when the liabilities are derecognized. Transaction costs incurred in connection with the issuance of loans and borrowings are capitalized and recorded as a reduction of the carrying amount of the related financial liabilities and amortized using the effective interest method.

The Company's financial liabilities measured at amortized cost include borrowings, accounts payable, other liabilities and customer security deposits.

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

A designation can be made at initial recognition for financial liabilities that include one or more embedded derivatives, provided the host contract is not a financial asset, to measure the entire hybrid instrument at fair value. Where certain criteria are met, for example measurement at amortized cost would create measurement inconsistencies, the financial liability can also be designated at fair value. For such designated financial liabilities, the amount of the change in fair value that relates to changes in the entity's own credit risk is recognized in other comprehensive income and the remaining amount of the change in fair value is recognized

in net income or loss. All contingent consideration payable is also included in this category. Derivative financial instruments that are designated as effective hedge instruments are excluded from this category.

The Company's interest rate swap contracts are required to be measured at fair value through net income or loss. The Company has not designated any financial instruments as hedges for accounting purposes.

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

(a) Categories and measurement hierarchy

The categories to which the financial instruments are allocated are:

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

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

(i) Level 1 Inputs - quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;

(ii) Level 2 Inputs - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

(iii) Level 3 Inputs - techniques which use inputs which have a significant effect on the recorded fair value for the asset or liability that are not based on observable market data (unobservable inputs).

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

				March 31, 2019
	Level 1	Level 2	Level 3	Carrying Value
ASSETS				*($ thousands)*
Cash *(iii)*	$ 2,838	$ —	$ —	$ 2,838
Restricted funds *(iii)*	12,750	—	—	12,750
Other assets - Note 6	—	4,343	—	4,343
Other assets - Note 6	423	—	—	423
Loan receivables *(i)*	—	302,654	—	302,654
Interest rate derivatives *(iv)*	—	372	—	372
LIABILITIES				
Accounts payable and other liabilities *(iii)*	—	(13,047)	—	(13,047)
Borrowings *(ii)*	—	(617,727)	—	(617,727)
Customer security deposits	—	(15,404)	—	(15,404)

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

(i) There is no organized market for the finance receivables. The carrying value is the amortized cost using the effective interest rate method which approximates fair value because contractual interest rates approximate current market rates.
(ii) The stated value of the borrowings approximates fair values, as the interest rates attached to these instruments are representative of current market rates, for loans with similar terms, conditions and maturities.
(iii) Carrying amounts are expected to be reasonable approximations of fair value for cash, restricted funds and for financial instruments with short maturities, including accounts payable and other liabilities.
(iv) The Company determines the fair value of its interest rate derivatives under the income valuation technique using a discounted cash flow model. Significant inputs to the valuation model include the contracted notional amount, LIBOR rate yield curves and the applicable credit-adjusted risk-free rate yield curve. The Company's interest rate derivative is included in the Level 2 fair value hierarchy because all of the significant inputs are directly or indirectly observable.

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

(b) Gains and losses on financial instruments

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

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

4. FINANCIAL RISK MANAGEMENT

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

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

5. DISCONTINUED OPERATIONS

On February 3, 2015, Case Funding sold certain assets and operations to a private equity firm. Case Funding retained approximately $9.4 million in finance receivables with a current balance of $1.6 million and pays a servicing fee of 5% of collections to administer the remaining portfolio.

Case Funding's net loss, included in loss from discontinued operations, for the three months ended March 31, 2019 totaled $69,000 compared to net income of $2,000 recorded in the same period in the prior year, which represented a basic and diluted loss per share of $0.004 and $0.004 (2018 - $0.0001 and $0.0001) respectively. For the three months ended March 31, 2019, Case Funding generated cash flows from operations of $126,000 compared to $636,000 recorded in the prior year.

At Case Funding, management reviews each attorney loan and medical lien receivable on an individual basis for collectability and for reserve requirements, if any. At March 31, 2019, it was determined an allowance of $82,000 (December 31, 2018 - $85,000) was required.

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

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

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

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

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

ASSETS HELD FOR SALE					December 31, 2018
($ thousands)	Category	Level 1	Level 2	Level 3	Carrying Value
Attorney loans and medical liens *(ii)*	AC	$ —	$ 52	$ —	$ 52
Plaintiff advances	FVOCI	—	—	1,800	1,800

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

6. OTHER ASSETS

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

(a) Loan receivable - EcoHome - On February 18, 2016, the Company sold EcoHome Financial Inc. ("EcoHome") to Dealnet Capital Corp. ("Dealnet"). The loan represented the inter-company warehouse funding to EcoHome of leases and loans that had not yet been securitized with EcoHome funders prior to the sale of EcoHome. The loan receivable is secured by specific EcoHome leases and loans and a general security agreement over all the assets of EcoHome. The loan matures in October 2020, with fixed monthly principal payments, and related interest based on a floating interest rate plus a fixed margin. The loan receivable is carried at amortized cost. At March 31, 2019 and December 31, 2018, it was determined no material allowance for expected credit losses was required.

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

7. FINANCE RECEIVABLES

The Company finances its leases and loan receivables by pledging such receivables as security for amounts borrowed from lenders under various facilities, as described in Note 10 - *Borrowings*. The lenders have the right to enforce their security interest in the pledged lease and loan receivables if the Company defaults under these facilities. Therefore, the Company retains ownership (in some cases through consolidated SPE's and servicing responsibilities of the pledged lease and loan receivables and continues to recognize them on the consolidated statement of financial position.

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

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

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

(b) Minimum scheduled collections of finance receivables at March 31, 2019 are presented in the following table. The Company's experience has shown that the actual contractual payment streams will vary depending on a number of variables including: prepayment rates, charge-offs and modifications. Accordingly, the following minimum scheduled collections are not to be regarded as a forecast of future cash collections.

	Minimum payments	Present value
	($ thousands)	
2019	$ 261,583	$ 194,862
2020	284,225	226,253
2021	198,014	168,167
2022	114,395	102,650
2023	44,678	42,051
2024 and thereafter	3,456	3,364
Total minimum payments	$ 906,351	$ 737,347

(c) Allowance for credit losses

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

(i) Stage 1 - for new leases and loans recognized and for existing leases or loans that have not experienced a significant increase in credit risk since initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults occurring in the next 12 months;

(ii) Stage 2 - for those leases or loans that have experienced a significant increase in credit risk since initial recognition, a loss allowance is recognized equal to the credit losses expected over the remaining life of the lease or loan; and

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

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

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

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

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

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

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

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

(d) Finance receivables past due

The following aging represents the total carrying amount of the lease and loan receivables and not just the payments that are past due. The balances presented exclude the $15.4 million (December 31, 2018 - $16.8 million) of security deposits received from lessees/borrowers and the collateral held (including potential proceeds from repossessed equipment, and potential recoveries from personal guarantees) that would offset any charge-offs. An estimate of fair value for the collateral and personal guarantees cannot reasonably be determined.

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

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

						As of December 31, 2018
($ thousands)	Current	1-30 days	31 - 60 days	61 - 90 days	Over 90 days	Total
Equipment lease receivables	$ 434,231	$ 8,757	$ 2,551	$ 1,102	$ 2,653	$ 449,294
Loan receivables	296,429	3,189	200	545	212	300,575
	$ 730,660	$ 11,946	$ 2,751	$ 1,647	$ 2,865	$ 749,869
Impaired	$ 544	$ 273	$ 1,985	$ 1,554	$ 2,553	$ 6,909
Past due but not impaired	$ —	$ 11,673	$ 766	$ 93	$ 312	$ 12,844

(e) Modifications

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

The net investment in finance receivables that have been modified (in 2018 or prior) and are current at March 31, 2019 is $14.7 million (December 31, 2018 - $14.8 million). On average the terms have been modified to extend the contracts by approximately one to three months, depending on the modification. Finance receivables modified during the three months ended March 31, 2019 had a total net investment in finance receivable balance at the time of modification of $7.1 million (2018 - $7.9 million). These amounts reflect the net investment in finance receivable balances prior to payments collected since modification, or leases that terminated early after modifications or leases charged-off after modification.

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

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

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

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

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

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

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

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

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

9. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprise:

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

10. BORROWINGS

	Chesswood credit facility *(a)*	Chesswood deferred financing costs	Pawnee credit facilities *(b)*	Pawnee deferred financing costs	Blue Chip financing facilities *(c)*	Total
			($ thousands)			
Net as of December 31, 2017	$ 200,405	$ (2,536)	$ 87,241	$ (2,142)	$ 129,187	$ 412,155
Proceeds or draw-downs	242,806	—	172,288	—	84,029	499,123
Repayments	(227,950)	—	(45,606)	—	(67,054)	(340,610)
Payment of financing costs	—	(425)	—	(3,542)	—	(3,967)
Amortization of deferred financing costs	—	1,254	—	1,521	—	2,775
Foreign currency translation adjustment	18,017	—	14,326	(294)	—	32,049
Net as of December 31, 2018	233,278	(1,707)	228,249	(4,457)	146,162	601,525
Proceeds or draw-downs	57,160	—	14,625	—	13,039	84,824
Repayments	(29,893)	—	(12,553)	—	(17,719)	(60,165)
Payment of financing costs	—	(40)	—	—	—	(40)
Amortization of deferred financing costs	—	329	—	470	—	799
Foreign currency translation adjustment	(4,653)	—	(4,657)	94	—	(9,216)
Net as of March 31, 2019	**$ 255,892**	**$ (1,418)**	**$ 225,664**	**$ (3,893)**	**$ 141,482**	**$ 617,727**

(a) The Chesswood revolving credit facility allows borrowings of up to U.S.$250.0 million subject to, among other things, certain percentages of eligible gross finance receivables. This credit facility is secured by substantially all of the Company's assets, contains covenants including maintaining leverage and interest coverage ratios, and expires on December 8, 2020. At March 31, 2019, the Company was utilizing U.S.$199.3 million (December 31, 2018 - U.S.$178.7 million) of its credit facility and had approximately U.S.$58.5 million in additional borrowings available under the corporate credit facility. At March 31, 2019 and December 31, 2018, and throughout the periods presented, the Company was compliant with all covenants. Based on average debt levels, the effective interest rate during the three months ended March 31, 2019 was 5.49% (year-ended December 31, 2018 - 5.12%).

(b) Pawnee credit facilities:
(i) Pawnee has a U.S.$250 million revolving warehouse loan facility specifically to fund its growing prime portfolio, through its subsidiary, Pawnee Portfolio Fund ("PPF"). The warehouse facility will hold Pawnee's prime receivables before they are securitized. This credit facility is secured by PPF's assets, and contains covenants including maintaining leverage and interest coverage ratios, and expires in August 2023. At March 31, 2019, Pawnee was utilizing U.S.$94.0 million of this facility. At March 31, 2019 and throughout the period from August 2018, Pawnee was compliant with all covenants. Based on average debt levels, the effective interest rate during the three months ended March 31, 2019 was 5.79% (2018 - n/a).
(ii) Pawnee has a combined U.S.$125 million non-recourse asset-backed facilities with Capital One ("CapOne facility"), through subsidiaries, Pawnee Receivable Fund I and II LLC. The CapOne facilities are secured by U.S.$154.2 million in gross receivables from Pawnee's prime portfolio of equipment leases and loans and repayment terms are based on the cash flow of the underlying portfolio. The proceeds were used to pay down Chesswood's existing revolving credit facility. The facilities require Pawnee to mitigate its interest rate risk by entering into interest rate caps for a notional amount not less than 80% of the aggregate outstanding balance. The balance of the facilities at March 31, 2019 was U.S.$74.9 million. Pawnee is to comply with leverage ratio, interest coverage ratio, and tangible net worth covenants. At March 31, 2019 and December 31, 2018, and throughout the periods presented, Pawnee was compliant with all covenants. Based on average debt levels, the effective interest rate during the three months ended March 31, 2019 was 5.80% (2018 - 5.61%).

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

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

Interest rates are fixed at the time of each advance and are based on Government of Canada Bond yields with maturities comparable to the term of the underlying leases plus a premium. Based on average debt levels, the effective interest rate during the three months ended March 31, 2019 was 3.57% (for the year ended December 31, 2018 - 3.37%). As at March 31, 2019, Blue Chip had provided $10.5 million in outstanding letters of guarantee through Chesswood's credit facility. Blue Chip must meet certain financial covenants, including leverage ratio, interest coverage ratio, and tangible net worth covenants, to support these securitization and bulk lease financing facilities. As at March 31, 2019 and December 31, 2018, and throughout the periods presented, Blue Chip was compliant with all covenants.

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

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

11. MINIMUM PAYMENTS

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

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

i. The Company and its subsidiaries are committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, with expirations up to 2025. See Note 8 - *Right-to-Use Assets*.
ii. Borrowings are described in Note 10 - *Borrowings*, and include fixed payments for Pawnee and Blue Chip's securitization facilities and Chesswood's corporate credit facility and Pawnee's warehouse facility, which are lines-of-credit and, as such, the balances can fluctuate. The amount above includes fixed interest payments on Pawnee and Blue Chip's credit facilities and estimated interest payments on the Chesswood corporate credit facility, assuming the interest rate, debt balance and foreign exchange rate at March 31, 2019 remain the same until the expiry date.
iii. The Company's experience has shown the actual contractual payment streams will vary depending on a number of variables including: prepayment rates, charge-offs and modifications. Accordingly, the scheduled contractual payments of customer security deposits shown in the table above are not to be regarded as a forecast of future cash payments.

The Company has no material "off-balance sheet" financing obligations, except for U.S.$7.7 million in letters of guarantee. For contingent liabilities and other commitments, refer to Note 18 - *Contingent Liabilities and Other Financial Commitments* of the 2018 annual audited consolidated financial statements.

12. CAPITAL MANAGEMENT

The Company's capital consists of borrowings and shareholders' equity. The Company's objectives when managing capital are to safeguard the Company's long-term ability to continue as a going concern and to provide adequate returns for shareholders. The Company's share capital is not subject to external restrictions.

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

Chesswood's three-year revolving senior secured U.S.$250 million credit facility supports growth in finance receivables, provides the Company's working capital needs and for general corporate purposes. The facility, available in U.S. or Canadian dollars, also improves the Company's financial flexibility by centralizing treasury management and making the provision of capital to individual businesses more efficient. This credit facility is secured by substantially all of the Company's assets, contains covenants including maintaining leverage and interest coverage ratios, and expires on December 8, 2020. At March 31, 2019 and December 31, 2018, and throughout the periods presented, the Company was compliant with all covenants.

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

13. COMMON SHARES

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

(a) Normal course issuer bids

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

In August 2018, the Board of Directors approved the repurchase and cancellation of up to 1,043,895 of the Company's outstanding Common Shares for the period commencing August 25, 2018 and ending on August 24, 2019. From August 25, 2018 to December 31, 2018, the Company repurchased 206,340 of its shares under the normal course issuer bid at an average cost of $10.2412 per share. During the three months ended March 31, 2019, the Company repurchased 60,760 of its shares under the normal course issuer bid at an average cost of $10.7884 per share. The excess of the purchase price over the average stated value of Common Shares purchased for cancellation was charged to retained earnings. Decisions regarding the timing of purchases are based on market conditions and other factors.

14. COMPENSATION PLANS

(a) Share options

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

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

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

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

During the three months ended March 31, 2019, 26,500 options were exercised (2018 - 56,135) for total cash consideration of $153,000 (2018 - $297,000). On exercise, the fair value of options that had been expensed to date during the vesting period of $57,000 (2017 - $138,000) was transferred from reserve to Common Share capital (Common Share capital was also increased by the cash consideration received upon exercise). For the options exercised in the three months ended March 31, 2019, the weighted average share price at the date of exercise was $11.18 (2018 - $10.78).

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

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

Grant date	Number of options outstanding	Vested	Expiry date	Exercise price
April 13, 2010	21,915	21,915	April 13, 2020	$ 4.49
April 25, 2011	197,500	197,500	April 24, 2021	$ 7.79
June 10, 2011	50,000	50,000	June 9, 2021	$ 7.73
December 6, 2011	170,000	170,000	December 6, 2021	$ 6.14
June 25, 2012	158,489	158,489	June 24, 2022	$ 7.45
December 6, 2012	125,000	125,000	December 6, 2022	$ 8.86
April 29, 2014	265,000	265,000	April 29, 2024	$ 14.12
April 16, 2015	160,000	160,000	April 16, 2025	$ 12.53
April 29, 2015	150,000	150,000	April 29, 2025	$ 12.24
August 15, 2016	334,950	212,450	August 15, 2026	$ 10.17
June 19, 2017	355,000	106,500	June 19, 2027	$ 12.15
March 28, 2018	370,000	111,000	March 28, 2028	$ 10.96
	2,357,854	1,727,854		

(b) Restricted share units

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

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

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

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

During the three months ended March 31, 2019, no RSUs were granted (2018 - 44,000) to directors. The grantees of such RSUs are not entitled to dividends before the RSUs are exercised. Such RSUs typically vest one year from the date of issue, are to be settled by the issue of Common Shares and expire in ten years. RSUs granted are in respect of future services and are expensed over the vesting period. Compensation cost is measured based on the weighted average market price of the Common Shares for the 10 days prior to the date of the grant of the RSUs (2018 - $10.96).

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

15. DIVIDENDS

Under the Chesswood revolving credit facility (see Note 13(a) - *Borrowings*), the maximum amount of cash dividends (and/or cost of any repurchases under normal course issuer bids) that the Company can pay in respect of a month is 1/12 of 90% of free cash flow for the most recently completed four financial quarters in which Chesswood has publicly filed its consolidated financial statements (including its annual consolidated financial statements in respect of a fourth quarter).

The following dividends were paid to Common Shareholders and Exchangeable Securities holders (included as non-controlling interest) during the three months ended March 31, 2019:

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

The following dividends were paid to Common Shareholders and Exchangeable Securities holders (included as non-controlling interest) during the three months ended March 31, 2018:

Record date	Payment date	Cash dividend per share ($)	Total dividend amount
			($ thousands)
December 29, 2017	January 15, 2018	$ 0.070	$ 1,264
January 31, 2018	February 15, 2018	$ 0.070	1,264
February 28, 2018	March 15, 2018	$ 0.070	1,261
			$ 3,789

16. EARNINGS PER SHARE

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

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

17. RELATED PARTY TRANSACTIONS

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

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

18. CASH FLOW SUPPLEMENTARY DISCLOSURE

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

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

19. SEGMENT INFORMATION

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

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

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

Selected information by segment and geographically is as follows:

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

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

Chesswood Group Limited

DIRECTORS, OFFICERS AND OTHER INFORMATION

Directors

Frederick W. Steiner
Director, Chairman of Chesswood Group Limited

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

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

David Obront
Director
President, Carpool Two Ltd.

Robert Day
Director
Former Chairman, Pawnee Leasing Corporation

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

Executive Team

Barry Shafran
President & C.E.O.

Lisa Stevenson
Chief Financial Officer

Other Information
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Transfer Agent
TSX Trust Company

Corporate Counsel
McCarthy Tétrault LLP

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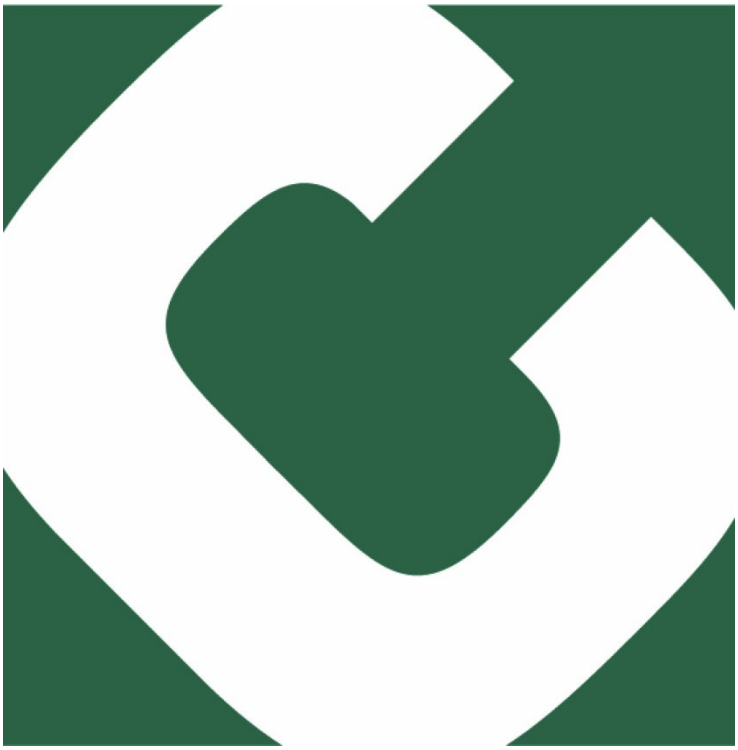

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