

CHESSWOOD GROUP LIMITED

CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

MARCH 31, 2012



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, 2012. 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.



FOR THE THREE MONTHS ENDED MARCH 31, 2012

TO OUR SHAREHOLDERS

We're pleased to show quarter over quarter growth in earnings as our first quarter of 2012 reflects an increase in earnings over the same period in the prior year, notwithstanding the effects of carrying the expenses of our start-up legal finance business, which was not part of our first quarter in 2011.

We saw the continued growth of our finance businesses in the quarter – Pawnee Leasing and Case Funding, while our Acura Sherway dealership eagerly awaits the arrival of brand new product, beginning in the second quarter of this year, after a prolonged period without any substantial product renewals.

The U.S. economy continues to be characterized by uncertainty, which limits the extent to which a recovery can take hold and build momentum. We are hopeful that as the election in the U.S. approaches we will see a further improvement in economic activity, which we believe would benefit Chesswood.

A handwritten signature in dark ink, appearing to read 'Barry Shafran', with a stylized flourish at the end.

Barry Shafran
President & CEO

COMPANY PROFILE

Chesswood Group Limited ("Chesswood" or the "Company"), is an Ontario corporation which is the successor to Chesswood Income Fund (the "Fund") following the "conversion" of the Fund under a plan of arrangement under the Business Corporations Act (Ontario), which became effective on January 1, 2011.

Through its interest in Pawnee Leasing Corporation ("Pawnee"), Chesswood is involved in the business of micro and small-ticket equipment finance to small businesses in the start-up and "B" credit market in the lower 48 states of the United States. Through its interest in Sherway LP, Chesswood is involved in selling, servicing and leasing Acura automobiles in the Province of Ontario. Through its interest in Lease-Win Limited ("Lease-Win"), Chesswood has a portfolio of automobile leases under administration. Through its interest in Case Funding Inc. ("Case Funding"), Chesswood is involved in the business of litigation financing to plaintiffs and attorneys and the purchase of medical liens that form part of litigation throughout the United States.

The Company's (as successor to the Fund) annual report and annual information form for the year-ended December 31, 2011, are available on SEDAR at www.sedar.com, and provide additional information on the Company and its operating companies.

The Company's common shares are listed on the Toronto Stock Exchange under the symbol CHW.



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BUSINESS OF PAWNEE

Pawnee is an equipment finance company that provides financing on micro and small-ticket business equipment. Pawnee focuses on small businesses (with a particular focus in the start-up and “B” credit segment of the U.S. equipment finance market), servicing the lower 48 states through a network of approximately 550 independent brokers. As of March 31, 2012, Pawnee administered 8,401 leases and loans in its portfolio, with remaining scheduled lease and loan payments of approximately U.S.\$134.6 million over the next five years.

Pawnee finances equipment where generally:

- (i) the equipment is fundamental to the core operations of the lessee’s business;
- (ii) the cost of the equipment usually does not exceed U.S.\$50,000;
- (iii) a personal guarantee of at least the major shareholder/owner is obtained; and
- (iv) all scheduled lease and loan payments are required to be paid by direct debit out of the lessee’s account.

Pawnee’s business does not involve financing of consumer goods. Pawnee funds only commercial equipment.

A key aspect of Pawnee’s business is managing potential risks in order to limit defaults to the greatest extent possible. Pawnee has developed a number of risk management tools and processes which it continually monitors and improves to address changes in its market and in the equipment finance industry.

Management believes that Pawnee is the leading micro and small-ticket funding source available to equipment financing brokers and borrowers in the start-up equipment finance market in the U.S. and is a well-recognized player in the “B” credit market. Pawnee’s success in these higher risk niche markets is due to Pawnee’s ability to select creditworthy businesses through its proprietary credit analysis matrix and process, to price for higher risk, and its efficient servicing and collection processes.

Pawnee has traditionally provided funding to two very similar micro and small-ticket commercial financing markets – the start-up market and the “B” credit market. The creditworthiness of start-up businesses does not fall into traditional credit categories because of their lack of business credit history. Pawnee defines “start-up” businesses to be those businesses with less than two years of operating history. “B” credit businesses are those that have two or more years of operating history and have some unique aspect to their overall credit profile such that they are not afforded an “A” rated credit source or that the business owner(s) do not have an “A” rated personal credit history.

The start-up and “B” credit segments of the micro and small-ticket equipment finance market have historically been, and continue to be, more sensitive to monthly lease/loan payment amounts than to the effective rates of interest charged.

Pawnee added a new product offering to a limited number of its broker network in late 2008. This additional “B” market product, now offered to most of Pawnee’s brokers, referred to as “B+” complements Pawnee’s long standing core “B” product, by offering funding to lessees that have stronger credit profiles than Pawnee had considered in the past.

Assessed as lower risk business than Pawnee’s traditional “B” business, “B+” borrowers receive funding based on rates that typically range from 14-26%. At March 31, 2012, approximately 51% of Pawnee’s lease and loan receivables consisted of the “B+” product. Pawnee expects its “B+” product to continue to grow.

As the U.S. economy continues to recover slowly, fewer new businesses are being started and many existing businesses are hesitant to acquire new equipment and thus require less funding. Pawnee has, as a result, experienced weaker demand for its core leasing product while Pawnee’s lease originations for the newer “B+” product have been increasing.



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Pawnee introduced a new financing product, Equipment Finance Agreements (“EFAs”) in the last quarter of 2011. This product is a loan and is secured by the equipment financed and personal guarantees. EFAs were introduced to capture business from customers that prefer a more traditional loan product when financing their equipment. EFAs are currently offered only to a selected group of brokers but are scheduled to be released to Pawnee’s entire broker population during the first half of 2012. Pawnee’s EFAs is part of Pawnee’s strategic plan to diversify its product offerings and increase customer loyalty from their brokers and lessees/borrowers. Underwriting requirements and standards for EFA’s are the same as those required for leases.

Pawnee’s business model is different from certain other leasing, equipment finance, consumer, sub-prime mortgage and finance companies in a number of important respects, including the following:

- Pawnee does not sell its leases and loans, but rather retains its leases and loans for their full term,
- Pawnee’s revenues are derived directly from its leases and loans, and are not derived from (and therefore, and more importantly, Pawnee’s revenues are not dependent upon) fees from the sale of its portfolio of leases and loans, and
- not only is there significant geographic diversification (within the United States) within Pawnee’s portfolio of leases and loans, there is also significant diversification in terms of the equipment funded and the industries in which Pawnee’s lessees and loans operate. At March 31, 2012:
 - no state represented more than 10.5% of the number of Pawnee’s total active leases, with the exception of California which represented 12.4%;
 - Pawnee financed over 70 equipment categories, with its five largest categories by volume, being restaurant, auto repair, titled trucks and trailers, beauty salon and computer equipment, which combined accounted for 55.4% of the number of active leases;
 - its lessees operated in over 85 different industry segments, with no industry concentration accounting for more than 14.9% of its number of active leases;
 - no lessee/borrower accounted for more than 0.01% of its total lease and loan portfolio; and
 - its largest source of lease originations accounted for 18.5% of its leases and loans as at March 31, 2012, and its ten largest origination sources accounted for 39.0% of its leases and loans.

Pawnee’s revenues and fundings are not dependent upon continuously finding third party buyers for its lease and loan portfolio (where demand is driven by factors such as prevailing interest rates and the quality of other available portfolios and other available investments). Rather, Pawnee has a continuing lending facility.

As of March 31, 2012, Pawnee employed approximately 38 full-time equivalent employees, over one-third of whom are dedicated to collection and default remediation.

SHERWAY LP AND LEASE-WIN

Sherway LP, through its Acura Sherway dealership, sells new Acura brand vehicles and related automobile services and products, and also sells used vehicles of various brands.

Lease-Win had 184 leases in its portfolio under administration with remaining scheduled lease payments totaling approximately \$2.4 million as at March 31, 2012. As of September 1, 2008, Lease-Win ceased originating new leases other than extensions with existing customers. Virtually all of Lease-Win’s leases are open-ended leases, which limits Lease-Win’s exposure to losses where the fair market value of a leased vehicle is less than its residual value at the end of the lease term.



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Chesswood's automotive business follows a seasonal pattern, with revenue and net earnings traditionally being significantly lower in the first quarter than in other quarterly periods.

CASE FUNDING ACQUISITION

On June 10, 2011, Chesswood acquired the shares of Case Funding Inc. ("Case Funding"), a newly incorporated and organized corporation which acquired the tangible and intangible assets required to carry on the going forward business of Quick Cash Inc. ("Quick Cash"), a provider of litigation financing to plaintiffs and attorneys throughout the United States.

The entire team of Quick Cash joined Case Funding and are combining their litigation finance experience with Chesswood's specialty finance expertise and financial resources to build a growth-oriented litigation finance business. Chesswood has committed to providing at least U.S.\$6 million in capital to Case Funding, from its existing cash resources.

The litigation finance market is a large underserved market that has been growing rapidly over the last decade. Case Funding provides litigators with loans based on a percentage of the value of their contingent fees and provides litigation funding for plaintiffs based on Case Funding's views of the strength of their lawsuits. Quick Cash has been in the litigation finance business since 2003. Case Funding did not acquire Quick Cash's existing portfolio of advances.

Management believes that Case Funding provides Chesswood with the ability to expand its specialty finance business by generating superior risk adjusted returns, through an existing infrastructure with market position, and in so doing provides opportunities for significant long-term growth.

The Litigation Funding Market - Overview

Litigation funding provides an alternative source of funding in situations where a person has a strong legal claim and where that person, or the person's law firm, is in need of financial resources to pursue the claim. Conventional lenders such as banks and commercial lenders generally avoid this market due to its relative complexity and lack of robust balance sheets (in the case of law firms), leaving both plaintiffs and law firms without the required funds to pursue potentially high probability, high dollar value cases.

In the United States, litigation funding improves fairness in the legal process by permitting a person lacking the required funds to pursue a claim against a "deep-pocketed" defendant. Litigation funding provides an alternative funding option for plaintiffs who are in financial need (due to inability to work, medical issues or otherwise), while their case is being litigated.

Many plaintiffs are unable to afford fee-based attorneys and are forced to seek out contingency attorneys who are willing to represent them on a percentage-of-win basis. Contingency based attorneys typically only pursue cases they feel have merit and can generate significant fees. Because of the delays in the litigation process, however, plaintiffs and their law firms still have a strong need for funds to see them through until the full settlement of their cases.

Before litigation funding, plaintiffs suffered a distinct disadvantage as they often had to wait years for their cases to be resolved. This delay caused many plaintiffs to prematurely settle potentially valuable claims at a substantial discount to their true value. The industry does not generally provide funding, unless an action has already commenced.

While litigation funding markets in the U.K. and Australia are reasonably mature, litigation funding is a young industry in the U.S., and is highly fragmented.



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There are significant variations amongst funders in the structure of loans and advances, especially to law firms, and in the fees and rates that are charged to plaintiffs and law firms. The attorney/law firm funding business is growing in the United States, as numerous but poorly capitalized litigation funding companies have emerged. In the United States, it is estimated that 10,000 to 20,000 plaintiff funding applications per month are presented to leading litigation funding companies.

Internationally there are several firms engaged exclusively in litigation financing that are publicly listed in foreign markets. These listed firms are primarily centered on corporate litigation with a focus on insolvency or commercial litigation.

In most states throughout the United States, it is illegal for lawyers to share contingency fees with non-lawyers, thereby prohibiting non-lawyers from becoming equity investors in law firms. To add to the difficulties presented to lawyers when financing their practices, banks in the United States do not generally lend to professional service businesses that do not have significant balance sheets. This situation leads to a fragmented, capital-hungry industry where no one law firm owns a significant percentage of the market for any type of tort claim in their primary state of practice.

Lawyers in the United States are limited in the way they can leverage their businesses. Larger, fee-based law firms doing corporate and defense work have long been able to obtain bank financing by pledging their receivables. However, subrogation and other contingency fee-based law firms have limited ability to access working capital financing from traditional banks. These firms are often forced to refer their cases out to larger trial firms and accept relatively small referral fees for their origination services because of their limited capital.

Attorney Fundings

Like all specialty finance businesses, Case Funding's attorney loans are structured and administered with a focus on risk management.

In order to mitigate the potential for loss, an attorney loan made by Case Funding will always be in an amount significantly less than the contingency fees that Case Funding expects, after its own independent evaluation, the attorney is likely to earn from the basket of existing cases against which the advance is made. Case Funding's advance rate is a maximum of 20% of the expected total fees. Only cases already in progress are eligible for inclusion in a basket.

Repayment of Case Funding's attorney loans is required by contract to be made on a priority basis, meaning that attorney fees resulting from settlements of cases from the basket are generally required to be used first to repay the loan, further reducing the potential for loan losses. In cases where Case Funding deems the law firm to be creditworthy, revolving arrangements can be negotiated where such law firms pay on each recovery from an identified case and Case Funding re-advances funds against new cases in an amount that fits within its risk and "loan-to-value" guidelines. This generates additional income opportunities from known clients.

In the case of attorney advances, such terms generally include; guarantees of the law firm, guarantees of the partners (often joint and several), registered liens against all of the firm's cases, a direction that requires the trust accounts to repay Case Funding upon receipt of proceeds and that all proceeds are to be held in escrow when received; generous effective annual rates of interest (25% - 40%) of which a portion is paid monthly or quarterly, and the balance is paid upon payout or partial payout; underwriting and origination fees; an acknowledgement that the borrowers have accepted a direction for payout; requirement to report on an ongoing basis the status of cases in the basket; provision of the firms monthly bank statements; notice provisions for all settled cases including copies of all remittance cheques; quarterly financial statements of the firm; assignment of attorney life insurance (on larger advances).

Case Funding primarily uses in-house lawyers to evaluate new applications for loans and advances. Case Funding's lawyers review the case files of cases being offered by the attorneys, and arrive at their own assessment of expected



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fees for the entire basket. These lawyers also perform ongoing administration as it relates to the assessment of changes to any significant cases in each basket, including a formal review every quarter.

Case Funding's staff along with at least one of its in-house counsel, visit most attorneys' offices as a key part of the due diligence, in assessing an application. While the visit includes the examination of case files, it also includes an assessment of the firm itself, including confirming that information regarding the firm matches up with an onsite visit, such as staffing, number of partners, etc. The standing and license of each partner is verified with the state's bar association.

Attorney advances generally have a longer term than plaintiff advances. Approximately 70% of attorney advances made by limited partnerships administered by Quick Cash prior to the purchase of Case Funding by Chesswood had been repaid by the end of the second year after origination, whereas almost 85% of plaintiff advances had been repaid in this same time period.

Because advances often function as lines of credit for the attorneys, where amounts are repaid and then advanced again, against additional (and collateralized) cases, cash flow with respect to principal repayment is "lumpy" and the term is generally longer.

Plaintiff Funding

Plaintiff advances are made on the probability of success and potential claim size, not the plaintiff's credit score. The standard for this industry is that advances are made on a non-recourse, at-risk basis where the funder forfeits its entire advance and any related fees if the plaintiff is not successful in the lawsuit.

In the United States, such "at risk" advances are not characterized as loans because there is no promise to repay in the event the plaintiff does not succeed in his or her lawsuit, and therefore in many states these advances are not subject to state usury laws. Inherent to the underwriting process is the approval for funding of cases that have a high probability of success, to be achieved either in pre-trial settlement or as a result of a judgment by a court.

Commercial banks in the United States have traditionally been unwilling to advance funding to plaintiffs or lawyers based on a contingent recovery, and lawyers are generally prohibited under state law from providing financial assistance to their clients. While the United States landscape is open to the use of plaintiff litigation funding, the key issues of acceptability include rights of access to justice, lending and usury laws, legal ethics, champerty and maintenance restrictions, public policy, and perception issues.

Plaintiff fundings generally have shorter terms than attorney fundings and are advanced in smaller amounts and can therefore provide Case Funding with "smoother" cash flow and a diversification of risk. In addition, it will not be unusual to make plaintiff advances, subject to Case Funding's normal underwriting policies, in response to the requests of attorneys that are often clients of Case Funding.

Medical Liens

Case Funding has started funding medical liens, as they are very similar to plaintiff advances. There is tremendous demand for financing medical procedures and/or purchasing medical liens relating to plaintiff cases where the plaintiff has little or no insurance, but has a valid case that Case Funding would otherwise be willing to advance against (after undergoing the same underwriting process as performed on a plaintiff advance).

Medical lien financing can be broken down into two main categories: early-stage procedures such as MRI's and later-stage procedures such as arthroscopy. Liens can commonly be purchased at 25-35% of the face amount of the debt and range in size from \$400 for an MRI to \$15,000+ for a medical procedure. In this type of transaction Case Funding essentially "steps into the shoes" of the medical provider by purchasing their medical lien (at a generous discount to the face value). In return, we receive a lien on the case proceeds which is acknowledged by the plaintiff's attorney via a "Letter of Protection". Because no interest is charged, our margin is the difference between the price we pay and the amount we ultimately collect. Medical liens are generally purchased later in the



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life cycle of the case and they would therefore have shorter durations than the average of plaintiff advances. The small ticket nature of medical liens is an attractive way to diversify the portfolio with another high-yielding product.

In addition, the medical lien business will enable Case Funding to capitalize on the void within the closely wound networks of attorneys and medical providers trying to service their plaintiffs/patients but lacking funds to do so.

Medical liens are recourse debt obligations of the patient.

As of March 31, 2012, Case Funding employed 9 full-time equivalent employees.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") is a review of the financial condition and results of operations of Chesswood Group Limited ("Chesswood" or the "Company") for the three months ended March 31, 2012. This discussion should be read in conjunction with the audited consolidated financial statements and accompanying notes of the Company for the year ended December 31, 2011 set forth in the Company's 2011 Annual Report. The fiscal year of the Company ends on December 31. The date of this MD&A is May 2, 2012. All dollar amounts in this MD&A are Canadian dollars, unless otherwise indicated.

Through its interest in Pawnee Leasing Corporation ("Pawnee"), Chesswood is involved in the business of micro and small-ticket equipment finance to small businesses in the start-up and "B" credit market in the lower 48 states of the United States. Through its interest in Sherway LP, Chesswood is involved in selling, servicing and leasing Acura automobiles in the Province of Ontario. Through its interest in Lease-Win Limited ("Lease-Win"), Chesswood has a portfolio of automobile leases under administration. Through its interest in Case Funding Inc. ("Case Funding"), Chesswood is involved in the business of litigation financing to plaintiffs and attorneys and the purchase of medical liens that form part of litigation throughout the United States.

The Company prepares its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") as set out in The Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company adopted IFRS as its basis of financial reporting commencing with the interim financial statements for the three-months ended March 31, 2011 using January 1, 2010 as the transition date (the "Transition Date"). In these unaudited condensed consolidated interim financial statements and MD&A, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS and IFRS refers to Canadian GAAP subsequent to the adoption of IFRS.

This discussion contains forward-looking statements. Please see "Forward-Looking Statements" for a discussion of the risks, uncertainties and assumptions relating to these statements. This discussion also makes reference to certain non-GAAP measures to assist in assessing the Company's financial performance. Non-GAAP measures do not have any standard meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. See "Non-GAAP Measures" for the definition of and reconciliation to GAAP measures of EBITDA and Adjusted EBITDA.

Our annual information form in respect of the fiscal year ended December 31, 2011 is available on SEDAR at www.sedar.com, and provides additional information and should be read in conjunction with this report, management's discussion and analysis, financial statements and notes thereto.

On January 1, 2011, Chesswood Income Fund (the "Fund"), which until that date had been a publicly listed income fund, was converted into the Company, an Ontario corporation, through a plan of arrangement under the Business Corporations Act (Ontario). In connection with the conversion to a corporation, unitholders of the Fund exchanged their trust units of the Fund ("Fund Units") for common shares of the Company ("Common Shares") on a one-for-one basis.

Accordingly, the Company is considered a continuation of the Fund and the consolidated financial statements are prepared using the continuity of interests method. Under this method, the assets, liabilities and equity of the Fund transferred to the Company on the conclusion of the conversion transaction are recognized at their net carrying amount (after the effect of the adoption of IFRS). Due to the application of the continuity of interests method, some expressions, such as “Company” and “Fund”, “unitholder” and “shareholder”, “Fund Units” and “Common Shares”, or “dividend” and “distribution”, may be used to describe the activities throughout these consolidated financial statements, depending on whether the transaction occurred before or after the conversion.

FORWARD-LOOKING STATEMENTS

In this report, management makes statements that are considered forward-looking statements. Forward-looking information consists of disclosure regarding possible events, conditions or results that is based on assumptions about future economic conditions and courses of action. Wherever used, the words “may”, “could”, “should”, “will”, “anticipate”, “intend”, “expect”, “plan”, “predict”, “believe”, and similar expressions identify forward-looking statements. These statements reflect management’s current beliefs and are based on information currently available to management, but indicate management’s expectations of future growth, results of operations, business performance, and business prospects and opportunities.

Forward-looking statements should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether, or the times at which, such performance or results will be achieved. Forward-looking statements are based on information available at the time they are made, assumptions made by management, and management’s good faith belief with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in forward-looking statements, historical results or current expectations. The Company assumes no obligation to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

The Company operates in a dynamic environment that involves various risks and uncertainties, many of which are beyond the Company’s control and which could have an effect on the Company’s business, revenues, operating results, cash flow and financial condition, including without limitation:

- continuing access to required financing;
- continuing access to products to allow us to hedge our exposure to changes in interest rates;
- risks of increasing default rates on leases;
- our provision for credit losses;
- increasing competition;
- increased governmental regulation of the rates and methods we use in financing and collecting on our leases;
- dependence on key personnel; and
- general economic and business conditions.

Readers should also carefully review the risk factors described under “Risk Factors” below and the risk factors described 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.

KEY PERFORMANCE INDICATORS – PAWNEE

Management regularly evaluates and analyzes key performance indicators, including the following, to more effectively operate Pawnee’s business:



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

	June 30 2010	Sep 30 2010	Dec 31 2010	Mar 31 2011	June 30 2011	Sep 30 2011	Dec 31 2011	Mar 31 2012
Number of leases and loans outstanding (#)	7,191	7,363	7,436	7,631	7,936	8,111	8,258	8,401
Gross lease and loan receivable ("GLR") ⁽¹⁾	\$104,541	\$105,908	\$107,498	\$112,615	\$120,251	\$125,021	\$130,601	\$134,613
Residual receivable	\$13,104	\$13,416	\$13,677	\$14,260	\$15,106	\$15,749	\$16,354	\$16,754
Net investment in leases and loan receivable, before allowance	\$81,709	\$83,484	\$85,613	\$90,389	\$96,372	\$100,489	\$105,905	\$109,832
Security deposits	\$9,332	\$9,615	\$9,830	\$10,179	\$10,609	\$10,930	\$11,233	\$11,478
Allowance for doubtful accounts – previous method	\$10,099	\$8,829	\$7,653	\$6,489	\$5,588	\$5,284	\$4,798	\$4,488
Allowance for doubtful accounts – IFRS	\$3,359	\$3,323	\$2,993	\$2,330	\$2,312	\$2,482	\$2,198	\$2,198
Over 31 days delinquency (% of GLR) ⁽²⁾	3.79%	3.58%	3.39%	2.29%	2.08%	2.10%	1.90%	1.54%
Net charge-offs for the three-months ended ⁽³⁾	\$2,030	\$1,428	\$1,620	\$1,407	\$1,133	\$1,114	\$1,146	\$1,097
Provision for credit losses for the three-months ended – previous method	\$984	\$158	\$445	\$243	\$231	\$810	\$659	\$787
Provision for credit losses for the three-months ended – IFRS	\$1,364	\$1,431	\$973	\$852	\$1,145	\$1,218	\$980	\$898

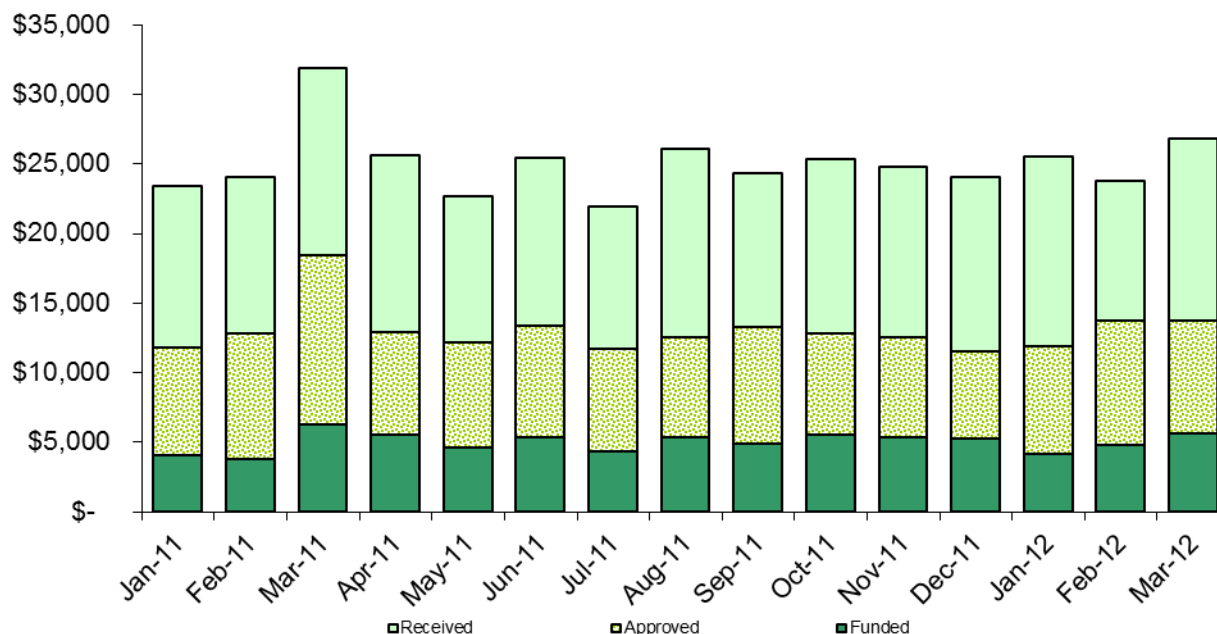
Notes:

- (1) Excludes residual receivable.
- (2) Over 31-days delinquency includes non-accrual gross lease and loan receivables. Pawnee ceases to accrue interest income on leases and loans after they become 94 days contractually past due unless information indicates that an earlier cessation of income is warranted and charges-off leases and loans when they become 154 days contractually past due, unless information indicates that an earlier charge-off is warranted.
- (3) Excludes the "charge-offs" of interest revenue on finance leases and loans on non-accrual leases recognized under IFRS.

Lease and Loan Application, Approval and Origination Volume

Management regularly reviews lease and loan application, approval and origination volumes, for trends that may indicate changes in the economic or competitive landscape that may necessitate adjustments in Pawnee's approach to doing business in its market segments. Pawnee also uses this data in its forecasting and budgeting process. Management reviews application approval data to analyze and predict shifts in the credit quality of Pawnee's applicants, and looks at individual broker approval rates to determine whether a broker is submitting applications that meet Pawnee's credit criteria. Pawnee refers to total originations as a percentage of leases and loans approved as the "closing ratio". Pawnee tracks and reviews the closing ratio to aid management in determining the efficiency and effectiveness of Pawnee's origination processes. Significant changes in any of these key metrics will usually result in a more detailed review, which may include review of broker, industry or equipment type, equipment cost, or geographic areas for specific results.

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



Asset Quality

Pawnee is a niche specialty finance company that is focused on doing business with commercial enterprises that are not usually considered by conventional financing sources and that generally have a higher risk profile. This exposes the firm to a greater risk level; however management has built an operating model that is based on managing this risk. As a result, Pawnee has been able to generate greater margins with lower volume than many typical finance companies.

Risk management begins with carefully selecting which independent brokers Pawnee does business with. Brokers must have personal credit profiles acceptable to Pawnee, industry references and preferably have been active in the equipment finance industry for a minimum of one year. Regional marketing managers are responsible for training and for developing a knowledge base with new and existing brokers regarding Pawnee's underwriting policies and procedures. This training process is very important in ensuring that neither the broker nor Pawnee spend extraordinary time in reviewing and handling applicants that can't meet Pawnee's basic qualifications. The managers are also responsible for monitoring the brokers for credit application review and closing efficiencies, including applications submitted, approved and ultimately funded.

The Pawnee credit process is not the automated scoring procedure typical of high volume equipment finance companies. A credit analyst reviews each application and manually completes a proprietary credit matrix which is used as a guide for reaching a prudent credit decision. The matrix is designed to ensure that all of Pawnee's analysts are consistent in their review of applications. Analysts are available to directly assist brokers submitting applications and communicate credit decisions, including what would make an applicant more likely to be approved. Four basic principles underscore all credit decisions on new leases and loans: (i) all business owners must personally guarantee the lease/loan and must therefore submit their personal credit information for consideration; (ii) all scheduled lease and loan payments must be paid through direct debit; (iii) all leases and loans must be on Pawnee's standard proprietary lease and loan documentation; and (iv) all leases and loans assigned to Pawnee must be approved by Pawnee in accordance with the same criteria used in originating its own leases and loans.



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Pawnee's credit matrix undergoes continual review by management, in addition to periodic assessment by outside professionals with statistical expertise.

Operating Efficiency

Pawnee manages operating performance using, in addition to other tools, a comprehensive budgetary review process. Included in this review are line-item-level comparisons of revenues and expenses to budget and trend data for the period then ended. If management finds there is a significant or unusual variance from budget or expectations, management will review the variance in detail and take corrective action, if necessary. Management focuses its attention on significant changes from projections and takes appropriate action, as necessary.

Pawnee's static pool loss analysis measures lease/loan loss performance by identifying a finite pool of lease originations and segmenting this pool into quarterly or annual vintages according to when the leases were originated. Poorly performing brokers, geographic areas, equipment types and industries are reviewed in more detail to determine if there is a systematic or other identifiable cause on which corrective action can be taken. For example, if management determines that Pawnee has unusually high losses on leases/loans for a particular type of equipment, management may raise the minimum required credit matrix score for those leases to be approved or stop originating leases of that equipment type altogether.

Collections

The ability to efficiently service and collect on leases and loans is critical in achieving appropriate profit margins and stable cash flows. Management of Pawnee recognizes the importance of the ability to collect on leases/loans and, as such, a great deal of emphasis is placed on the employment and retention of experienced collection personnel. Over one-third of Pawnee's personnel dedicate their activities to the collections process. Pawnee's collections department is structured to systematically and quickly resolve delinquent leases and loans whenever possible, mitigate losses and collect post-default recovery dollars.

Pawnee's collections activities begin when a lease/loan initially becomes delinquent. An account is recognized as troubled if for any reason the direct debit payment is not successfully received on the required due date – the account is immediately considered delinquent. When the lease/loan becomes 31 days past due, or earlier if the collector recognizes that the problem is something more significant than a past due payment, the lease/loan is referred to the appropriate negotiation, repossession/remarketing, bankruptcy or legal specialist on the Advanced Collection team. Pawnee regularly remediates a high percentage of leases/loans that go initially past due.

The Advanced Collection team's objective is to minimize Pawnee's loss through a combination of collecting payments, writing forbearances, repossessing and selling financed equipment, initiating lawsuits and, most importantly, negotiating settlements. After 154 days of delinquency, or earlier if the Advanced Collection team determines the account is uncollectible, the lease/loan is charged off.

After an account is charged off, it may continue to be handled internally when collection prospects for recovery through a personal guarantor or other remedy are considered good. If not, it is normally assigned to an independent collection agency for additional collection efforts. At this stage in the collections process, the primary sources of recovery are payments on restructured accounts, settlements with guarantors, equipment sales, litigation and bankruptcy court distributions.

Throughout the collections process, Pawnee's repossession/remarketing specialists perform a wide variety of functions, including acting on repossession requests from any collector, managing third-party vendors that perform repossession activities, working with remarketers to establish and approve the selling price on all repossessed equipment, and selling equipment on behalf of Pawnee.

KEY PERFORMANCE INDICATORS – CASE FUNDING

As a specialty finance business that began operations without a portfolio, management monitors Case Funding's overhead expenses as they compare to budget, on an ongoing basis, as well as tracking and measuring originations by product type, for volume, pricing and in the case of attorney loans, credit quality.

KEY PERFORMANCE INDICATORS – SHERWAY LP

Management monitors and analyzes a number of key indicators of the Acura Sherway dealership's operations, by profit centre/department. One key indicator for each department is the level of gross margins being generated – on a per unit and total volume basis. This measure, along with other metrics that may vary amongst departments, as applicable, is monitored daily, weekly and monthly. The analyses of these various metrics allows management to react quickly to trends, concerns and opportunities in each department, on a daily, weekly and/or monthly basis.

NON-GAAP & NON-IFRS MEASURES (“NON-GAAP MEASURES”)

The Company provides non-GAAP measures as supplementary information. Management believes EBITDA and Adjusted EBITDA are useful measures in evaluating the performance of the Company and in determining whether to invest in the Common Shares. 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. Investors are cautioned that EBITDA and Adjusted EBITDA should not be construed as an alternative to net income (loss) 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.

For 2010, per IFRS, the Fund had no ordinary equity holders as trust units of the Fund (“Fund Units”) and the shares of Chesswood U.S. Acquisitionco Ltd. (“U.S. Acquisitionco”) which were exchangeable for Fund Units and are now exchangeable for Common Shares (the “Exchangeable Securities”) were classified as liabilities. As the Fund had no ordinary equity holders per IFRS in 2010, the Fund cannot disclose an earnings or loss per share in the financial statements or notes thereto. Management believes that providing a comparable calculation to investors is a useful measure in evaluating the performance of the Company and in determining whether to invest in the Common Shares.

Definitions of EBITDA and Adjusted EBITDA

“EBITDA” is defined as net income (loss) adjusted to exclude interest, income taxes, depreciation and amortization.

“Adjusted EBITDA” is defined as EBITDA adjusted for (i) interest on leasing and vehicle credit lines, (ii) non-cash gain (loss) on interest rate swaps, (iii) non-cash unrealized gain (loss) on foreign exchange, (iv) non-cash unit compensation expenses, (v) non-cash fair value adjustments on other liabilities, (vi) distributions to unitholders in 2010 considered as an expense under IFRS, and (vii) the non-cash loss on sale of property and equipment.

Undiluted earnings per share is computed by dividing net income adjusted for non-cash fair value adjustments on other liabilities, tax adjustment on undistributed tax benefits at the unitholders' marginal tax rate, and distributions to unitholders (considered as an expense under IFRS in 2010) for the period by the weighted average number of Fund Units and Exchangeable Securities outstanding during the period.



FOR THE THREE MONTHS ENDED MARCH 31, 2012

Adjusted EBITDA ⁽¹⁾

For the quarter-ended (\$thousands)	2010 ⁽²⁾			2011				2012
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Net income (loss)	\$ 862	\$ (450)	\$ (721)	\$ 1,705	\$1,077	\$1,098	\$2,629	\$1,901
Interest expense	850	983	882	807	749	708	735	723
Income tax expense	1,163	887	2,138	1,900	1,321	1,345	1,516	1,883
Amortization	184	185	255	177	181	183	187	183
EBITDA ⁽¹⁾	\$ 3,059	\$ 1,605	\$ 2,554	\$ 4,589	\$3,328	\$3,334	\$5,067	\$4,690
Interest expense	(850)	(983)	(882)	(807)	(749)	(708)	(736)	(723)
Share-based compensation expense	456	712	993	500	429	342	373	427
Foreign exchange loss (gain)	4	77	46	78	15	(18)	(120)	53
Fair value adjustments – interest rate swaps	841	558	(763)	(335)	321	283	(238)	(161)
Fair value adjustments – other liabilities	(369)	1,330	1,553	—	—	—	—	—
Distributions to unitholders	323	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Adjusted EBITDA ⁽¹⁾	\$ 3,464	\$ 3,299	\$ 3,501	\$ 4,025	\$3,344	\$3,233	\$4,346	\$4,286

(1) EBITDA and Adjusted EBITDA are non-GAAP measures. See “Non-GAAP Measures” for their definitions.

(2) The amounts reflected for 2010 have been restated for the adoption of IFRS.

SELECTED QUARTERLY FINANCIAL INFORMATION

As at and for the quarter-ended (\$ thousands, except per share figures)	2010			2011				2012
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Revenue	\$ 20,627	\$ 20,196	\$ 20,313	\$ 17,748	\$18,894	\$18,932	\$21,590	\$18,996
Gross margin before expenses	6,848	6,739	7,029	7,208	7,185	7,402	8,626	8,017
Income before tax, and gain (loss) on interest rate swaps and other liabilities	2,820	2,325	2,325	3,270	2,719	2,726	4,032	3,623
Income before tax	2,025	437	1,416	3,605	2,398	2,443	4,270	3,784
Income tax provision	1,163	887	2,138	1,900	1,321	1,345	1,516	1,883
Net income (loss)	\$862	\$(450)	\$(720)	\$1,705	\$1,077	\$1,098	\$2,754	\$1,901
Basic earnings per unit/share ⁽³⁾	\$ 0.12	\$ 0.10	\$ 0.09	\$ 0.16	\$ 0.10	\$0.09	\$0.24	\$0.17
Diluted earnings per unit/share ⁽³⁾	\$ 0.09	\$ 0.10	\$ 0.08	\$ 0.15	\$ 0.09	\$0.09	\$0.23	\$0.16
Total assets	143,929	146,070	141,219	135,255	136,674	145,496	148,963	150,869
Long-term financial liabilities ⁽⁵⁾	86,552	87,829	85,769	67,653	71,808	77,448	79,810	78,445
Other Data								
Adjusted EBITDA ⁽¹⁾	\$ 3,464	\$ 3,299	\$ 3,501	\$ 4,025	\$3,344	\$3,233	\$4,346	\$4,286
Dividends/distributions declared ⁽⁴⁾	976	1,293	1,464	1,632	1,662	1,688	1,691	1,694
Dividends/Distributions declared per unit/share ⁽¹⁾⁽²⁾	\$ 0.105	\$ 0.12	\$ 0.135	\$ 0.15	\$0.15	\$0.15	\$0.15	\$0.15

(1) Adjusted EBITDA is a non-GAAP measure. See “Non-GAAP Measures” for the definition of Adjusted EBITDA.

(2) Based on weighted average units/shares outstanding during period.

(3) For 2010, per IFRS, undiluted and diluted income-per-unit are non-GAAP measures. See “Non-GAAP Measures” for the definition of undiluted and diluted income per unit for 2010.

(4) Includes dividends (distributions) on Exchangeable Securities (non-controlling interest).

(5) In 2010, per IFRS, Exchangeable Securities and share-based compensation reserve were classified as liabilities; please see notes to the 2011 Annual Report. In 2011, per IFRS these items were reclassified as equity items.



FOR THE THREE MONTHS ENDED MARCH 31, 2012

RESULTS OF OPERATIONS FOR THE THREE-MONTHS ENDED MARCH 31, 2012 AND 2011

Pawnee's U.S. dollar results for the three-months ended March 31, 2012 were converted at approximately 1.0011, which was the average exchange rate for the three-month period. The U.S. dollar results for the three-months ended December 31, 2011 were converted at approximately 0.9855, which was the average exchange rate for the corresponding period.

Please see Note 20 – *Segment Information* in the notes to the Company's unaudited condensed consolidated interim financial statements for a breakdown of operating results and other information by industry segment and geographic location.

For the three-months ended March 31, 2012, the Company reported consolidated net income of \$1.9 million compared to \$1.7 million in the same period in the prior year, an increase of \$196,000 year-over-year.

The \$196,000 increase in net income for the three-month period year-over-year was the result of:

- Pawnee's net income increased by \$182,000 in the three-month period compared to the prior year, predominantly from \$859,000 increase in finance income, offset by a \$289,000 increase in the provision for income taxes, \$129,000 increase in provision for credit losses, a \$174,000 reduction in the mark-to market unrealized gain on interest rate swaps and \$104,000 increase in personnel and other expenses compared to the prior year.
- Case Funding's net loss for the three-month period totalled \$193,000; which includes \$104,000 of non-cash expenses on behalf of a contingent consideration and bonus that may be payable up to 42 months from the acquisition date (\$43,000), and share-based compensation expense (\$61,000). Prior to these non-cash charges Case Funding had a net loss of \$89,000.
- Automotive operations net income decreased \$106,000 year-over-year which includes a decrease in net income from Sherway of \$98,800 and a \$7,200 decrease in Lease-Win's net income. Sherway's results are down predominantly due to a \$90,000 decrease in gross margin from the parts and service departments due to the unseasonably warm winter and good driving conditions. Lease-Win results reflect the wind-down in the leasing portfolio, and while generating a net loss for accounting purposes, it is generating cash flow that is more than sufficient to cover its operating needs and tax payments.
- Corporate overhead decreased \$313,000 predominantly from a \$274,000 reduction in income tax expense from 2011 and \$117,000 decrease in share-based compensation. In 2011, on conversion to a corporation, the tax rate applied to the deferred tax assets dropped from the Unitholders' marginal tax rate (46.41%) to the corporate rate, thus the deferred tax asset decreased by \$251,000 on January 1, 2011 and resulted in non-cash non-payable income tax expense of \$251,000 in 2011. Share-based compensation expense was lower in 2012 predominantly from fewer restricted share units granted to directors compared to the prior year.

Finance income totalled \$8.4 million in the three-months ended March 31, 2012; an increase of approximately \$1.0 million from the same period in the prior year, predominantly due to an increase of \$859,000 in Pawnee finance income as a result of the growth in the portfolio year-over-year and \$266,000 from Case Funding offset by a \$134,000 decrease at Lease-Win as a result of the decline in the number of leases outstanding year-over-year.

Interest expense on lease financing credit facilities totaled approximately \$674,000 in the three-months ended March 31, 2012 compared to \$754,000 in the same period in the prior year, a decrease of \$80,000 year-over-year. Lease-Win's interest expense decreased by \$61,000 year-over-year in the three-month period due to the decrease in securitization debt outstanding. Chesswood deploys some of its cash surplus at Pawnee, in order to reduce Pawnee's interest expense.



FOR THE THREE MONTHS ENDED MARCH 31, 2012

Revenue from automotive operations totaled \$10.6 million in the three-months ended March 31, 2012 compared to \$10.3 million for the same period in the prior year, an increase of \$257,000 year-over-year. A \$304,700 increase in vehicle sales in the three-month period year-over-year at Lease-Win was the predominant reason for the increase in automotive revenue.

Notwithstanding there was a \$257,000 increase in automotive revenue in the three-month period year-over-year, the automotive operations gross profit decreased by \$130,000 year-over-year; which includes a decrease in gross profit from Sherway of \$79,100 and a \$51,500 decrease in Lease-Win's gross profit year-over-year in the three-month period. The decrease in Lease-Win's gross profit is consistent with the gradual wind-down of Lease-Win. Sherway's gross margin is down predominantly due to a \$90,000 decrease in gross margin from the parts and service departments due to the unseasonably warm winter and good driving conditions.

During the three-month period ended March 31, 2012, the provision for credit losses totaled \$969,000 compared to \$837,000 in the same period in the prior year, an increase of \$132,000 year-over-year. In the three-month period, Pawnee's actual net charge-offs decreased by U.S.\$310,000 year-over-year. Pawnee's non-cash decrease in allowance for doubtful accounts totaled U.S.\$199,000 compared to a non-cash decrease of U.S.\$555,000 in the allowance for doubtful accounts in the same period in 2011, which led to a U.S.\$356,000 increase in the provision for credit losses year-over-year.

Personnel expenses totaled \$2.3 million for the three-months ended March 31, 2012 compared to \$2.2 million in the same period in the prior year, an increase of \$175,000. The predominant reasons for the \$175,000 increase in personnel expenses were the addition of \$245,000 in personnel expenses (of which \$9,000 relates to the accrual of a potential bonus payable in 2014) at Case Funding, which was acquired in June 2011 which were offset by the decrease of \$73,000 in non-cash share-based compensation.

Other general and administrative expenses totaled \$1.9 million for the three-months ended March 31, 2012 compared to \$1.6 million in the same period in the prior year, an increase of \$275,000, predominantly as a result of \$153,000 in expenses generated from our new company Case Funding.

The provision for income taxes for the three-months ended March 31, 2012 totaled \$1.9 million relatively unchanged from the same period of the prior year. The \$1.9 million provision for income taxes for the three-months ended March 31, 2012 is comprised of \$392,600 in current tax expense and \$1.5 million in deferred tax expense offset by a \$18,000 increase in the deferred tax asset.

STATEMENT OF FINANCIAL POSITION

Total consolidated assets of the Company at March 31, 2012 were \$150.9 million, an increase of \$2.0 million from December 31, 2011. The exchange rate on March 31, 2012 was 0.9991 compared to 1.017 at December 31, 2011. The change in the foreign exchange rates decreased assets by \$1.4 million, thus total assets excluding the foreign exchange impact increased by \$3.4 million from December 31, 2011.

Cash totaled \$4.3 million at March 31, 2012 compared to \$7.3 million at December 31, 2011, a decrease of approximately \$3.0 million. The decrease in cash is the result of deploying excess cash at Pawnee and Case Funding, to fund portfolio growth, instead of using the credit facility. At March 31, 2012, approximately U.S.\$9.2 million that would have been sent up to Chesswood under the previous agreement was still at Pawnee, being utilized to fund portfolio growth and to lower interest costs. Subsequent to the quarter-end, U.S.\$8.0 million of those funds were sent to Chesswood.

As Lease-Win continues its wind down, it is accumulating cash balances, which will be used to satisfy its tax obligations. During the three-months ended March 31, 2012, Lease-Win has paid \$296,000 in income taxes relating to 2012. At March 31, 2012, \$500,000 (December 31, 2011 – \$500,000) of Chesswood's consolidated cash balance represents funds on hand at Lease-Win.



FOR THE THREE MONTHS ENDED MARCH 31, 2012

Accounts receivable totaled \$1.2 million at March 31, 2012 relatively unchanged from December 31, 2011. The accounts receivable balance principally relates to the Acura Sherway dealership and includes amounts due from the manufacturer for financing contracts in transit, which are typically collected within seven to ten days, and are usually at their highest levels at month end. Vehicle receivable balances fluctuate throughout the year based on seasonality, and sales volumes of the industry.

Inventory totaled \$9.5 million at March 31, 2012 compared to \$6.1 million at December 31, 2011, an increase of \$3.5 million. Vehicle inventory balances at dealerships fluctuate throughout the year based on seasonality, sales volumes and market conditions.

Finance receivables consist of the following:

	March 31, 2012	December 31, 2011
	<i>(\$ thousands)</i>	
Net investment in leases – pledged	\$388	\$814
Litigation finance receivables	2,510	1,616
Equipment financing agreements	840	65
Net investment in leases	108,889	108,026
	\$112,627	\$110,521

Lease-Win's securitized net investment in lease receivables totaled \$388,000 compared to \$814,000 at December 31, 2011, relating to \$395,000 in gross lease receivables (December 31, 2011 - \$837,000). At March 31, 2012, 16.2% of Lease-Win's gross lease receivable was securitized compared to 23.3% at December 31, 2011, which reflects Lease-Win's decision to self-finance shorter-term leases. Lease-Win had used securitization for funding its leasing activities since July 1997. As of September 1, 2008, Lease-Win ceased originating new leases other than extensions with existing customers.

Litigation finance receivables consist of funds advanced to plaintiffs, attorneys and for the purchase of medical liens relating to plaintiff cases. At March 31, 2012, there were 163 advances and loans outstanding (December 31, 2011 – 123 advances and loans). The advances and loans are due when the underlying cases are settled, however, when recognizing interest income for accounting purposes, the collection date is estimated and thus total funds to be collected are estimated based on this estimated collection date and the interest rate in the contract. Since launching Case Funding in June 2011, approximately U.S.\$3.0 million in loans and advances have been originated, of which U.S.\$871,000 has been collected on settlement of the related underlying cases, U.S.\$758,300 of which was principal repayment.

Pawnee introduced a new financing product, Equipment Finance Agreements ("EFAs") in the last quarter of 2011. This product is a loan and is secured by the equipment financed as well as personal guarantees. EFAs were introduced to capture business from customers that prefer a more traditional loan product when financing their equipment. While EFAs are very common in the industry, including from Pawnee's competitors, we currently offer them only to a select group of brokers but are scheduled to offer them to Pawnee's entire broker population during the first half of 2012. Underwriting requirements and standards for EFA's are the same as those required for leases. Pawnee manages the EFAs as if they were leases and thus the comparison below includes both. For accounting purposes, they are considered loans and not leases and need to be shown separately in the notes to the financial statements.

As at March 31, 2012, net investment in leases and EFAs totaled \$109.7 million compared to \$108.1 million at December 31, 2011, an increase of \$1.6 million or 1.5%; the increase was comprised of:



FOR THE THREE MONTHS ENDED MARCH 31, 2012

	(\$ thousands)
Decrease in allowance for doubtful accounts	\$ 245
Increase of 143 leases/loans since December 31, 2011 at Pawnee	1,869
Increase of U.S.\$248 per lease/loan in the average book value	2,046
Decrease in net investment in leases and EFAs from change in foreign exchange	(1,896)
Net decrease in net investment in non-securitized leases at Lease-Win	(626)
Total increase in net investment in leases and EFAs	<u>\$1,638</u>

The gross lease receivable of leases and loans under administration as at March 31, 2012 was approximately \$136.9 million, compared to \$136.4 million at December 31, 2011. Pawnee's gross lease and loan receivable represented \$134.5 million (U.S.\$134.6 million) of the total gross lease/loan receivable outstanding at March 31, 2012, compared to \$132.8 million (U.S.\$130.6 million) at December 31, 2011.

Lease-Win's gross lease receivable under administration totaled \$2.4 million at March 31, 2012 compared to \$3.6 million at December 31, 2011, a decrease of \$1.2 million. As of September 1, 2008, Lease-Win ceased originating new leases other than extensions with existing customers.

The \$109.7 million in net investment in leases and loans is net of \$2.1 million in allowance for doubtful accounts compared to \$2.4 million in allowance for doubtful accounts at December 31, 2011. Under IFRS, an allowance can only be set up if there is objective evidence that the impairment has already occurred; potential losses expected as a result of future events, no matter how likely based on past historical evidence, are not allowed to be recognized. Pawnee charges-off leases when they become 154 days contractually past due, unless information indicates that an earlier charge-off is warranted. A high percentage of the charge-offs are made before the subject leases reach 154 days contractually past due. As only a small percentage of the total lease receivable portfolio have monthly lease payments that are past due at any one reporting date, the portion of the lease receivables that shows observable objective evidence of impairment at any one reporting date is quite small, despite long-term historical experience that indicates that future charge-offs with respect to the current lease receivable will typically exceed the level of observable impairment, in a matter of months.

Unlike certain other equipment finance companies, Pawnee does not sell any of its lease receivables. All receivables originated by Pawnee are retained for their full term. Pawnee funds its leases through a floating rate facility offered by a banking syndicate, as discussed below.

Intangible assets totaled \$7.2 million at March 31, 2012 compared to \$7.4 million at December 31, 2011. The \$239,000 decrease in intangible assets is comprised of a \$114,000 decrease as the result of the change in foreign exchange rates and \$125,000 in amortization of broker relationships. 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.

Goodwill totaled \$13.9 million at March 31, 2012, compared to \$14.1 million at December 31, 2011. The movement in foreign exchange rates resulted in a decrease of \$204,000 in goodwill during the three months ended March 31, 2012. Goodwill is typically tested annually for impairment unless certain circumstances arise that would require an assessment prior to an annual review.

Vehicle inventory is financed through vehicle financing credit facilities, of which \$8.6 million was outstanding at March 31, 2012 compared to \$4.9 million at December 31, 2011, leaving \$1.0 million of inventory that was self-financed as at March 31, 2012 relatively unchanged from the amount of inventory self-financed at December 31, 2011. Vehicle inventory balances at dealerships fluctuate throughout the year based on seasonality, sales volumes and market conditions.

Pawnee enters into interest rate swap agreements with its principal lender under its banking facility that provides for payment of an annual fixed rate, in exchange for a LIBOR based floating rate amount. Pawnee's bank has the option to terminate the swaps typically one year prior to the maturity date. The interest rate swaps are intended to offset a



FOR THE THREE MONTHS ENDED MARCH 31, 2012

portion of the variable interest rate risk on the credit facility. At March 31, 2012, the mark-to-market adjustment is a loss of approximately \$2.3 million compared to a loss of approximately \$2.6 million at December 31, 2011 and is shown as a liability on the statement of financial position.

The following interest rate swaps were outstanding at March 31, 2012:

<u>Effective Date</u>	<u>Notional Amount U.S.\$</u>	<u>Annual Fixed Rate</u>	<u>Maturity date</u>	<u>Bank Call Date</u>
March 2011	15,000,000	3.12%	March 2014	n/a
March 2012	15,000,000	4.00%	March 2015	n/a

Pawnee's interest rate swaps are not considered trading instruments as it intends to hold them until termination. Nonetheless, the interest rate swaps do not qualify as a hedge for accounting purposes, and are therefore recorded as a separate derivative financial instrument. Accordingly, the estimated fair value of the interest rate swaps is recorded as a liability on the accompanying consolidated statement of financial position. Payments made and received pursuant to the terms of the interest rate swaps and adjustments to the fair value of the interest rate swaps are recorded as an adjustment to interest expense. The fair value of interest rate swaps is based upon the estimated net present value of cash flows, and does not necessarily reflect the amount that would be required to settle the interest rate swaps.

Lease and loan financing of \$39.7 million at March 31, 2012 compared to \$41.7 million at December 31, 2011, includes Pawnee's financing bank line of \$39.4 million (December 31, 2011 - \$41.0 million) and Lease-Win's securitization debt of \$313,000 (December 31, 2011 - \$707,000). Pawnee was utilizing U.S.\$39.7 million of its credit facility at March 31, 2012 compared to U.S.\$40.6 million at December 31, 2011. Pawnee's line-of-credit decreased by U.S.\$900,000 from December 31, 2011 even though the net investment in leases and loans, net of security deposits, rose by U.S.\$3.7 million from December 31, 2011, a difference of U.S.\$4.6 million. Approximately U.S.\$2.3 million of that U.S.\$4.6 million was funded by funds that would have been sent up to Chesswood as dividends relating to December through February. Pawnee continues to benefit from increased operating cash flows to fund portfolio growth as they have not been required to pay federal taxes since 2007 as a result of the accelerated bonus depreciation in the U.S. Economic Stimulus Act and therefore servicing a much lower bank line. If bonus depreciation is not extended, it is estimated that Pawnee would have to begin paying taxes in late 2013 and a rise in the bank debt would occur at that time.

In September 2010, Pawnee renewed and expanded its credit facility which was due to mature in May 2011. The credit facility limit has been increased by U.S.\$2.5 million to U.S.\$55.0 million, while the accordion feature of the loan agreement has been increased to U.S.\$85.0 million from U.S.\$65.0 million. Pawnee's borrowings under the credit facility are subject to, among other things, adhering to certain percentages of eligible gross lease receivables, and the maintenance of a minimum debt to tangible net worth ratio. This credit facility is secured by substantially all of Pawnee's assets, contains negative covenants including the maintaining of leverage and interest coverage ratios, requires Pawnee to mitigate its interest rate risk by entering interest rate swaps for a notional amount not less than 50% of the outstanding amount, and matures on September 24, 2013. Pawnee was in full compliance with all its bank covenants during the period.

The majority of the \$11.5 million (December 31, 2011 - \$11.5 million) in customer security deposits relates to security deposits held by Pawnee. Pawnee's primary lease contract requires that the lessee provide two payments as security deposit (not advance payments), which are held for the full term of the lease and then returned or applied to the purchase option of the equipment at the lessee's request, unless the lessee has previously defaulted (in which case the deposit is applied against the lease receivable). Historically, a very high percentage of lessees' 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 approximate \$21,000 increase in the security deposit balance from December 31, 2011 is due to a \$230,000 increase in security deposits at Pawnee, \$201,700 decrease as a result of fluctuation in the foreign exchange rates and \$7,247 decrease in security deposits at Lease-Win.



FOR THE THREE MONTHS ENDED MARCH 31, 2012

Future income taxes payable at March 31, 2012 totaled \$24.2 million compared to \$23.2 million at December 31, 2011, an increase of \$1.0 million. The increase in future income taxes payable is the result of a future income tax provision of approximately \$1.5 million and \$393,000 decrease as a result of the change in foreign exchange rates.

Income taxes at Pawnee and Lease-Win 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 subsidiaries' assets and liabilities and their corresponding tax basis.

At March 31, 2012, there were 9,817,234 Common Shares outstanding (excluding the share issuable in exchange of the Exchangeable Securities) with a book value of \$43.9 million.

In August 2011, Chesswood's board of directors approved the repurchase and cancellation of up to 655,072 of the Company's outstanding Common Shares for the period commencing August 25, 2011 and ending on August 24, 2012. To date, no Common Shares have been repurchased under the normal course issuer bid.

Non-controlling interest is comprised of the Exchangeable Securities, being the 1,274,601 Class B common shares and 203,936 Class C common shares of U.S. Acquisitionco outstanding. The Class B and C common shares of U.S. Acquisitionco were issued as partial consideration for the acquisition of Pawnee and are fully exchangeable at any time for Common Shares, on a one-for-one basis, through a series of steps. Attached to the Exchangeable Securities are Special Voting Units of the Company which provide the holders of the Exchangeable securities voting equivalency to Company Shareholders. Under IAS 27, 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 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 the Fund converted to a corporation), per IFRS, the value attributed to the non-controlling interest was just the fair value of the equivalent Common Shares (closing value of Fund Units on the Toronto Stock Exchange on December 31, 2010) as the Exchangeable Securities are fully exchangeable into 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 going forward their portion of income and dividends will be 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, 2012.

Accumulated other comprehensive loss is the cumulative translation difference between the exchange rate on January 1, 2010, the IFRS adoption date and the exchange rate on March 31, 2012 of self-sustaining foreign operations net assets.

LIQUIDITY AND CAPITAL RESOURCES OVERVIEW

The primary sources of cash for the Company and its subsidiaries has been cash flows from operating activities, and borrowings under its various subsidiaries' credit facilities. The primary uses of cash for the Company and its subsidiaries are to fund equipment leases, long-term debt principal repayments and dividends.

The Company's subsidiaries' objective is to maintain low cash balances, investing any free cash in their operations as needed and using any excess to pay down debt on the primary financing facilities. The subsidiaries fund working capital needs, lease originations and growth using advances under credit facilities available when operating cash flow is not sufficient. At March 31, 2012, the Company's operating units had \$15.4 million in additional borrowings available under various credit facilities to fund business operations.

The Company itself does not have any credit facility. The subsidiaries' credit facilities are used to provide funding for the subject subsidiary's operations (i.e. to provide financing for the purchase of assets which are to be the subject of leases and loans or to acquire vehicle inventory and support working capital), other than Case Funding which is in



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the process of seeking a banking partner. The credit facilities are not intended to directly fund dividends by the Company (and these facilities generally limit the amount which can be distributed to the Company to the net income of the subject subsidiary).

The following table presents the maturity structure for undiscounted contractual cash flows:

(\$ thousands)	2012	2013	2014	2015	2016	2017+	Total
Accounts payable and other current liabilities	\$ 4,768	\$ 24	\$ 178	\$ 24	\$ 24	\$ 12	\$ 5,030
Vehicle financing	8,578	—	—	—	—	—	8,578
Interest rate swaps	—	—	815	1,531	—	—	2,346
Securitization debt (i)	292	22	—	—	—	—	314
Contingent consideration	—	—	615	—	—	—	615
Lease financing (ii)	—	39,428	—	—	—	—	39,428
Customer security deposits (i)	2,350	3,374	3,115	1,591	1,004	85	11,519
	<u>\$ 15,988</u>	<u>\$ 42,848</u>	<u>\$ 4,723</u>	<u>\$ 3,146</u>	<u>\$ 1,028</u>	<u>\$ 97</u>	<u>\$ 67,830</u>

- i. *The Company's experience indicates that 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 securitization debt and customer security deposits shown in the table above are not to be regarded as a forecast of future cash payments.*
- ii. *Pawnee's financing credit facility is a line-of-credit; as such the balance can fluctuate. The interest rate is also floating, thus the interest payments are dependent on the balance of the line-of-credit and interest rate at any point of time. The credit facility matures in 2013. The Company expects to extend the credit facility with the current lenders or alternative financing will be obtained.*

The Company has no material "off-balance sheet" financing obligations, except for long-term lease agreements. The nature of these lease commitments is described in Note 17 to these condensed consolidated interim financial statements. Other commitments are disclosed in Note 30 (b)(ii)-(iv) of the annual consolidated financial statements for the year ended December 31, 2011.

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 and cash equivalents at the beginning and end of the year. Cash flows in foreign currencies have been translated at the average 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. Receipts and payments with respect to income tax are included in cash from operating activities. The Company considers net investment in leases, net investment in leases – pledged, litigation finance receivables, vehicle financing, lease financing, securitization debt and customer security deposits as operational assets and liabilities as they directly relate to our core business. The changes in these operational assets and liabilities are shown in cash flows from operating activities and the associated interest revenue and interest expenses are included in operating activities and not investing or financing activities. Cash flow from investing activities comprises payments relating to the acquisition of companies and property and equipment. Cash flow from financing activities comprises payment of dividends, proceeds from stock issues, and the purchase and sale of treasury stock.

For the three-months ended March 31, 2012

The Company's operations generated cash flow from operations before the changes in operating assets and liabilities of \$5.7 million during the three-months ended March 31, 2012 compared to \$5.4 million in the three-months ended March 31, 2011, an increase of \$363,000 compared to the same period in the prior year.



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The changes in net operating assets during the three-months ended March 31, 2012 reflects utilization of \$6.5 million in funds compared to \$11.6 million in the three-months ended March 31, 2011, an increase in cash flow of \$5.1 million compared to the prior year. During the three-months ended March 31, 2012, investment in net direct financing leases and equipment finance agreements (net of security deposits and lease financing) totalled \$5.5 million (2010 – \$11.5 million); a decrease of \$6.0 million in operating cash flows to fund leases year-over-year in the three-month period. Pawnee received a \$5.1 million tax refund in the three months ended March 31, 2011 and used it to fund net investment in leases and pay-down their lease financing line-of-credit. Pawnee continues to use cash flow from operations to fund net investment in leases and equipment finance agreements instead of utilizing their lease financing line-of-credit. Prior to September 2010, Pawnee's banking agreement required Pawnee to send the permitted monthly dividends to Chesswood each month or lose the ability to pay out the permitted dividend. The banking agreement entered into in September 2010 allows the permitted monthly dividends of any one fiscal year to remain at Pawnee until the earlier of April of the following year or such time as Chesswood chooses to receive the permitted dividends. Thus, at March 31, 2012, approximately U.S.\$9.2 million that would have been sent up to Chesswood under the previous agreement was still at Pawnee, being utilized to fund portfolio growth and lower interest costs. The increase in cash utilized year-over-year includes \$925,000 was used to finance litigation finance receivables in 2012.

Chesswood had net tax payments of \$450,000 in the three-months ended March 31, 2012 compared to net tax receipt of \$4.4 million in the same period of the prior year, a net decrease of \$4.0 million in cash flow year-over-year. Pawnee continues to benefit from increased operating cash flows to fund portfolio growth as they have not been required to pay federal taxes since 2007 as a result of the accelerated bonus depreciation in the U.S. Economic Stimulus Act. This has also resulted in interest savings due to lower debt levels. If the bonus depreciation is not extended, it is estimated that Pawnee would have to begin paying taxes in late 2013 and a rise in the bank debt would occur at that time.

Capital expenditures totaled \$59,000 (2011 – \$162,000) during the three-months ended March 31, 2012.

The Company paid dividends to shareholders in the amount of \$1.7 million during the three-months ended March 31, 2012 compared to \$1.6 million in the same period in the prior year; an increase of \$117,000 due to higher number of shares outstanding and higher dividend per share amounts year-over-year.

In total, in the three-months ended March 31, 2012, there was a decrease in cash of \$3.0 million compared to a decrease of \$3.5 million in the same period in the prior year; an increase of \$528,000. The decrease in cash in both years is the result of using excess cash to fund portfolio growth and lower interest costs than utilizing the subsidiaries' credit facilities and the timing of when the permitted dividends are sent up from Pawnee.

Chesswood's directors will continue to review cash flow and cash position, to determine appropriate changes, if any, to the dividend policy going forward. Chesswood's cash flow may or may not attain the levels necessary to generate the current level of dividends.

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 credit facilities. Chesswood may require additional funds to finance future acquisitions and support significant internal growth initiatives such as Case Funding's operations and Pawnee's portfolio growth. It will seek such additional funds, if necessary, through public or private equity or debt financings from time to time, as market conditions permit.

Financial Covenants, Restrictions and Events of Default

The Company's operating subsidiaries are subject to bank and/or manufacturer covenants relative to leverage and/or working capital, other than Lease-Win, which no longer has or needs a banking facility.

Pawnee funds its business primarily through variable rate borrowings and has a revolving credit facility for up to U.S.\$55 million which can, subject to certain conditions, be extended to U.S.\$85 million. As of March 31, 2012,



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Pawnee had used approximately U.S.\$39.7 million of its available borrowing under this facility (U.S.\$40.6 as of December 31, 2011). Pawnee's ability to access funding at competitive rates through various economic cycles enables it to maintain the liquidity necessary to manage its business, and its ability to continue to access funding is an important condition to its future success. Pawnee is required to purchase fixed interest rate hedges for at least 50% of the outstanding commitment under its credit facility, and as of March 31, 2012 Pawnee has hedged U.S.\$30.0 million, representing approximately 75.6% of the U.S.\$39.7 million outstanding under the credit facility.

Pawnee's secured borrowing agreement has financial covenants and other restrictions with which it must comply in order to obtain continued funding and avoid default. Events of default under these arrangements include a change in control without lender-approval.

Advances on the revolving facility may be drawn at any time, subject to compliance with borrowing base calculations and compliance with the covenants set out therein. As of March 31, 2012, U.S.\$39.7 million was outstanding under the facility and Pawnee had capacity to draw up to and in excess of the U.S.\$55.0 million commitment and remain within the borrowing base under the facility.

Pawnee is restricted in its ability to merge, acquire companies or be acquired, or incur additional debt without lender approval. Furthermore, dividends are limited to compliance with all bank covenants and may not exceed 95% of Pawnee's consolidated net income, as determined in accordance with U.S. GAAP, with a few adjustments, including mark-to-market adjustments for interest rate swaps. Pawnee's permitted dividends issued up to Chesswood would be reduced to 90% of consolidated net income, as determined in accordance with GAAP, excluding mark-to-market adjustments for interest rate swaps, should Pawnee's leverage rise to a specified level.

Pawnee is subject to the risk of increases in interest rates as the credit facility used to fund the business operations has a variable interest rate, while the yields on its equipment leases are fixed. Pawnee seeks to mitigate that risk through the use of swap agreements that effectively convert floating rate debt to fixed rates.

If the current variable rate credit facility were to become unavailable and Pawnee was unable to obtain replacement facilities on acceptable terms, or at all, Pawnee may not have access to the financing necessary to conduct business, which would limit its ability to fund operations. Pawnee's current funding agreement expires on September 24, 2013.

Dividends to Shareholders

The Company declared cash dividends during the three months ended March 31, 2012 as follows:

<u>Shareholder Record Date</u>	<u>Per Share</u>
January 31, 2012	\$ 0.05
February 28, 2012	\$ 0.05
March 31, 2012	<u>\$ 0.05</u>
	<u>\$ 0.15</u>

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).

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.



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OUTLOOK

We hope to see continued growth in our portfolios through the balance of the year, in an uncertain economic climate that is over-shadowed by the upcoming election in the U.S. and the seemingly endless European debt crisis.

Our Acura dealership has begun to feel the positive effects that new and newly designed models can bring to bear. The relative success these new models experience in the market will have a direct effect on the near-term financial performance of the dealership. Early indications are promising.

We continue to refine and position the products Case Funding brings to the market, as we remain focused on underwriting standards in priority to volume.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Understanding the Company's accounting policies is essential to understanding the results of the Company's operations and financial condition. These unaudited condensed consolidated interim financial statements were prepared in accordance with IFRS and IAS 34. The Company's significant accounting policies are described in Note 4 to the Company's consolidated financial statements for the year ended December 31, 2011. For the three months ended March 31, 2012, there were no changes to the critical accounting policies and estimates from those described in the 2011 annual report. The preparation of these 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 financial statements. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties and the most significant of which are described below.

Investment in Leases

The leases entered into by the Company are considered to be finance leases in nature, based on an evaluation of all the terms and conditions and the determination that the Company has transferred substantially all the risks and rewards of legal ownership of the asset to the lessee. Interest revenue on finance leases and loans is recognized under 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.

Transfer of Net Investment in Leases

With respect to Lease-Win's leases transferred to the securitization trust, management has determined that substantially all the risks and rewards of legal ownership have not been transferred to the trust. Therefore the net investment in finance leases pledged have not been derecognized and the related liability for the financing received has been recognized.

Litigation finance receivables

Attorney loans and medical lien financing are deemed to be a financial asset as they are a contractual right to receive cash from another entity and are considered to be loans and receivables for accounting purposes, based on an evaluation of all the terms and conditions of the contracts. The contracts are deemed to have fixed or determinable payments, in that the payments are due when the underlying cases are settled however the date as to which that will happen is not known and is estimated. Loans and receivables are accounted for at amortized cost using the effective interest method, as the settlement date is being estimated the total amount to be collected is being estimated for which the effective interest yield is based.

Plaintiff advances are deemed to be a financial asset as they are a contractual right to receive cash from another entity and are considered to be available-for-sale financial assets for accounting purposes, based on an evaluation of all the terms and conditions of the contracts. The terms of the plaintiff advances are on a non-recourse basis, and payment depends on the success and potential claim size. Thus, the terms may limit the expected cash flows and other than for credit deterioration, they are deemed not to be loans and receivables. Available-for-sale financial assets are valued at fair value, the accretion in value is recognized based on the effective interest method and recognized into finance income. Any changes in fair value are recorded in other comprehensive income until realized.

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.

Allowance for Doubtful Accounts

The carrying value of investment in leases is net of allowance for doubtful accounts. Quantifying the impairment is based on the estimates of the carrying value that will ultimately not be collected where there is objective evidence of impairment.

Pawnee's lease receivables are composed of a large number of homogenous leases, with relatively small balances made to inherently risky lessees. Pawnee charges-off leases 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 made before the subject leases reach 154 days contractually past due. As a small percentage of the total lease receivable portfolio have monthly lease payments that are past due at any one reporting date, the portion of the lease receivables that shows observable objective evidence of impairment at any one reporting date is quite small, despite long-term historical experience that indicates that future charge-offs with respect to the current lease receivable will typically exceed the level of observable impairment, in a matter of months.

Pawnee's allowance for doubtful accounts on Chesswood's consolidated financial statements is comprised of the net investment in leases value that is over 30 days delinquent, plus any leases identified as impaired less than 30 days delinquent and approximately 10% of the 1-30 day delinquent leases (those considered most likely to fall into the over 30 days delinquent category by the next month).

Under IFRS, an allowance can only be set up if there is objective evidence that the impairment has already occurred; potential losses expected as a result of future events, no matter how likely based on past historical evidence, are not allowed to be recognized. Pawnee charges-off leases when they become 154 days contractually past due, unless



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information indicates that an earlier charge-off is warranted. A high percentage of the charge-offs are made before the subject leases reach 154 days contractually past due. As only a small percentage of the total lease receivable portfolio have monthly lease payments that are past due at any one reporting date, the portion of the lease receivables that shows observable objective evidence of impairment at any one reporting date is quite small, despite long-term historical experience that indicates that future charge-offs with respect to the current lease receivable will typically exceed the level of observable impairment, in a matter of months.

Projections of Pawnee's 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 Pawnee's actual and projected net credit losses and the related allowance for doubtful accounts.

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 the 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 Swaps

Hedge 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.

Pawnee's interest rate swaps are not considered trading instruments as Pawnee intends to hold them until maturity. Nonetheless, the interest rate swaps do not qualify as a hedge for accounting purposes, and are therefore recorded as separate derivative financial instruments. Accordingly, the estimated fair value of the interest rate swaps 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 swaps are recorded as an adjustment to interest expense, and adjustments to the fair value of the interest rate swaps are recorded as gain or loss on interest rate swaps. The fair value of interest rate swaps is based upon the estimated net present value of cash flows, and does not necessarily reflect the amount that would be required to settle the interest rate swaps.

Income Taxes

Pawnee and Lease-Win use the asset and liability method to account for income 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 basis. 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. 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. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for future tax benefits for which realization is not considered more likely than not. Pawnee and Lease-Win account for their lease arrangements as operating leases for federal income tax reporting purposes. This results in temporary differences between financial and income tax reporting for which deferred taxes have been provided.

Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any necessary valuation allowance recorded against net deferred tax assets. The process involves summarizing temporary differences resulting from the different treatment of items, for example, leases for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the consolidated statement of financial position. Management must then assess the likelihood that deferred tax assets will be recovered from future taxable income or tax carry-back availability and, to the extent management believes

recovery is not likely, a valuation allowance must be established. To the extent that we establish a valuation allowance in a period, an expense must be recorded within the tax provision in the statement of operations.

Most of the Company's future income tax assets and liabilities are already recorded as substantially all operating assets are held by Pawnee and Lease-Win which are corporations and are tax-paying entities. The Company's estimate of its future income taxes will vary based on actual results of the factors described above, and such variations may be material.

FUTURE ACCOUNTING CHANGES

Financial Instruments (Classification and Measurement)

IFRS 9, Financial Instruments ("IFRS 9") will replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, deferred the effective date to annual periods beginning on or after January 1, 2015, with earlier adoption permitted.

Consolidated Financial Statements

The IASB issued IFRS 10 – *Consolidated Financial Statements*, which will replace IAS 27 and SIC-12 (*Consolidation – Special Purpose Entities*). The new standard provides a single model for consolidation based on control, which exists when an investor is exposed to or has the right to, variable returns from its involvement with the investee and has the current ability to affect those returns through its power over the investee. The standard also provides guidance on how to evaluate power. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

Disclosure of interests in other entities

The IASB issued IFRS 12 – *Disclosure of Interests in Other Entities* which includes amended disclosure requirements relating to subsidiaries, joint ventures, and associates. Additional disclosures include judgments and assumptions made in determining how to classify involvement with another entity, interests that non-controlling parties have in the consolidated entities, and the nature and risks associated with interests in other entities. The standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

Fair value measurement

IFRS 13 – *Fair Value Measurement* establishes a single source of guidance for fair value measurements for financial reporting purposes and also requires enhanced disclosures. The standard is effective for annual periods beginning on or after January 1, 2013.

The Company is assessing the impact of these new standards on its results of operations and financial position.

RISK FACTORS

An investment in 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.



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Dependence on Key Personnel

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

Relationships with Brokers and Other Origination Sources

Pawnee has formed relationships with hundreds of origination sources, comprised primarily of lease brokerage firms. Pawnee relies on these relationships to generate lease applications and originations. The failure to maintain effective relationships with its brokers and other origination sources or decisions by them to refer leasing transactions to, or to sign contracts with, other financing sources could impede Pawnee's ability to generate lease transactions.

Similarly, Case Funding's business model depends to a large extent on referral relationships.

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

Our operating companies (and, in particular, Pawnee and Lease-Win) are exposed to fluctuations in interest rates under their borrowings. Increases in interest rates (to the extent not mitigated by interest hedging arrangements) 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.

Pawnee and Lease-Win's leases are written at fixed interest rates and terms. Pawnee and Lease-Win generally finance their activities using both fixed rate funds and floating rate funds. To the extent Pawnee and Lease-Win finance fixed rate leases 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 the effective interest rate paid by the lessor to finance the lease. While Pawnee enters into interest rate swaps to mitigate rate fluctuation risk, there can be no assurances that these arrangements will be sufficient to fully protect Pawnee against interest rate risks, or that Pawnee will be able to maintain such arrangements on a continuing basis.

Portfolio Delinquencies; Inability to Underwrite Lease Applications

Pawnee's receivables consist primarily of lease receivables originated under leasing programs designed to serve smaller, often owner-operated businesses that have limited access to traditional financing. There is a high degree of risk associated with leasing to such parties. The typical lessee in Pawnee's portfolio is a start-up business that has 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 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.

In addition, since defaulted leases and certain delinquent leases can not be used as collateral under its variable rate financing facilities, higher than anticipated lease defaults and delinquencies could adversely affect Pawnee's liquidity by reducing the amount of funding available to it under these 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

Our operating companies' results 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 currently being experienced in the United States. As Pawnee extends credit primarily to small businesses, many of Pawnee's customers may be particularly susceptible to economic slowdowns or recessions, and may be unable to make scheduled lease payments during these periods. Unfavourable economic conditions may also make it more difficult for Pawnee to maintain new lease origination volumes and the credit quality of new leases 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. Sherway LP, as the operator of a premium brand, new car dealership, could also be negatively affected by deteriorating economic conditions which result in reduced new car sales.

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

In addition to being impacted by factors or conditions in the United States, 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 relevant place in the world may directly (through impact on supplies of goods or equipment to our businesses) or indirectly impact upon our operations or results.

Losses from Leases

Losses from leases in excess of Pawnee's or Lease-Win's 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 Pawnee's 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 Pawnee and Lease-Win 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. Factors that could lead to the inadequacy of an allowance for credit losses may include the inability to appropriately underwrite credit risk of new lease originations, effectively manage collections, or anticipate adverse changes in the economy or discrete events adversely affecting specific leasing customers, industries or geographic areas.

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

If judicial or other governmental rulings or actions or interpretations of laws adverse to the leasing business in general or to business practices engaged in by Pawnee, or adverse economic conditions or the occurrence of other



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significant events such as natural disasters and terrorist attacks, were to occur in a geographic region with a high concentration of leases or equipment leased from Pawnee, there could be a material adverse impact on our business, financial condition and results of operation, and the amount of cash available for dividends to our shareholders.

External Financing

Our operating subsidiaries depend and will continue to depend on the availability of credit (and, for Lease-Win, securitization financing) from external financing sources to continue to finance new leases, refinance existing leases and satisfy their other working capital needs. The operating subsidiaries may be unable to obtain additional financing on acceptable terms or at all. If any or all of their funding sources become unavailable on acceptable terms or at all, or if any of their credit (or, for Lease-Win, securitization) facilities are not renewed or re-negotiated upon expiration of their terms, the operating subsidiaries may not have access to the financing necessary to conduct their respective businesses, which would limit their ability to finance their operations.

Although Pawnee's, Sherway's and Lease-Win's relationships with their lenders are excellent, the current challenges facing financial institutions has resulted in an increased risk that such lenders may elect not to renew these credit facilities for reasons which may be unrelated to Pawnee or Sherway or Lease-Win.

Although Chesswood is providing Case Funding with funds for its initial financing, the long-term success of Case Funding will require that Case Funding obtain external financing on acceptable terms.

"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 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

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 Pawnee's existing lease documentation and related business practices. However, there are other risks that Pawnee has 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 Pawnee's management based on a risk-reward assessment. Pawnee has never experienced any material occurrence of these risks nor have these risks historically had a material adverse impact on Pawnee. However, there is no assurance that these risks will not have a material adverse impact on Pawnee's business, financial condition and results of operations in the future.

Origination, Funding and Administration of Transactions

Pawnee's origination, funding and transaction administration practices could result in certain vulnerabilities in its enforcement rights. For example, certain of Pawnee's leases are assignments of transactions already documented by its lease brokers. Acquiring leases by this "indirect" process subjects Pawnee 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. Any of these broker related risks can impair Pawnee's rights with respect to recovering the rents and/or leased property under its leases. Pawnee has



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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 or broker is the party to whom the vendor of the leased equipment has agreed to sell the leased property at the time of its delivery, then, under applicable commercial law, the lessee or broker, as applicable, may be deemed to have acquired title to the leased property prior to Pawnee's having funded the transaction. It has not been Pawnee's 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 Pawnee purchases the leased equipment is typical in this market segment, especially with respect to similarly situated equipment financing providers. Pawnee has 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 leased equipment is less than U.S.\$15,000 (or U.S.\$10,000 if for a home business) for Pawnee's core leasing product and U.S.\$35,000 for the "B+" product, Pawnee's practice of requiring only a verbal confirmation that the leased property has been delivered and irrevocably accepted under the subject lease, and/or inspecting the leased 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 documents could be a defense to a lessee's "unconditional" obligation to pay the rents and certain other amounts under the related lease. Pawnee has not suffered any material losses relating to these practices, however, there can be no assurance that it would not in the future.

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

Leasing 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 or the leasing, marketing, selling, pricing, financing and collections processes which might increase the costs of compliance of Pawnee and Lease-Win, or require them to alter their respective businesses, strategies or operations, in a fashion that could hamper Pawnee's ability to conduct business in the future.

A change in laws applicable to tort claims may reduce the availability of appropriate cases for Case Funding to underwrite.

State Licensing Requirements

If an applicable court or regulatory authority were to make an adverse finding or otherwise take adverse action with respect to Pawnee or Case Funding based on their failure to have a finance lender's or other license or registration required in the applicable state, Pawnee or Case Funding would have to change business practices and could be subject to financial or other penalties.

Fees, Rates and Charges

Pawnee's lease documents require payment of late payment fees, late charge interest, and other charges either relating to the non-payment, or enforcement of its leases. Case Funding's attorney loans also include similar provisions. 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 lease transactions in the micro and small-ticket equipment finance market have been the subject of litigation by customers against financing parties over the past few years. Although Pawnee is not currently the subject of any such litigation, there can be no assurance that a lessee or a group of lessees will not attempt to bring a lawsuit against Pawnee in relation to fees and charges, which Pawnee may or may not be successful in defending.



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Pawnee and Case Funding believe that fee programs are designed and administered so as to comply with legal requirements and are within the range of their company practices in their market segments. Nevertheless, certain attributes of these fees or charges, and Pawnee's practices, including that its leases 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 Pawnee were to prevail and as to which no assurance can be given of Pawnee's successful defense. In addition to the risk of litigation, fee income is important to Pawnee and the failure of Pawnee to continue to collect most or all 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.

Possible Acquisitions

The growth strategy for the Company includes seeking out acquisitions in the financial services industries. 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 (including Case Funding) will be successfully integrated.

Insurance

To ensure that the lessor of the item of leased property suffering a loss receives the related insurance proceeds, the lease also requires that the lessor be named as a loss payee under the requisite casualty coverage. However, each lessee is ultimately relied upon to obtain and maintain the required coverage for leased equipment but there is no certainty that they will obtain the requisite coverage either conforming to the requirements of the lease, 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 company's interest in the equipment, and the failure by the lessee 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 Lease-Win, 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 requires its lessees to deliver evidence of compliance with same as a condition to funding but has no assurance (and Lease-Win has 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 Lease-Win, as applicable, to liability to third parties.



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Estimates Relating to Value of Leases

Based on the particular terms of a lease, leasing companies estimate the residual value of the financed equipment or vehicle, which is recorded as an asset on its statement of financial position. At the end of the lease term, leasing companies seek to realize the recorded residual for the equipment or vehicle by selling the equipment or vehicle 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 or vehicle; the obsolescence of the leased equipment or vehicle; any unusual or excessive wear and tear on or damage to the equipment or vehicle; and the effect of any additional or amended government regulations.

If Pawnee or Lease-Win (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 or vehicles 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 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 leasing companies, home equity loans, and credit cards.

If Pawnee expands its suite of products to target potential lessees with higher credit scores (as it has recently been doing as described above under "Business of Pawnee") or if the creditworthiness of its potential customers increases for various external reasons, it can expect to face competition from more traditional financing sources as well, including: national, regional and local finance companies; captive finance and equipment finance companies affiliated with major equipment manufacturers; and financial services companies, such as commercial banks, thrifts and credit unions.

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

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

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

Fraud by Lessees, Vendors or Brokers

While Pawnee makes every effort to verify the accuracy of information provided to it when making a decision whether to underwrite a lease and has implemented systems and controls to protect itself against fraud, in a small number of cases in the past Pawnee has been a victim of fraud by lessees, vendors and brokers. In cases of fraud, it is difficult and often unlikely that Pawnee will be able to collect amounts owing under a lease or repossess the related equipment. 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.

Case Funding may face similar risks with respect to information provided to it by attorneys and plaintiffs.

Protection of Intellectual Property

Pawnee continually develops and improves its brand recognition, which has been an important factor in maintaining its competitive position. No assurance can be given that others will not independently develop substantially similar branding. Despite Pawnee's efforts to protect its proprietary rights, unauthorized parties may attempt to obtain and use information that Pawnee regards as proprietary. Stopping unauthorized use of Pawnee's proprietary rights may be difficult, time-consuming and costly. There can be no assurance that Pawnee will be successful in protecting its proprietary rights.

Uncertainty of outcome 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, including (1) the legal liability of the defendant, (2) the level of actual or perceived damages assessed by a judge or a jury, (3) the ability of the defendant, or the defendant's insurance company, to pay a settlement or judgment, (4) the abilities of plaintiff's counsel, (5) the assessment of fault and causation, (6) the legal nature of the claim, and (7) the amount of monetary damages ultimately awarded. 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. If an attorney fails to perform his or her duties effectively, the outcome of the case could be negatively impacted, which could have a material adverse effect on Case Funding's level of returns. Any negative event, including but not limited to those described above, may prevent Case Funding from realizing expected returns. While Case Funding undertakes to review the capabilities, experience and track records of the attorneys litigating cases it is considering for its loans, there is no guarantee that the actual outcome of a case will be in line with the expected outcome of that case, and Case Funding will not have any right to control, influence or manage the litigation or settlement of a case. Although Case Funding will seek to weigh such uncertainties in the due diligence conducted before making a funding decision, and intends 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. Once an advance/loan is made, the collection cycle is out of Case Funding's control. Therefore, there is no assurance as to collection times, and collections will likely be irregular. Also, there is no guarantee that Case Funding will be able to achieve results that will permit it to generate any particular rates of return in any given period. Case Funding may experience significant fluctuations in its operating results and cash flows from period to period due to a number of factors, including the changes in value of the advances/loans that it makes, and the collection and recognition of recoveries of its loans and returns. This may affect the amount of funds available each quarter for dividend payments.

Case Funding may have difficulty collecting on its investments

If plaintiffs or law firms to which Case Funding has loaned funds, do not pay Case Funding pursuant to the terms of the loans/advances 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. In these cases, Case Funding may accept a smaller return than anticipated in order to accommodate and maintain



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business relationships or avoid litigation. In either event, the failure of Case Funding to collect or the necessity of legal action to collect could ultimately harm or reduce the potential cash flow.

Limited underwriting experience of, or underwriting errors by Case Funding

Case Funding has a limited history of precedents upon which to base its case evaluation. While the Company believes that Case Funding's management and underwriters have the experience to evaluate plaintiffs, cases, and law firms, Case Funding itself is a new entity and thus has no history in underwriting upon which shareholders may rely. There is no guarantee that Case Funding will be able to successfully assess the merits of all cases in which it provides funding, which, in turn, could adversely affect the financial results and cash flows of the business and/or Chesswood.

Case Funding may fail to correctly apply its own underwriting standards to a loan and/or advance, or may fail to account for or identify a material risk factor which could impact the success or value of a loan and/or advance hereby impacting the value of the Company's interests in such a loan and/or an advance.

Case Funding may be unable to obtain key information about cases

Case Funding's need for information about a case during its due diligence review may potentially result in an adverse outcome on the examined case. In general, communications between a client and the client's attorney are privileged. However, Case Funding requires certain information to assess the case. Case Funding keeps such information and communications confidential, but a court may determine that the disclosure of such communications to Case Funding amounts to a waiver by the client of the privilege attached to such information or documents. If this were to occur, the defendant may have the right to discover such communications and use them against the plaintiff in the course of the lawsuit. Alternatively, the prospect of a waiver of privilege may cause the plaintiff or the plaintiff's attorney to withhold key information about the case from Case Funding in order to preserve the privilege. Therefore, the inability of Case Funding to obtain the information it needs to assess the case, or the possibility that privileged information could be discoverable by the defendants and used against the plaintiff, may increase the likelihood of negative outcomes on a loan and/or advance in that case.

Ethics and legal restrictions vary by state

There have traditionally been legal and professional ethics restrictions on litigation financing in the United States. These include the general prohibition from purchasing claims from plaintiffs (known as maintenance, as well as a form of maintenance called champerty), restrictions on assignment of certain kinds of claims, and ethical restrictions on participating in a lawyer's contingent fee interests (including ethical rules against sharing fees with non-lawyers). Maintenance prohibits the maintaining, supporting, promoting or assisting of another person's lawsuit, with money or otherwise. Champerty makes it illegal for a stranger to acquire a party's right to sue. Different states impose rules regarding champerty. If Case Funding were to be found in violation of a state's maintenance or champerty laws it could have a material adverse effect on the results of its loans and/or advances. Courts in any or all of the jurisdictions in which the loans and/or advances are made may conclude that Case Funding's loans and/or advances constitute "champerty" or "maintenance." Such a conclusion could make agreements with plaintiffs voidable, subject to fines or other sanctions, or otherwise negatively impact results. Due to these and similar rules, a number of states will not permit loans and/or advances like those Case Funding would typically make, and therefore Case Funding is limited in which states it may make loans and/or advances, which reduces the available funding opportunities. In other states, the funding of legal claims has not been considered by the courts or ethics authorities, nor specifically addressed by statute. In these situations, Case Funding may rely only on its own analysis as to the legality of loans and/or advances in these jurisdictions. Regardless of its analysis as to such legality, in jurisdictions where no legal or ethical guidance is available, Case Funding's loans and/or advances may be open to challenge, a reduction in value, or even cancellation, which would adversely impact financial results and the cash flow.



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United States federal or state governmental bodies may enact laws limiting the rights of injured victims to sue or be compensated under some or all circumstances. Any such action could substantially limit or prevent entirely future funding opportunities for Case Funding. Changes in law or ethical rules in jurisdictions where restrictions on the types of loans and/or advances made by Case Funding currently do not apply could further reduce or limit opportunities for Case Funding to make loans and/or advances, or could result in the diminution or elimination of the value of the loans and/or advances already made by Case Funding in those jurisdictions.

Evaluation and disclosure of cases and case performance

Details of actual cases that Case Funding has funded in or intends to fund in will not be disclosed on a named basis to Shareholders, and in any event not all information relevant to the evaluation of any case will be permitted by law or professional ethics codes of conduct to be made available to Case Funding or the Shareholders. In particular, any sharing with Case Funding or the Shareholders of confidential information protected by attorney-client privilege or by attorney work-product doctrine could waive all protection of that information. Such waiver could severely damage the value of the underlying claim by giving the opponent access to sensitive information. Any agreement to share with Shareholders any information and evidence related to the case could preclude the plaintiff from entering into confidentiality agreements with co-plaintiffs in the same matter. Such sharing could also make discovery from the adverse party problematical as most discovery is covered by court-issued protective orders that ensure the confidentiality of all parties. A breach of a protective order could subject a party to serious sanctions that would impact the value of the underlying claim. In some instances, case settlements and case prospects will be confidential and/or subject to lawyer-client privilege. Accordingly, Shareholders will not have an opportunity to evaluate for themselves cases in which Case Funding intends to or does fund, and therefore Shareholders will be dependent upon the judgment and ability of Case Funding. The valuation of each potential loan or advance will be subject to policies adopted by Case Funding and may not reflect the actual financial prospects of such loan or advance at any given time.

Concentration risk

Certain loans may represent a significant proportion of Case Funding's total assets, especially in 2011. As a result, the impact on Case Funding's performance and the potential returns will be more adversely affected if any one of those loans were to perform badly, than would be the case if Case Funding's portfolio of loans were more diversified.

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 Pawnee's and Lease-Win's ability to originate and service their lease portfolios and (in the case of Pawnee) broker networks. If sustained or repeated, a system failure could negatively affect the operations of Pawnee and Lease-Win. Pawnee and Lease-Win maintain confidential information regarding lessees 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.

Competition in the Automobile Retailing Industry

The automotive retailing industry is competitive. In large metropolitan areas, consumers have a number of choices in deciding where to purchase a new or used vehicle and where to have such vehicle serviced.

Manufacturers' Control Over Dealerships and the Acura Framework Agreement

Automobile dealerships operate pursuant to dealer agreements with automobile manufacturers. Through the terms and conditions of these dealer agreements, automobile manufacturers exert considerable influence over the operations of dealerships.

The success of an automobile dealership is highly dependent upon the overall success of the line of vehicles that each dealership sells. Sherway LP's business is affected to varying degrees by the demand for its manufacturer's vehicles, and by the financial condition, management, marketing, production and distribution capabilities of such manufacturers. In addition, the timing, structure and amount of manufacturer incentives may impact the timing and profitability of sales transactions. Events such as labour disputes and other production disruptions that may adversely affect a manufacturer may also adversely affect Sherway LP. Similarly, the delivery of vehicles from manufacturers later than scheduled or diminished availability to Sherway LP of popular makes, models and/or accessories, which may occur particularly during periods of new product introductions, can lead to reduced sales during such periods. Moreover, any event that causes adverse publicity involving such manufacturers may have an adverse effect on Sherway LP.

Security Risks

Despite implementation of network security measures similar to most other on-line e-commerce sites, the infrastructure of the cars4U.com website and the Company's management network is potentially vulnerable to computer break-ins and similar disruptive problems.

Cyclical and Seasonality

Sales of motor vehicles, particularly new vehicles, historically have been subject to cyclical and seasonal variations. Management believes that the industry is affected by many factors, including general economic conditions, consumer confidence, and the level of personal discretionary spending, interest rates and credit availability. There can be no assurance that the industry will not experience sustained periods of decline in vehicle sales, particularly new vehicle sales, in the future.

Imported Products

A significant portion of the new vehicle business of the Sherway LP dealership involves the sale of vehicles, parts or vehicles composed of parts that are manufactured outside North America. As a result, the operations of the Sherway LP dealership are subject to customary risks of selling imported merchandise, including fluctuations in the value of currencies, changes in import duties, exchange controls, trade restrictions, work stoppages and general political and economic conditions in foreign countries.

Environmental Matters

Sherway LP is subject to a wide range of federal, provincial and local environmental laws and regulations, including those governing discharges to the air and water, the storage of petroleum substances and chemicals, the handling and disposal of wastes and the remediation of contamination arising from spills and releases. As with automobile dealerships generally, and parts, service and collision service centre operations in particular, Sherway LP's business involves the generation, use, handling and disposal of hazardous or toxic substances or wastes.

Environmental laws and regulations have become very complex and it has become very difficult for businesses that routinely handle hazardous and non-hazardous wastes to achieve and maintain full compliance with all applicable environmental laws. From time to time, Sherway LP can be expected to experience incidents and encounter conditions that will not be in compliance with environmental laws and regulations.

However, Sherway LP has not been subject to any material environmental liabilities in the past and it is not anticipated that any material environmental liabilities will be incurred by it in the future. In addition, to minimize the risk of environmental liability related to acquired dealerships, Sherway LP intends to obtain environmental studies on such dealerships as a condition to their acquisition.

Environmental laws and regulations and their interpretation and enforcement are changed frequently and the trend of more expansive and stricter environmental legislation and regulations is likely to continue. Hence, there can be no assurance that compliance with environmental laws or regulations or the future discovery of unknown environmental conditions will not require additional expenditures or that such expenditures would not be material.



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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 Pawnee, which are in U.S. dollars. Changes in the value of the U.S. dollar could have a negative impact 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 the 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

Pawnee, Lease-Win and Sherway LP have third party debt service obligations under their respective credit facilities. The degree to which our subsidiaries are leveraged could have important consequences to our shareholders, including: (i) the ability of such subsidiaries 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.

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 and its related entities must be computed in accordance with Canadian and foreign tax laws, as applicable, 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 income tax laws and administrative policies will not develop or be changed in a manner that adversely affects our shareholders.

Subject to the “earnings stripping” rules and other restrictions on deductibility of interest, U.S. Acquisitionco treated the U.S.\$33.5 million subordinated note it had issued to a Canadian subsidiary of the Fund (the “Subordinated Acquisitionco Debt”) as debt for all purposes, and claimed interest deductions with respect to the Subordinated Acquisitionco Debt in computing its income for U.S. federal income tax purposes. There is a risk that the U.S. Internal Revenue Service (the “IRS”) could successfully argue that the Subordinated Acquisitionco Debt should have been treated as equity rather than debt for U.S. federal income tax purposes, however, in which case the



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otherwise deductible interest on such indebtedness would be treated as non-deductible dividends (and potentially subject to a dividend withholding tax).

A successful challenge of this position would increase the U.S. federal income tax liability of U.S. Acquisitionco, due to the absence of tax deductions for interest payments, thereby having an adverse effect on the cash flow of the Company available for dividends to our shareholders.

Even if the Subordinated Acquisitionco Debt is respected as debt for U.S. federal income tax purposes, there is a risk that the IRS may challenge the interest rate on such indebtedness as having been in excess of an arm's length rate. If the IRS were successful in challenging the interest rate, U.S. Acquisitionco would not be able to fully deduct interest paid on such indebtedness, and a dividend withholding tax may result, both of which could increase the U.S. federal income tax liability and thereby reduce cash flow of the Company available for dividends to our shareholders.

Other limitations on the deductibility of interest under U.S. federal income tax laws, potentially including limitations applicable to certain high-yield debt obligations, could have applied under certain circumstances to defer and/or eliminate all or a portion of the interest deduction that U.S. Acquisitionco has otherwise entitled to with respect to interest on such indebtedness. Furthermore, if the payment were recharacterized as a dividend, the imposition of a dividend withholding tax with respect to the payments coupled with the increased U.S. federal income tax liability of U.S. Acquisitionco would reduce the cash flow of the Company available for dividends to our shareholders.

RELATED PARTY TRANSACTIONS

1) Pawnee leases a 10,800 square foot office facility. The lessor is a related party because of common ownership between itself and the holders of the Class B and C common shares of U.S. Acquisitionco (the subsidiary through which the Company holds its interest in Pawnee). Minimum lease payments are U.S. \$202,261 per annum, triple net. The original lease expired on April 30, 2011, and Pawnee exercised the first of two additional five year renewal option terms. The expense is included in general and administrative expense and is translated at the average exchange rate for the period. At March 31, 2012 and December 31, 2011 there was no amount payable in respect of the lease.

CONTROLS & PROCEDURES

Chesswood's Chief Executive Officer and Director of Finance evaluated, or caused an evaluation under their supervision, of the design and operating effectiveness of the Company's disclosure controls and procedures (as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings) as at March 31, 2012 and have concluded that the disclosure controls and procedures were appropriately designed and have been effective, subject to the weaknesses described below.

Chesswood has also established internal controls over financial reporting (as defined in National Instrument 52-109) ("ICFR") to provide reasonable assurance regarding the reliability of the Company's financial reporting and preparation of its financial statements for external purposes in accordance with GAAP. The Company's Chief Executive Officer and Director of Finance assessed, or caused an assessment under their supervision, of the design and operating effectiveness of the Company's ICFR as at March 31, 2012 using the Committee of Sponsoring Organizations Internal Control – Integrated Framework. Based on that assessment, it was determined that the Company's ICFR was designed appropriately and was effective with the below noted exceptions.

The Company's audit committee is working with management on its independent review regime and monitoring the implementation of the other control enhancement steps envisioned below.

Weakness of Controls

Based on management's evaluation of controls, it was concluded that the Company's disclosure controls and procedures and its ICFR had some weaknesses. A material weakness is defined as a deficiency, or a combination of

deficiencies, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The weaknesses in disclosure controls and procedures and ICFR, and the additional processes undertaken to address such weaknesses, can be summarized as follows:

1) Segregation of Duties

Given the Company's size, it has limited resources within the finance department at head office to adequately segregate duties and to permit or necessitate the comprehensive documentation of all policies and procedures that form the basis of an effective design of ICFR. As a result, the Company is reliant on the knowledge of a limited number of employees and on the performance of mitigating procedures during its financial close process to ensure that the consolidated financial statements are presented fairly in all material respects. Although the finance department of Pawnee has staffing levels which the Company's management believes is appropriate in the context of the scope of Pawnee's operations, and although the individuals comprising the members of the Company's management and Pawnee's management responsible for financial reporting are considered to have appropriate proficiency and experience to effectively perform their respective duties, the nature and size of the Company's operations are such that the duties are performed by a small number of persons. While management of the Company believes that the flow of information and degree of consultation with the finance personnel of Pawnee is significant, in order to mitigate the risk of material misstatement in the consolidated financial statements, the Company implemented additional review and monitoring controls at head office on a monthly basis, and at Pawnee on a quarterly basis, beginning in the second quarter of 2009. In addition, further steps to cross train existing personnel have been undertaken where possible.

2) Information Technology Controls

Due to the relatively small size of the Company, the Company has not been able to maintain effective controls over certain key end user computing applications, such as spreadsheets, used in the Company's financial reporting process as well as appropriate security controls to manage access to key information. Controls pertaining to access profiles and password protocols require revision to mitigate the risk of inappropriate access to systems and applications. In addition, improvements to exception reporting are required to ensure that any unauthorized modification of the data or formulas within spreadsheets is identified and reported. It should be noted that the foregoing weaknesses relate to the Company and its systems and that Pawnee's systems are believed to be more commensurate with the scope of its operations.

Given the above noted weaknesses, the Company has performed additional analyses and other post-closing procedures to ensure the consolidated financial statements are prepared accurately and completely and that the disclosed data is in accordance with GAAP and did not note any material exceptions based on these additional procedures.

3) Anti-fraud controls

As a result of the lack of segregation of duties at the Company level as described above, the anti-fraud controls are limited. While management found no evidence of fraudulent activity, the Director of Finance has access to both accounting records and corporate assets, principally the operating bank account, and prepares journal entries without any independent review. Management feels the existing signing authorities and current review of bank balances is sufficient to mitigate the risk.

No changes were made to the design of the Company's ICFR during the quarter ended March 31, 2012 that would have materially affected or would be reasonably likely to materially affect the Company's ICFR.

The transition to IFRS from the previous Canadian GAAP had essentially no impact on our existing ICFR and DC&P, and there was no need to establish new or modify our existing ICFR and DC&P in relating to the IFRS transition process to provide reasonable assurances regarding the preparation of the opening IFRS statement of



FOR THE THREE MONTHS ENDED MARCH 31, 2012

financial position and ongoing IFRS financial statements, the reliability of financial reporting and the accuracy and completeness of information required to be disclosed in our filings.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been 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) the impact 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.

MARKET FOR SECURITIES

The 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, 2012, as reported by the Toronto Stock Exchange.

2012	High	Low	Average Daily Volume
January	\$ 7.00	\$ 6.10	4,152
February	\$ 7.00	\$ 6.72	2,846
March	\$ 7.40	\$ 6.62	5,791
	\$ 7.40	\$ 6.10	4,211

ADDITIONAL INFORMATION

Additional information about Chesswood is available:

- At the www.chesswoodgroup.com website
- At the www.sedar.com website
- Via email to investorrelations@Chesswoodgroup.com, or
- Via phone at 416-386-3099

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

	<i>Note</i>	March 31, 2012	December 31, 2011
		<i>(unaudited)</i>	<i>(audited)</i>
ASSETS			
Cash and cash equivalents		\$ 4,327	\$ 7,338
Accounts receivable		1,212	1,207
Inventories		9,537	6,079
Prepaid expenses and other assets		487	630
Finance receivables	5	112,627	110,521
Deferred tax assets		750	732
Property and equipment		815	809
Intangible assets		7,196	7,435
Goodwill		13,918	14,122
TOTAL ASSETS		\$ 150,869	\$ 148,873
LIABILITIES			
Accounts payable and other current liabilities	10	\$ 5,030	\$ 5,543
Vehicle financing		8,578	4,925
Interest rate swaps		2,346	2,551
Contingent consideration		615	590
Lease financing	11	39,742	41,690
Customer security deposits		11,519	11,498
Deferred tax liabilities		24,223	23,196
		92,053	89,993
SHAREHOLDERS' EQUITY			
Common shares	13	43,880	43,845
Non-controlling interest		9,204	9,269
Reserve - share-based compensation		2,673	2,269
Accumulated other comprehensive loss		(1,567)	(950)
Retained earnings		4,626	4,447
		58,816	58,880
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 150,869	\$ 148,873

Please see notes to the condensed consolidated interim financial statements.

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

	<u>2012</u>	<u>2011</u>
Finance revenue		
Interest revenue on finance leases and loans	\$ 7,273	\$ 6,374
Ancillary lease and other fee income	<u>1,144</u>	<u>1,052</u>
	8,417	7,426
Finance expenses		
Interest expense	674	754
Provision for credit losses	<u>969</u>	<u>837</u>
	1,643	1,591
Finance margin	<u>6,774</u>	<u>5,835</u>
Revenue - automotive operations	<u>10,579</u>	<u>10,322</u>
Cost of sales - automotive operations		
Change in inventories	(3,458)	(929)
Automobiles, parts, and other costs	12,745	9,825
Interest expense	<u>49</u>	<u>53</u>
	9,336	8,949
Automotive gross margin	<u>1,243</u>	<u>1,373</u>
Gross margin before expenses	<u>8,017</u>	<u>7,208</u>
Expenses		
Personnel expenses	2,344	2,169
Other expenses	1,867	1,592
Amortization - property and equipment	58	54
Amortization - intangible assets	<u>125</u>	<u>123</u>
	4,394	3,938
Income before undernoted items	<u>3,623</u>	<u>3,270</u>
Fair value adjustments on held for trading liabilities	<u>161</u>	<u>335</u>
Income before income taxes	<u>3,784</u>	<u>3,605</u>
Provision for income taxes	<u>(1,883)</u>	<u>(1,900)</u>
Net Income	<u>\$ 1,901</u>	<u>\$ 1,705</u>
Attributable to:		
Common shareholders	\$ 1,651	\$ 1,473
Non-controlling interest	\$ 250	\$ 232
Basic earnings per share (Note 16)	\$ 0.17	\$ 0.16
Diluted earnings per share (Note 16)	\$ 0.16	\$ 0.15

Please see notes to the condensed consolidated interim financial statements.

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

	2012	2011
Net income	\$ 1,901	\$ 1,705
Other comprehensive loss:		
Unrealized loss on translation of foreign operations	(709)	(1,861)
Comprehensive income (loss) for the period	<u>\$ 1,192</u>	<u>\$ (156)</u>
Attributable to:		
Common shareholders	\$ (617)	\$ (703)
Non-controlling interest	\$ (92)	\$ (111)

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

	<i>Note</i>	2012	2011
Common shares			
Balance, beginning of period		\$ 43,845	\$ 41,594
Shares eliminated on consolidation		-	(27)
Options exercised	14	35	-
Balance, end of period	13	<u>\$ 43,880</u>	<u>\$ 41,567</u>
Non-controlling interest			
Balance, beginning of period		\$ 9,269	\$ 9,167
Net income attributable to non-controlling interest		249	232
Unrealized loss on translation of foreign operations		(92)	(111)
Dividends declared to non-controlling interest		(222)	(222)
Balance, end of period		<u>\$ 9,204</u>	<u>\$ 9,066</u>
Reserve - share-based compensation			
Balance, beginning of period		\$ 2,269	\$ 2,182
Share-based compensation expense		427	500
Options exercised	14	(23)	-
Balance, end of period		<u>\$ 2,673</u>	<u>\$ 2,682</u>
Accumulated other comprehensive loss			
Balance, beginning of period		\$ (950)	\$ (1,861)
Other comprehensive loss for the period		(617)	(703)
Balance, end of period		<u>\$ (1,567)</u>	<u>\$ (2,564)</u>
Retained earnings			
Retained earnings, balance at beginning of period		\$ 4,447	\$ 4,575
Net income attributable to common shareholders		1,651	1,473
Dividends declared to shareholders		(1,472)	(1,410)
Retained earnings, balance at end of period		<u>\$ 4,626</u>	<u>\$ 4,638</u>

Please see notes to the condensed consolidated interim financial statements.

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

	<u>Note</u>	<u>2012</u>	<u>2011</u>
OPERATING ACTIVITIES			
Net income		\$ 1,901	\$ 1,705
Adjustments for:			
Non-cash items included in net income			
Amortization		183	177
Gain on sale of leased vehicles		(16)	(22)
Unrealized gain on interest rate swaps		(161)	(335)
Provision for credit losses		1,432	1,379
Share-based compensation expense		427	500
Provision for income taxes		1,883	1,900
Accretion in contingent consideration and bonus payable		43	-
Net loss on foreign exchange		53	78
		<u>3,844</u>	<u>3,677</u>
Cash from operating activities before change in net operating assets		<u>5,745</u>	<u>5,382</u>
Change in operating assets			
Accounts receivable		(5)	(818)
Inventories		(3,458)	(929)
Net investment in leases - pledged		426	1,514
Net investment in leases		(4,078)	(6,515)
Equipment finance agreements		(841)	-
Litigation finance receivables		(925)	-
Prepaid expenses and other assets		135	192
		<u>(8,746)</u>	<u>(6,556)</u>
Change in operating liabilities			
Accounts payable and other current liabilities		(435)	(275)
Vehicle financing		3,654	1,615
Lease financing payments - net		(836)	(5,324)
Securitization debt payments		(394)	(1,415)
Customer security deposits		223	367
		<u>2,212</u>	<u>(5,032)</u>
Cash from operating activities before tax refunds and payments		(789)	(6,206)
Income tax refund received		-	5,075
Income taxes paid		(450)	(629)
Cash used in operating activities		<u>(1,239)</u>	<u>(1,760)</u>
INVESTING ACTIVITIES			
Purchase of property and equipment		(59)	(162)
Cash used in investing activities		<u>(59)</u>	<u>(162)</u>
FINANCING ACTIVITIES			
Proceeds from exercise of options	14	12	-
Fund Unit consolidation	13	-	(27)
Cash dividends paid	15	(1,694)	(1,577)
Cash used in financing activities		<u>(1,682)</u>	<u>(1,604)</u>
Unrealized foreign exchange loss on cash		(31)	(13)
Net decrease in cash and cash equivalents		(3,011)	(3,539)
Cash and cash equivalents, beginning of period		7,338	12,863
Cash and cash equivalents, end of period		<u>\$ 4,327</u>	<u>\$ 9,324</u>

Please see notes to the condensed consolidated interim financial statements.

1. NATURE OF BUSINESS AND BASIS OF PREPARATION

Chesswood Group Limited (the “Company”) is incorporated under the laws of the Province of Ontario. The Company’s head office is located at 4077 Chesswood Drive, Toronto, Ontario, M3J 2R8.

The Company holds all of the limited partnership units of Chesswood Holding LP (the “Holding LP”). The Holding LP holds a 100% interest in Chesswood Holdings Ltd. and substantially all of the limited partnership units of Sherway LP (“Sherway”). Chesswood Holdings Ltd. owns 100% of the shares of the operating company Lease-Win Limited (“Lease-Win”) 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. The Company owns all shares of Case Funding Inc., which operates within the litigation financing business in the United States.

As partial consideration for the acquisition of Pawnee in May 2006, 1,274,601 Class B shares and 203,936 Class C shares of a subsidiary (U.S. Acquisitionco) were issued (“Exchangeable Securities”). The Exchangeable Securities are non-voting shares of U.S. Acquisitionco and are fully exchangeable for Common Shares of the Company, on a one-for-one basis, for no additional consideration, through a series of steps and entitle the holders to receive the same dividends as the Common Shares. Attached to the Exchangeable Securities are Special Voting Units of the Company which provide the holders of the Exchangeable securities voting equivalency to Company Shareholders.

Through its interest in Pawnee, the Company is involved in the business of micro and small-ticket equipment financing to small businesses in the start-up and “B” credit market in the lower 48 states of the United States. Through its interest in Sherway LP, the Fund is involved in selling, servicing and leasing Acura automobiles, in the Province of Ontario. Through its interest in Lease-Win Limited (“Lease-Win”), the Company has a portfolio of automobiles leases under administration.

Our litigation financing business has three principal products – attorney financings, plaintiff advances and medical liens. Attorney financings are collateralized loans to contingency fee-based law firms based on a combination of an assessment of the likelihood of a successful outcome for a pool of cases put forward by the law firm, and the creditworthiness of the borrowers. Plaintiff Advances are structured as a purchase of an interest in the proceeds of a legal claim and are made (or declined) based on the probability of success and potential claim size, not the plaintiff’s credit. Advances are on a non-recourse basis where Case Funding forfeits its entire advance and any related fees if the plaintiff is not successful in the lawsuit. Such advances are not characterized as loans because there is no promise to repay in the event the plaintiff does not succeed in his/her lawsuit. Medical lien financing refers, generally, to the purchase of existing medical debt obligations of patients involved in existing litigation that is the result of an injury or multiple injuries. Case Funding will purchase, at a discount to the face value, the accounts receivable of medical facilities that relates to patients that undergo procedures necessary to remedy injuries from an incident that is the subject of litigation.

The consolidated financial statements have been prepared on the going concern and historical cost bases, except for derivative financial instruments and liabilities held for trading which have been measured at fair value. In order to improve clarity, certain items have been combined on the statements of financial position with detail provided separately in the notes. The financial statements are presented in thousands of Canadian dollar except per share amounts.

The reporting currency is the Canadian dollar. The functional currency of the Company, Holding LP, Chesswood Holdings Ltd., Sherway LP, and Lease-Win is the Canadian dollar. The functional currency of U.S. Acquisitionco, Pawnee, and Case Funding is the United States dollar. The statements of income and cash flows of the subsidiaries located in the United States have been translated using the average rate for the periods ended March 31, 2012 and 2011. The statements of financial position have been translated using the rate on the date of the statements of financial position.

The U.S. dollar exchange rates, which have a material impact on the Company's financial statements, are as follows:

Closing Rate As At		Average Rate For The Three Months Ended	
March 31, 2012	December 31, 2011	March 31, 2012	March 31, 2011
1.0170	1.0170	0.9891	1.0299

The Company's Financial Statements were authorized for issue on May 2, 2012 by the Board of Directors. The shareholders do not have the authority to change the Company's Financial Statements.

2. CONSOLIDATION

The consolidated financial statements 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, in accordance with IFRS 3, *Business Combinations*.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

The financial statements of all subsidiaries are prepared for the same reporting period as the Company, using uniform accounting policies in accordance with IAS 27, *Consolidated and Separate Financial Statements*. All intra-group balances and items of income and expense resulting from intra-group transactions are eliminated in full.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The term IFRS also includes all International Accounting Standards ("IAS"); all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") mandatory for the fiscal year 2012 are also applied.

The condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards ("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, 2011.

The condensed interim financial statements should be read in conjunction with the most recently issued company's Annual Report which includes information necessary or useful to understanding the company's businesses and financial statement presentation. In particular, the company's significant accounting policies were presented as Note 4 to the Consolidated Financial Statements for the fiscal year ended December 31, 2011 included in that report, and have been consistently applied in the preparation of these interim financial statements.

The Company adopted the amendments to IAS 12, Income Taxes ("IAS 12") Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12 on January 1, 2012. The amendments provide an exception to the general principle in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. The adoption did not give rise to any material change in the company's financial position or results of operations.

The condensed interim financial statements are unaudited. Financial information in this report reflects any adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary to a fair statement of results for the interim periods in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The results reported in these interim consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. Certain prior period amounts have been reclassified to conform to the current period's presentation.

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Financial Instruments (Classification and Measurement)

IFRS 9, Financial Instruments ("IFRS 9") will replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, deferred the effective date to annual periods beginning on or after January 1, 2015, with earlier adoption permitted.

Consolidated Financial Statements

The IASB issued IFRS 10 – *Consolidated Financial Statements*, which will replace IAS 27 and SIC-12 (*Consolidation – Special Purpose Entities*). The new standard provides a single model for consolidation based on control, which exists when an investor is exposed or has the right to variable returns from its involvement with the investee and has the current ability to affect those returns through its power over the investee. The standard also provides guidance on how to evaluate power. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

Disclosure of interests in other entities

The IASB issued IFRS 12 – *Disclosure of Interests in Other Entities* which includes amended disclosure requirements relating to subsidiaries, joint ventures, and associates. Additional disclosures include judgments and assumptions made in determining how to classify involvement with another entity, interests that non-controlling parties have in the consolidated entities, and the nature and risks associated with interests in other entities. The standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

Fair value measurement

IFRS 13 – *Fair Value Measurement* establishes a single source of guidance for fair value measurements for financial reporting purposes and also requires enhanced disclosures. The standard is effective for annual periods beginning on or after January 1, 2013.

The Company plans to adopt these new standards and is assessing the impact of these new standards on its results of operations and financial position.

5. FINANCE RECEIVABLES

Finance receivables comprise:

	Note	March 31, 2012	December 31, 2011
		(\$ thousands)	
Net investment in leases – pledged	6	\$388	\$814
Litigation finance receivables	7	2,510	1,616
Equipment financing agreements	8	840	65
Net investment in leases	9	108,889	108,026
		\$112,627	\$110,521

6. NET INVESTMENT IN LEASES – PLEDGED

Net investment in leases – pledged includes the following:

	March 31, 2012	December 31, 2011
	(\$ thousands)	
Total minimum lease payments for securitized leases	\$77	\$181
Residual values of leased vehicles	318	656
	\$395	\$837
Unearned income	(7)	(23)
Net investment in leases – pledged	\$388	\$814
Current portion	388	789
Net investment in leases – pledged – long-term portion	\$-	\$25

At Lease-Win, management reviews each outstanding receivable by lessee, on an individual basis, for collectability and for reserve requirements, if any. As lessees may have securitized and non-securitized leases, the allowance and impairment analysis is done for both and shown under Note 9.

7. LITIGATION FINANCE RECEIVABLES

The following table sets forth a summary of changes in the carrying value of the litigation finance receivables for the period-ended March 31, 2012.

(\$ thousands)	Balance at Dec. 31, 2011	Additions	Financing costs capitalized, net	Fair value movement due to effective interest rate (a)	Fair value movement due to changes in estimated cash flows	Collections	Foreign exchange impact (b)	Balance at March 31, 2012
Plaintiff advances	\$915	\$419	\$-	\$106	\$-	\$(245)	\$(17)	\$1,178
Attorney loans	515	524	2	63	-	(232)	(10)	862
Medical liens	186	212	48	32	-	(4)	(4)	470
Total	\$1,616	\$1,155	\$50	\$201	\$-	\$(481)	\$(31)	\$2,510

(a) Included in interest revenue on finance leases and loans on statement of income.

(b) Difference between year-end foreign exchange rate and average exchange rate; amount included in OCI

It was determined that there is no objective evidence that any of the litigation finance receivables are individually impaired at March 31, 2012, thus an allowance for doubtful accounts was not provided for.

8. EQUIPMENT FINANCING AGREEMENTS

Pawnee introduced an Equipment Finance Agreement (“EFA”) in the last quarter of 2011. This product is a loan and is secured by the equipment financed as well as personal guarantees. EFAs are deemed to be a financial asset as they are a contractual right to receive cash from another entity and are considered to be loans and receivables for accounting purposes, based on an evaluation of all the terms and conditions of the contracts. Loans and receivables are accounted for at amortized cost using the effective interest method.

	<u>March 31, 2012</u>	<u>December 31, 2011</u>
	<i>(\$ thousands)</i>	
Gross loan payments	\$ 1,171	\$ 88
Unearned revenue	(331)	(23)
	<u>\$840</u>	<u>\$65</u>

9. NET INVESTMENT IN LEASES

Net investment in leases includes the following:

	<u>March 31, 2012</u>	<u>December 31, 2011</u>
	<i>(\$ thousands)</i>	
Total minimum lease payments for non-securitized leases	\$ 134,312	\$ 134,073
Residual values of leased equipment	17,920	18,215
	<u>152,232</u>	<u>152,288</u>
Initial direct costs of lease acquisition	8,076	8,051
Unearned income	(49,306)	(49,889)
Net investment in leases before allowance for doubtful accounts	\$ 111,002	\$ 110,450
Allowance for doubtful accounts	(2,113)	(2,424)
Net investment in leases	\$ 108,889	\$ 108,026
Current portion	40,932	40,438
Net investment in leases – long-term portion	<u>\$ 67,957</u>	<u>\$ 67,588</u>

The activity in the allowance for doubtful accounts is as follows:

	For the three-months ended March 31, 2012		
	Pawnee equipment leases	Canadian automotive leases (*)	Total
	<i>(\$ thousands)</i>		
Balance, beginning of period	\$2,236	\$188	\$2,424
Provision for credit losses	969	-	969
Impact of change in foreign exchange rates	(39)	-	(39)
Charge-offs	(1,638)	(66)	(1,704)
Recoveries	463	-	463
Balance, end of period	<u>\$1,991</u>	<u>\$122</u>	<u>\$2,113</u>

	For the year-ended December 31, 2011		
	Pawnee equipment leases	Canadian automotive leases (*)	Total
	(\$ thousands)		
Balance, beginning of year	\$2,977	\$220	\$3,197
Provision for credit losses	4,149	8	4,157
Impact of change in foreign exchange rates over year	45	-	45
Charge-offs	(7,272)	(47)	(7,319)
Recoveries	2,337	7	2,344
Balance, end of year	\$2,236	\$188	\$2,424

(*) Includes allowance for leases pledged (Note 6)

Lease Receivables Past Due

Pawnee's lease receivables are composed of a large number of homogenous leases, with relatively small balances. Thus, the evaluation of the allowance for credit losses is performed collectively for the lease receivable portfolio.

At Lease-Win, management reviews each outstanding receivable, on an individual basis, for collectability and for reserve requirements, if any.

The following aging of net investment in leases before allowance for doubtful accounts represents the full carrying value of the leases not just the lease payments that are past due. The net investment in leases presented excludes the \$11.5 million (December 31, 2011 - \$11.5 million) in security deposits from lessees, potential proceeds from repossessed collateral in vehicles and equipment, and potential recoveries from personal guarantees that would offset any charge-offs. An estimate of the fair value for the collateral cannot reasonably be determined.

(\$ thousands)	As at March 31, 2012				
	Current	1-30 days	31 - 60 days	61 - 90 days	Over 90 days
Equipment leases (Pawnee)	\$104,718	\$2,538	\$686	\$610	\$382
Vehicle leases (Lease-Win)	1,790	95	92	50	41
	\$106,508	\$2,633	\$778	\$660	\$423
Impaired	30	256	137	311	423
Past due but not impaired	\$-	\$2,377	\$641	\$349	\$-

(\$ thousands)	As at December 31, 2011				
	Current	1-30 days	31 - 60 days	61 - 90 days	Over 90 days
Equipment leases (Pawnee)	\$103,035	\$2,672	\$1,002	\$464	\$582
Vehicle leases (Lease-Win)	2,119	156	346	14	125
	\$105,154	2,828	\$1,348	\$478	\$707
Impaired	73	69	445	288	641
Past due but not impaired	\$-	\$2,759	\$903	\$190	\$66

10. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

Accounts payable and other current liabilities comprise:

	March 31, 2012	December 31, 2011
	(\$ thousands)	
Dividends payable (Note 15)	\$565	\$564
Accounts payable	704	924
Sales tax payable	665	793
Customer deposits and prepayments	219	127
Unfunded leases	993	923
Income taxes payable	81	46
Payroll related payables and accruals	566	866
Accrued liabilities	708	780
Property taxes payable on equipment leases	247	238
Contingent bonus payable	154	148
Deferred lease incentive	128	134
	<u>\$5,030</u>	<u>\$5,543</u>

All amounts are due within one year, except for deferred lease incentive which is being amortized over the remaining term of the lease which expires in 2017, and the contingent bonus payable that will be payable in 2014 if certain targets are met.

11. LEASE FINANCING

Lease financing is comprised of:

	March 31, 2012	December 31, 2011
	(\$ thousands)	
Pawnee credit facility (a)	\$39,664	\$41,268
Deferred financing costs - Pawnee	(236)	(285)
Lease financing – Pawnee	<u>39,428</u>	<u>40,983</u>
Securitization debt – Lease-Win (b)	<u>314</u>	<u>707</u>
	<u>\$39,742</u>	<u>\$41,690</u>

- a. Pawnee's credit facility allows borrowings of up to U.S.\$55.0 million (December 31, 2011 – U.S.\$55.0 million) subject to, among other things, certain percentages of eligible gross lease receivables, of which U.S.\$39.7 million was utilized at March 31, 2012 (December 31, 2011 – U.S.\$40.6 million). The facility can be extended, subject to certain conditions, to U.S.\$85.0 million (December 31, 2011 – U.S.\$85.0 million). This credit facility is secured by substantially all of Pawnee's assets, contains negative covenants including maintaining leverage and interest coverage ratios, requires Pawnee to mitigate its interest rate risk by entering interest rate swaps for a notional amount not less than 50% of the outstanding commitment, and matures on September 24, 2013. At March 31, 2012 and December 31, 2011, Pawnee was in compliance with all covenants.
- b. The securitization trust receives the return for which they have contracted in the securitization agreement. The loan is secured by the associated pledged investment in leases, as described in Note 6, Net investment in leases - pledged. The securitization trust has no recourse to Lease-Win's other assets in the event that lessees fail to make payments when due.

12. MINIMUM PAYMENTS

The following are the contractual principal payments and maturities of financial liabilities:

(\$ thousands)	2012	2013	2014	2015	2016	2017+	Total
Accounts payable and other current liabilities	\$ 4,768	\$ 24	\$ 178	\$ 24	\$ 24	\$ 12	\$ 5,030
Vehicle financing	8,578	—	—	—	—	—	8,578
Interest rate swaps	—	—	815	1,531	—	—	2,346
Securitization debt (i)	292	22	—	—	—	—	314
Contingent consideration	—	—	615	—	—	—	615
Lease financing (ii)	—	39,428	—	—	—	—	39,428
Customer security deposits (i)	2,350	3,374	3,115	1,591	1,004	85	11,519
	<u>\$ 15,988</u>	<u>\$ 42,848</u>	<u>\$ 4,723</u>	<u>\$ 3,146</u>	<u>\$ 1,028</u>	<u>\$ 97</u>	<u>\$ 67,830</u>

i. 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 scheduled contractual payments of securitization debt and customer security deposits shown in the table above are not to be regarded as a forecast of future cash payments.

ii. Pawnee's financing credit facility is a line-of-credit; as such the balance can fluctuate. The credit facility matures in 2013. The Company expects to extend the credit facility with the current lenders or alternative financing will be obtained.

Please see Note 17 for commitments.

13. COMMON SHARES

Common Shares outstanding and the movements during the period were as follows:

	Number of shares (#) (thousands)	Common shares (thousands)
Balance at December 31, 2010	9,400	\$41,594
Consolidation of Fund Units (a)	(2)	(27)
Issued on exercise of restricted share units	175	1,085
Issued on exercise of options	122	745
Issued for business acquisition	116	448
Balance at December 31, 2011	9,811	\$43,845
Issued on exercise of options	6	35
Balance at March 31, 2012	9,817	\$43,880

a) Consolidation of units

On January 1, 2011, prior to the conversion to a corporation, the Fund consolidated its Fund Units on a 1 for 100 basis. The Fund paid out any unitholder with less than one unit after the consolidation (and who had filed the necessary paperwork with the transfer agent) based on the average trading price five days prior to the consolidation which was \$6.05. The unit consolidation eliminated 2,808 Fund Units and approximately 291 registered unitholders for a total cost of \$27,000. In

conjunction with the unit consolidation mentioned above, the Fund split its Fund Units on a '100 for 1 basis' on January 1, 2011. The unit split returned the units outstanding back to original levels for unitholders who owned more than 100 units.

b) Normal course issuer bid

In August 2011, the Board of Directors approved the repurchase and cancellation of up to 655,072 of the Company's outstanding Common Shares for the period commencing August 25, 2011 and ending on August 24, 2012. During the period ended March 31, 2012, no Common Shares have been repurchased under the normal course issuer bid.

14. COMPENSATION PLANS

Share Options

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

	For the three months ended March 31,	
	2012	2011
Balance, beginning of period	1,227,750	712,500
Granted	-	-
Exercised	(6,000)	-
Balance, end of period	1,221,750	712,500

During the three months ended March 31, 2012, salaries and commission expense and reserve - share-based compensation included \$427,000 (2011 - \$500,000) relating to option expense.

In the three months ended March 31, 2012, 6,000 options were exercised (2011 - nil) for total cash consideration of \$12,360 (2011 - \$nil). On exercise, the fair value of options that had been expensed to date during the vesting period of \$23,205 (2011 - \$nil) was transferred from Reserve to Common Shares. For the options exercised in 2012, the weighted average share price at the date of exercise was \$7.25 (2011 - \$n/a).

An analysis of the options outstanding at March 31, 2012 is as follows:

Grant date	Number of options	Vested	Expiry date	Exercise price
May 10, 2006	100,000	100,000	May 9, 2016	\$10.00
June 23, 2009	263,750	78,250	June 22, 2019	\$2.06
April 13, 2011	220,500	63,000	April 13, 2020	\$4.49
April 25, 2012	287,500	-	April 24, 2021	\$7.79
June 10, 2012	150,000	-	June 9, 2021	\$7.73
December 6, 2012	200,000	-	December 6, 2021	\$6.14
	1,221,750	241,250		

At March 31, 2012, the weighted average exercise price is \$5.84 (December 31, 2011 - \$5.84) and the weighted average remaining contractual life for all options outstanding is 8.44 years (December 31, 2011 - 8.44 years). The options exercisable at March 31, 2012 have a weighted average exercise price of \$5.89 (December 31, 2011 - 247,250 options at \$5.89).

15. DIVIDENDS

The following dividends were paid to Common Shareholders and Exchangeable Securities holders during the three months ended March 31, 2012:

Record date	Payment date	Cash dividend per share (\$)	Total dividend amount (\$thousands)
December 31, 2011	January 17, 2012	\$0.05	\$564
January 31, 2012	February 15, 2012	\$0.05	564
February 29, 2012	March 15, 2012	\$0.05	565
Paid during the three months ended March 31, 2012			\$1,693

The following dividends were declared but not paid to Common Shareholders and Exchangeable Securities holders during the three months ended March 31, 2012:

Record date	Payment date	Cash dividend per share (\$)	Total dividend amount (\$thousands)
March 31, 2012	April 16, 2012	\$0.05	\$565

The following dividends were declared before the financial statements were authorized for issue but not recognized during the three months ended March 31, 2012:

Record date	Payment date	Cash dividend per share (\$)	Total dividend amount (\$thousands)
April 30, 2012	May 15, 2012	\$0.05	\$566

The following dividends were paid to Common Shareholders and Exchangeable Securities holders during the three months ended March 31, 2011:

Record date	Payment date	Cash dividend per share (\$)	Total dividend amount (\$thousands)
December 31, 2010	January 17, 2011	\$0.045	\$489
January 31, 2011	February 15, 2011	\$0.05	544
February 28, 2011	March 15, 2011	\$0.05	544
Paid during the three months ended March 31, 2011			\$1,577

The following dividends were declared but not paid to Common Shareholders and Exchangeable Securities holders during the three months ended March 31, 2011:

Record date	Payment date	Cash dividend per share (\$)	Total dividend amount (\$thousands)
March 31, 2011	April 15, 2011	\$0.05	\$544

16. EARNINGS PER SHARE

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

	For the three months ended March 31,	
	2012	2011
Weighted average number of shares outstanding	9,811,498	9,397,546
Granted	343,277	377,221
Exercised	57,000	195,000
Weighted average shares outstanding for diluted earnings per share	10,211,775	9,969,767

Options to purchase 537,500 shares (2011 – 100,000) were outstanding during the period but were not included in the calculation of diluted earnings per share due to their anti-dilutive effect for the period.

17. CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

a) Contingent liabilities

The Company is subject to various claims and legal actions in the normal course of its business, from various customers, suppliers and others. Since the individual value of each claim and the total value of all claims as at March 31, 2012 and December 31, 2011 were not material, additional disclosure is not required. No provision has been recognized.

b) Other financial commitments

During the quarter, Case Funding signed a new 5 year lease. In total, the Company and its subsidiaries is committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, expiring in 2013 and 2017, as follows:

	As at March 31, 2012 (\$ thousands)
2012	\$540
2013	701
2014	665
2015	667
2016	530
2017	218
Thereafter	-
Other financial commitments	<u>\$ 3,321</u>

The leases contain renewal options for an additional term of 5 years.

For other financial commitments, refer to Note 30 in the company's 2011 Annual Report.

18. RELATED PARTY TRANSACTIONS

The Company has no parent or other ultimate controlling party. Intra-group transactions are entered into on an arm's length basis and on normal commercial terms.

The Company had the following transactions and balances with related parties:

- a) Pawnee, a U.S. subsidiary of the Company, leases a 10,800 square foot office facility from an entity that is controlled by the holders of the Class B and Class C shares of U.S. Acquisition Co Ltd, a non-operating subsidiary of the Company. Minimum lease payments are U.S.\$202,000 per annum, triple net. The original lease expired on April 30, 2012, and Pawnee exercised the first of two additional five year renewal option terms. The expense is included in general and administrative expense and is translated at the average exchange rate for the period. At March 31, 2012 and 2011 there was no amount payable in respect of the lease.
- b) Compensation of key management

The Company's key management consists of the President & Chief Executive Officer, Chief Financial Officer and the directors. Compensation expense relating to key management is as follows:

	For the three months ended March 31	
	2012	2011
	(\$ thousands)	
Salaries, fees and other short-term employee benefits	\$ 190	\$ 182
Share-based compensation	238	356
Compensation expense of key management and directors	\$ 428	\$ 538

19. SEASONAL OPERATIONS

The Company's automotive business follows a seasonal pattern, with revenue and net income based on past experience being significantly lower in the first quarter than in other quarterly periods.

Tax expense reflects the mix of taxing jurisdictions in which pre-tax income and losses were recognized. However, because the geographical mix of pre-tax income and losses in interim periods may not be reflective of full year results, this may distort the Company's interim period effective tax rate.

20. SEGMENT INFORMATION

Segments are identified on the same basis that is used internally to manage and to report on performance, taking into account the products and services of each segment and the organizational structure of the Company. The Company's operations consist of three reportable segments: Equipment Leasing, Litigation Financing, and Automotive Operations.

Chesswood's Equipment Leasing segment is located in the United States and is involved in small-ticket equipment leasing to small businesses in the start-up and "B" credit markets in the lower 48 states. Our Automotive Operations segment sells and services predominantly Acura automobiles and leases Acura and other brand automobiles in the province of Ontario, Canada. Our Litigation Financing segment is located in the United States and is a provider of litigation financing to plaintiffs and attorneys throughout the United States.

Segment information is prepared in conformity with the accounting policies adopted for the Company's financial statements. There were no changes in accounting policies compared to previous periods.

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 Equipment Leasing, Litigation Financing, and Automotive Operations 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.

Corporate overhead is incurred by the Company at the parent entity level and is apportioned among the Equipment Leasing, Litigation Financing and Automotive Operations segments on the basis of arm's length prices that would be charged for the services rendered.

When compared with the last annual 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:

	For the three months ended March 31, 2012				
	(\$ thousands)				
	Equipment Financing – U.S.	Litigation Financing – U.S.(2)	Automotive operations -Canada	Corporate overhead - Canada	Total
Interest revenue on leases and loans	\$ 7,008	\$ 201	\$ 64	\$ —	\$7,273
Ancillary lease and other fee income	1,079	65	—	—	1,144
Interest expense	(664)	—	(10)	—	(674)
Provision for credit losses	(969)	—	—	—	(969)
Finance margin	6,454	266	54		6,774
Revenue - automotive operations	—	—	10,579	—	10,579
Cost of sales – automotive operations (1)	—	—	(9,336)	—	(9,336)
Gross margin	6,454	266	1,297	—	8,017
Personnel expenses	845	236	649	178	1,908
Share-based compensation expense	97	61	31	238	427
Contingent consideration and bonus (2)	—	43	—	—	43
Amortization	145	—	37	1	183
Other expenses	772	119	551	391	1,833
Income before other items	4,595	(193)	29	(808)	3,623
Unrealized gain on interest rate swaps	161	—	—	—	161
Income before income taxes	4,756	(193)	29	(808)	3,784
Provision of (recovery of) income taxes	1,938	—	(29)	(26)	1,883
Net income	\$2,818	\$(193)	\$58	\$(782)	\$1,901
Net cash used in operating activities	\$(57)	\$(902)	\$370	\$(650)	\$(1,239)
Net cash used in investing activities	(16)	(12)	(31)	—	(59)
Net cash used in financing activities	—	—	—	(1,682)	(1,682)
Total Assets	\$125,258	\$4,144	\$18,130	\$3,337	\$150,869
Total Liabilities	79,947	946	10,196	964	92,053
Finance receivables	107,783	2,510	2,334	—	112,627
Goodwill	10,746	652	2,520	—	13,918
Intangible assets	5,937	370	889	—	7,196
Property and equipment expenditures	16	12	31	—	59

For the three months ended March 31, 2011					
	(\$ thousands)				
	Equipment Financing – U.S.	Litigation Financing – U.S.	Automotive operations – Canada	Corporate overhead – Canada	Total
Interest revenue on leases and loans	\$ 6,176		\$ 198	\$ —	\$6,374
Ancillary lease and other fee income	1,052		—	—	1,052
Interest expense	(683)		(71)	—	(754)
Provision for credit losses	(840)		3	—	(837)
Finance margin	5,705		130		5,835
Revenue - automotive operations	—		10,322	—	10,322
Cost of sales – automotive operations (1)	—		(8,949)	—	(8,949)
Gross margin	5,705		1,503		7,208
Personnel expenses	813		691	165	1,669
Share-based compensation expense	79		66	355	500
Amortization	139		36	2	177
Other expenses	724		546	322	1,592
Income before other items	3,950		164	(844)	3,270
Unrealized gain on interest rate swaps	335		—	—	335
Income before income taxes	4,285		164	(844)	3,605
Provision of income taxes	1,649		-	251	1,900
Net income	\$2,636		\$164	\$(1,095)	\$1,705
Net cash used in operating activities	\$(265)	—	\$(523)	\$(972)	\$(1,760)
Net cash used in investing activities	(162)	—	—	—	(162)
Net cash used in financing activities	—	—	—	(1,604)	(1,604)
Total Assets	\$104,017		\$22,213	\$8,650	\$134,880
Total Liabilities	64,906		13,544	1,041	79,491
Net investment in leases and pledged	85,582		7,983	—	93,565
Goodwill	10,452		2,520	—	12,972
Intangible assets	6,260		889	—	7,149
Property and equipment expenditures	162		-	—	162

(1) Includes interest expense of \$48,902 in 2012 and \$52,656 in 2011.

(2) Non-cash contingent consideration accretion of \$34,609 was expensed in other expenses and \$8,652 in non-cash contingent bonus was included in personnel expenses on statement of income.

Chesswood Group Limited

Directors and Officers

Directors and Officers

Edward Sonshine, O. Ont, Q.C.*

Director

Chairman of Chesswood Group Limited

C.E.O., *RioCan Real Estate Investment Trust*

**Queen's Counsel*

Clare Copeland

Director

Chairman, Compensation Committee

C.E.O., *Falls Management Company*

Chairman, *Toronto Hydro Corporation*

Frederick W. Steiner

Director

Chairman, Audit and Governance Committee

C.E.O.,

Imperial Coffee and Services Inc.

Jeffrey Wortsman

Director

President & C.E.O.,

Danier Leather Inc.

Barry Shafran

Director

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

Chairman and C.E.O., *Pawnee Leasing Corporation*

David Obront

Director

President,

DOit Investments Ltd.

Robert Day

Director

Former Chairman, *Pawnee Leasing Corporation*

Samuel Leeper

Director

Former C.E.O., *Pawnee Leasing Corporation*

Executive Team

Barry Shafran

President & C.E.O.

Chesswood Group Limited

Chairman and C.E.O.,

Pawnee Leasing Corporation

Lisa Stevenson

Director of Finance,

Chief Financial Officer

Other Information

Auditors

BDO Canada LLP

Transfer Agent

Equity Financial Trust Company

Corporate Counsel

McCarthy Tétrault LLP

Website

www.chesswoodgroup.com

Toronto Stock Exchange Symbol

CHW



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