CHESSWOOD GROUP LIMITED

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 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 June 30, 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.

TO OUR SHAREHOLDERS

We're very pleased with the outstanding increase in our second quarter and six-month earnings, in comparison to last year. We're all the more encouraged by the fact that each of our U.S. finance businesses, Pawnee Leasing and Case Funding, posted strong operating results. This trend in our results is a direct reflection of the high quality of our operating teams in each business.

Pawnee continued to grow its book of business in the second quarter and its profitability was further enhanced by very strong portfolio performance metrics. Case Funding's portfolio also grew and exceeded $3.5 million by quarter end, generating finance income that resulted in a small operating profit before non-cash share-based compensation and an accrual for a potential earn-out bonus in 2014. Lastly, Acura Sherway began selling two new Acura models in the quarter – the great new ILX entry level sedan and the newly redesigned RDX sport utility vehicle. Sherway's earnings for the second quarter were also ahead of last year's second quarter, reflecting the benefit of having long-awaited new product to offer consumers.

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.

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 June 30, 2012, Pawnee administered 8,625 leases and loans in its portfolio, with remaining scheduled lease and loan payments of approximately U.S.$140.6 million over the next five years.

Pawnee finances equipment where generally:

(i) the equipment is fundamental to the core operations of the lessee/borrower'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 June 30, 2012, approximately 54.6% 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.

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. Pawnee's EFAs is part of its strategic plan to diversify product offerings and increase customer loyalty from their brokers and lessees/borrowers. Underwriting requirements and standards for EFAs 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 June 30, 2012:
  - no state represented more than 10.8% of the number of Pawnee's total active leases, with the exception of California which represented 12.3%;
  - 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 55.0% 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 18.2% of its leases and loans as at June 30, 2012, and its ten largest origination sources accounted for 38.5% 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 June 30, 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 138 leases in its portfolio under administration with remaining scheduled lease payments totaling approximately $1.7 million as at June 30, 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.

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 is 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.

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 firm’s 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 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 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 June 30, 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 and six months ended June 30, 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 August 1, 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:

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

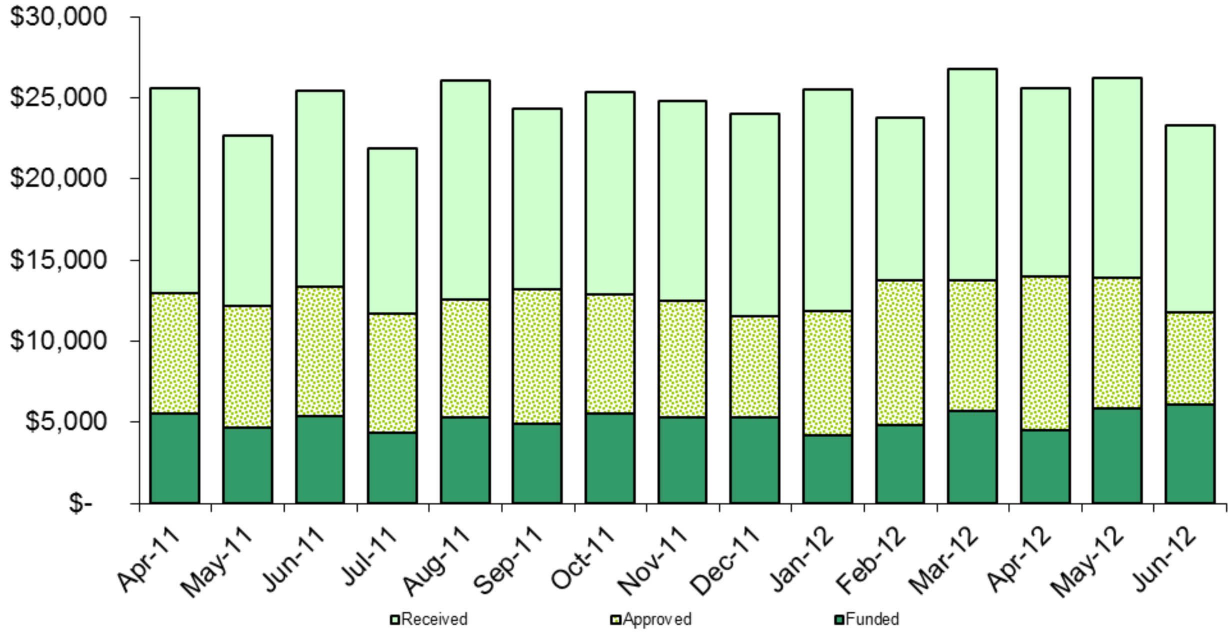
	Sep 30 2010	Dec 31 2010	Mar 31 2011	June 30 2011	Sep 30 2011	Dec 31 2011	Mar 31 2012	June 30 2012
Number of leases and loans outstanding (#)	7,363	7,436	7,631	7,936	8,111	8,258	8,401	8,625
Gross lease and loan receivable ("GLR") (1)	$105,908	$107,498	$112,615	$120,251	$125,021	$130,601	$134,613	$140,605
Residual receivable	$13,416	$13,677	$14,260	$15,106	$15,749	$16,354	$16,754	$17,258
Net investment in leases and loan receivable, before allowance	$83,484	$85,613	$90,389	$96,372	$100,489	$105,905	$109,832	$115,074
Security deposits	$9,615	$9,830	$10,179	$10,609	$10,930	$11,233	$11,478	$11,854
Allowance for doubtful accounts – previous method	$8,829	$7,653	$6,489	$5,588	$5,284	$4,798	$4,488	$4,303
Allowance for doubtful accounts – IFRS	$3,323	$2,993	$2,330	$2,312	$2,482	$2,198	$1,990	$2,259
Over 31 days delinquency (% of GLR) (2)	3.58%	3.39%	2.29%	2.08%	2.10%	1.90%	1.54%	1.64%
Net charge-offs for the three-months ended (3)	$1,428	$1,620	$1,407	$1,133	$1,114	$1,146	$1,097	$945
Provision for credit losses for the three-months ended – previous method	$158	$445	$243	$231	$810	$659	$788	$760
Provision for credit losses for the three-months ended – IFRS	$1,431	$973	$852	$1,145	$1,218	$980	$968	$1,238

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.

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. Acquistionco 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.

Adjusted EBITDA *(1)*

For the quarter-ended	2010 *(2)*		2011				2012	
($thousands)	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Net income (loss)	$ (450)	$ (721)	$ 1,705	$1,077	$1,098	$2,629	$1,901	$2,307
Interest expense	983	882	807	749	708	735	723	767
Income tax expense	887	2,138	1,900	1,321	1,345	1,516	1,883	1,735
Amortization	185	255	177	181	183	187	183	172
EBITDA *(1)*	**$ 1,605**	**$ 2,554**	**$ 4,589**	**$3,328**	**$3,334**	**$5,067**	**$4,690**	**$4,981**
Interest expense	(983)	(882)	(807)	(749)	(708)	(736)	(723)	(767)
Share-based compensation expense	712	993	500	429	342	373	427	329
Foreign exchange loss (gain)	77	46	78	15	(18)	(120)	53	(240)
Fair value adjustments – interest rate swaps	558	(763)	(335)	321	283	(238)	(161)	203
Fair value adjustments – other liabilities	1,330	1,553	—	—	—	—	—	—
Adjusted EBITDA *(1)*	**$ 3,299**	**$ 3,501**	**$ 4,025**	**$3,344**	**$3,233**	**$4,346**	**$4,286**	**$4,506**

(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	2010		2011				2012	
($ thousands, except per share figures)	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenue	$ 20,196	$ 20,313	$ 17,748	$18,894	$18,932	$21,590	$18,996	$22,981
Gross margin	6,739	7,029	7,208	7,185	7,402	8,626	8,017	8,633
Income before tax, and gain (loss) on interest rate swaps, fx, and other liabilities	2,402	2,371	3,348	2,734	2,708	3,912	3,676	4,005
Income before tax	437	1,416	3,605	2,398	2,443	4,270	3,784	4,042
Income tax provision	887	2,138	1,900	1,321	1,345	1,516	1,883	1,735
Net income (loss)	$(450)	$(720	$1,705	$1,077	$1,098	$2,754	$1,901	$2,307
Basic earnings per unit/share (3)	$ 0.10	$ 0.09	$ 0.16	$ 0.10	$0.09	$0.24	$0.17	$0.20
Diluted earnings per unit/share (3)	$ 0.10	$ 0.08	$ 0.15	$ 0.09	$0.09	$0.23	$0.16	$0.20
Total assets	146,070	141,219	135,255	136,674	145,496	148,963	150,869	164,651
Long-term financial liabilities (5)	87,829	85,769	67,653	71,808	77,448	79,810	78,445	90,739
Other Data								
Adjusted EBITDA (1)	$ 3,299	$ 3,501	$ 4,025	$3,344	$3,233	$4,346	$4,286	$4,506
Dividends/distributions declared (4)	1,293	1,464	1,632	1,662	1,688	1,691	1,694	1,809
Dividends/Distributions declared per unit/share (1)(2)	$ 0.12	$ 0.135	$ 0.15	$0.15	$0.15	$0.15	$0.15	$0.16

(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.

RESULTS OF OPERATIONS FOR THE SIX-MONTHS ENDED JUNE 30, 2012 AND 2011

Pawnee's U.S. dollar results for the six-months ended June 30, 2012 were converted at approximately 1.0057, which was the average exchange rate for the six-month period. The U.S. dollar results for the six-months ended June 30, 2011 were converted at approximately 0.9767, which was the average exchange rate for the corresponding period.

Please see Note 22 – *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 six-months ended June 30, 2012, the Company reported consolidated net income of $4.2 million compared to $2.8 million in the same period in the prior year, an increase of $1.4 million year-over-year.

The $1.4 million increase in net income for the six-month period year-over-year was the result of:

- An increase in Pawnee's net income by $659,000 in the six-month period compared to the prior year, predominantly from $2.0 million increase in finance income due to the growth in the portfolio, offset by a $267,000 increase in provision for credit losses, a $669,000 increase in the provision for income taxes, a $56,000 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. Pawnee's actual net charge-offs decreased by U.S.$498,000 year-over-year. Pawnee's non-cash increase in allowance for doubtful accounts totaled U.S.$164,000 compared to a non-cash decrease of U.S.$543,000 in the allowance for doubtful accounts in the same period in 2011, which led the increase in the provision for credit losses year-over-year.

- Case Funding's loss for the six month period was $212,000 greater than the same period in the prior year, as Case Funding was acquired on June 10, 2011 and thus the prior year's results had only 20 operating days compared to six full months in 2012. Case Funding's net loss for the six-month period totalled $330,000; which includes $263,000 of non-cash expenses on behalf of a contingent consideration and bonus that may be payable up to 42 months from the acquisition date ($90,000), and share-based compensation expense of $173,000. Prior to these non-cash charges Case Funding had a net loss of $67,000.

- Automotive operations net income decreased $10,000 year-over-year which includes an increase in net income from Sherway of $55,219 and a $65,356 decrease in Lease-Win's net income. Sherway's gross margin from the parts and service department are still down approximately $62,000 year-over-year due to the unseasonably warm winter and good driving conditions however the gross margin from vehicle sales has increased sufficiently for increased earnings year-over-year. New vehicle sales at Sherway were up by 49 vehicles in the six month period compared to the prior year. Acura introduced its new ILX model in the first half of 2012, as well as they newly re-designed RDX. 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 $989,000 predominantly from $425,000 of costs incurred in 2011 relating to the acquisition of Case Funding, $280,000 increase in unrealized foreign exchange gain in 2012 compared to the prior year, a $242,000 reduction in income tax expense from 2011 and $214,000 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 and the delay in granting the restricted share units and options until the end of June 2012 compared to April in 2011 and 2010.

The provision for income taxes for the six-months ended June 30, 2012 totaled $3.6 million compared to $3.2 million in the same period of the prior year. The $3.6 million provision for income taxes for the six-months ended June 30, 2012 is comprised of $779,600 in current tax expense and $2.8 million in deferred tax expense.

RESULTS OF OPERATIONS FOR THE THREE-MONTHS ENDED JUNE 30, 2012 AND 2011

Pawnee's U.S. dollar results for the three-months ended June 30, 2012 were converted at approximately 1.0105, which was the average exchange rate for the three-month period. The U.S. dollar results for the three-months ended June 30, 2011 were converted at approximately 0.9679, which was the average exchange rate for the corresponding period.

Please see Note 22 – *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 June 30, 2012, the Company reported consolidated net income of $2.3 million compared to $1.1 million in the same period in the prior year, an increase of $1.2 million year-over-year.

The $1.2 million increase in net income for the three-month period year-over-year was the result of:

- An increase in Pawnee's net income by $477,000 in the three-month period compared to the prior year, predominantly from $1.1 million increase in finance income due to an increased lease and loan portfolio, a $118,000 reduction in the mark-to market unrealized loss on interest rate swaps, offset by a $380,000 increase in the provision for income taxes, $138,000 increase in provision for credit losses, and $220,000 increase in personnel and other expenses compared to the prior year. In the three-month period, Pawnee's actual net charge-offs decreased by U.S.$188,000 year-over-year. Pawnee's non-cash increase in allowance for doubtful accounts totaled U.S.$293,000 compared to a non-cash increase of U.S.$12,000 in the allowance for doubtful accounts in the same period in 2011, which led to a U.S.$281,000 increase in the provision for credit losses year-over-year.

- Case Funding's net loss for the three-month period increased by $19,000 year-over-year and totalled $137,000; which includes $159,000 of non-cash expenses on behalf of a contingent consideration and bonus that may be payable up to 42 months from the acquisition date ($47,000), and share-based compensation expense ($112,000). Prior to these non-cash charges Case Funding had a net income of $22,000.

- Automotive operations net income increased $96,000 year-over-year which includes an increase in net income from Sherway of approximately $143,000 and a $47,000 decrease in Lease-Win's net income. Sherway's improved results were driven by increased new vehicle sales, as 53 more new vehicles were sold in the three months ended June 30, 2012 compared to the same period in the prior year. Acura introduced its new ILX model in the first half of 2012, as well as they newly re-designed RDX. 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 $676,000 year-over-year, predominantly from $425,000 spent on acquiring Case Funding in 2011, $255,000 increase in unrealized foreign exchange gain compared to the prior year and $97,000 decrease in share-based compensation offset by $65,000 increase in personnel expense.

The provision for income taxes for the three-months ended June 30, 2012 totaled $1.7 million compared to $1.3 million in the same period of the prior year. The $1.7 million provision for income taxes for the three-months ended June 30, 2012 is comprised of $387,000 in current tax expense and $1.3 million in deferred tax.

STATEMENT OF FINANCIAL POSITION

Total consolidated assets of the Company at June 30, 2012 were $164.7 million, an increase of $15.8 million from December 31, 2011. The exchange rate on June 30, 2012 was 1.0191 compared to 1.017 at December 31, 2011. The change in the foreign exchange rates increased assets by $0.3 million, thus total assets excluding the foreign exchange impact increased by $15.5 million from December 31, 2011.

Cash totaled $9.5 million at June 30, 2012 compared to $7.3 million at December 31, 2011, an increase of approximately $2.1 million. At June 30, 2012, approximately U.S.$3.6 million that could have been sent up to Chesswood was still at Pawnee, being utilized to fund portfolio growth and to lower interest costs. This is one of Chesswood's best avenues for deploying cash resources.

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 June 30, 2012, Lease-Win has paid $451,000 in income taxes relating to 2012. At June 30, 2012, $356,000 (December 31, 2011 – $500,000) of Chesswood's consolidated cash balance represents funds on hand at Lease-Win.

Accounts receivable totaled $1.4 million at June 30, 2012 compared to $1.2 million at 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 $10.1 million at June 30, 2012 compared to $6.1 million at December 31, 2011, an increase of $4.0 million. Vehicle inventory balances at dealerships fluctuate throughout the year based on seasonality, sales volumes and market conditions. The increase in new vehicle inventory at Sherway accounted for $3.9 million of the $4.0 million increase in inventory from December 31, 2011. Acura introduced its new ILX model in the first half of 2012, as well as they newly re-designed RDX.

Finance receivables consist of the following:

	June 30, 2012	December 31, 2011
	($ thousands)	
Net investment in leases – pledged	**$78**	$814
Litigation finance receivables	**3,556**	1,616
Equipment financing agreements	**2,851**	65
Net investment in leases	**113,603**	108,026
	$120,088	$110,521

Lease-Win's securitized net investment in lease receivables totaled $78,000 compared to $814,000 at December 31, 2011, relating to $80,000 in gross lease receivables (December 31, 2011 - $837,000). At June 30, 2012, 4.8% 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 June 30, 2012, there were 218 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.$3.8 million in loans and advances have been originated, of which U.S.$962,000 has been collected on settlement of the related underlying cases, U.S.$852,300 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 loan product when financing their equipment. EFAs are very common in the industry. Underwriting requirements and standards for EFAs 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 June 30, 2012, net investment in leases and EFAs totaled $116.5 million compared to $108.1 million at December 31, 2011, an increase of $8.4 million or 7.8%; the increase was comprised of:

	($ thousands)
Increase of 367 leases/loans since December 31, 2011 at Pawnee	$ 4,990
Increase of U.S.$512 per lease/loan in the average book value	4,305
Increase in net investment in leases and EFAs from change in foreign exchange	218
Increase in allowance for doubtful accounts	(62)
Net decrease in net investment in non-securitized leases at Lease-Win	(1,088)
Total increase in net investment in leases and EFAs	$8,363

The gross receivable of leases and loans under administration as at June 30, 2012 was approximately $145.0 million, compared to $136.4 million at December 31, 2011. Pawnee's gross lease and loan receivable represented $143.3 million (U.S.$140.6 million) of the total gross lease/loan receivable outstanding at June 30, 2012, compared to $132.8 million (U.S.$130.6 million) at December 31, 2011.

Lease-Win's gross lease receivable under administration totaled $1.7 million at June 30, 2012 compared to $3.6 million at December 31, 2011, a decrease of $1.9 million. As of September 1, 2008, Lease-Win ceased originating new leases other than extensions with existing customers.

The $116.5 million in net investment in leases and loans is net of $2.4 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 June 30, 2012 compared to $7.4 million at December 31, 2011. The $241,000 decrease in intangible assets is comprised of $251,000 in amortization of broker relationships offset by a

$10,000 increase as the result of the change in foreign exchange rates. 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 $14.1 million at June 30, 2012, relatively unchanged from December 31, 2011. The movement in foreign exchange rates resulted in an increase of $24,000 in goodwill during the six months ended June 30, 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 $8.9 million was outstanding at June 30, 2012 compared to $4.9 million at December 31, 2011, leaving $1.2 million of inventory that was self-financed as at June 30, 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 portion of the variable interest rate risk on the credit facility. At June 30, 2012, the mark-to-market adjustment is a loss of approximately $2.6 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.

At the end of June 2012, Pawnee entered into three new interest rate swaps. The following interest rate swaps were outstanding at June 30, 2012:

Effective Date	Notional Amount U.S.$	Annual Fixed Rate	Maturity date
March 2011	$15 million	3.12%	March 2014
March 2012	$15 million	4.00%	March 2015
April 2013	$15 million	0.96%	April 2016
March 2014	$15 million	1.33%	March 2016
March 2015	$15 million	1.56%	March 2017

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 $49.2 million at June 30, 2012 compared to $41.7 million at December 31, 2011, includes Pawnee's financing bank line of $49.2 million (December 31, 2011 - $41.0 million) and Lease-Win's securitization debt of $26,000 (December 31, 2011 - $707,000). Pawnee was utilizing U.S.$48.5 million of its credit facility at June 30, 2012 compared to U.S.$40.6 million at December 31, 2011. Pawnee's line-of-credit increased by U.S.$7.9 million from December 31, 2011 predominantly from the U.S.$8.2 million dividend in respect of 2011, sent to Chesswood in April 2012 (and withholding taxes paid). 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. As well, Chesswood has not withdrawn any dividends from Pawnee relating to 2012 and thus Pawnee's credit line would be approximately U.S.$4.0 million higher if the allowable dividends per Pawnee's debt covenants relating to January to May had been paid.

In July 2012, Pawnee renewed and expanded its credit facility which was due to mature in September 2013. The credit facility limit has been increased by U.S.$30.0 million to U.S.$85.0 million, while the accordion feature of the loan agreement has been increased to U.S.$115.0 million from U.S.$85.0 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 July 24, 2016. Pawnee was in full compliance with all its bank covenants during the period.

The majority (99.8%) of the $12.1 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 $639,000 increase in the security deposit balance from December 31, 2011 is due to a $628,000 increase in security deposits at Pawnee, $24,000 increase as a result of fluctuation in the foreign exchange rates and $12,750 decrease in security deposits at Lease-Win.

Future income taxes payable at June 30, 2012 totaled $26.1 million compared to $23.2 million at December 31, 2011, an increase of $2.9 million. The increase in future income taxes payable is the result of a future income tax provision of approximately $2.8 million and $85,000 increase 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 June 30, 2012, there were 9,815,296 Common Shares outstanding (excluding the share issuable in exchange of the Exchangeable Securities) with a book value of $44.0 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. During the six months ended June 30, 2012, 58,538 Common Shares have been repurchased under the normal course issuer bid resulting in a decrease of $262,250 in the value of Common Shares and $182,381 in Retained Earnings. Decisions regarding the timing of purchases are based on market conditions and other factors.

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 June 30, 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 June 30, 2012 of self-sustaining foreign operations net assets.

LIQUIDITY AND CAPITAL RESOURCES OVERVIEW

The primary sources of cash for the Company and its subsidiaries have 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 June 30, 2012, the Company's operating units had $7.7 million in additional borrowings available under various credit facilities, before any accordion provision, to fund business operations. Subsequent to the quarter-end, Pawnee has extended and renewed its credit agreement and increased its borrowing base by U.S.$30.0 million.

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 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).

Sherway is developing plans for a re-imaging upgrade of the dealership. While not final, the estimated costs for the project are between $1.0 million and $2.0 million. Initial funding for the re-imaging upgrade will be funded by Sherway's bank. Once complete, a large portion of the costs will be reimbursed by Acura Canada. The construction is currently expected to start in 2013.

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

($ thousands)	2012	2013	2014	2015	2016	2017 +	Total
Accounts payable and other liabilities	$4,938	$24	$192	$28	$31	$15	$5,228
Vehicle financing	8,895	-	-	-	-	-	8,895
Interest rate swaps	-	-	743	1,504	125	227	2,599
Securitization debt *(a)*	15	11		-	-	-	26
Contingent consideration	-	-	664	-	-	-	664
Lease financing *(b)*	-	49,193	-	-	-	-	49,193
Customer security deposits *(a)*	1,724	3,359	3,353	2,071	1,355	275	12,137
Financial commitments on statement of financial position	$15,572	$52,587	$4,952	$3,603	$1,511	$517	$78,742
Other financial commitments *(c)*	359	702	666	668	530	218	$3,143
Total commitments	$15,931	$53,289	$5,618	$4,271	$2,041	$735	$81,885

a. *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.*

b. *Pawnee's financing credit facility is a line-of-credit; as such the balance can fluctuate. The interest rate has a floating component, 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. Subsequent to the quarter-end, Pawnee has renewed and extended the credit facility with the current lenders with a new maturity date of July 24, 2016.*

c. *In total, the Company and its subsidiaries are committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, expiring in 2013 and 2017. The leases contain renewal options for an additional term of 5 years.*

The Company has no material "off-balance sheet" financing obligations, except for long-term premise lease agreements. 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 six-months ended June 30, 2012

The Company's operations generated cash flow from operations before the changes in operating assets and liabilities of $12.0 million during the six-months ended June 30, 2012 compared to $10.9 million in the six-months ended June 30, 2011, an increase of $1.1 million compared to the same period in the prior year.

The changes in net operating assets during the six-months ended June 30, 2012 reflects utilization of $4.9 million in funds compared to $13.9 million in the six-months ended June 30, 2011, an increase in cash flow of $9.0 million compared to the prior year.

Cash inflow from lease financing of $8.0 million (2011 – outflow $1.5 million) for the six-months ended June 30, 2012, led to an $9.5 million increase in cash inflow year-over-year, and reflects the timing of when the permitted dividends are sent up from Pawnee. 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. In the first six months of 2012, Pawnee issued dividends (and remitted withholding tax) of U.S.$9.3 million relating to 2011 permitted dividends payable not yet taken compared to U.S.$1.9 million paid in April 2011 representing the October – December 2010 subsequent to the September 2010 change in the banking agreement. Instead of funding net investment in leases with operating cash flow, the growth of net investment in leases over the prior year is now funded by the increase in lease financing. As well, Pawnee received a $5.1 million tax refund in the six months ended June 30, 2011 and used it to fund net investment in leases and pay-down their lease financing line-of-credit.

During the six-months ended June 30, 2012, investment in net direct financing leases and equipment finance agreements (net of security deposits and securitization debt) totalled $10.5 million (2011 – $12.4 million); an increase of $1.9 million in operating cash flows.

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. At June 30, 2012, approximately U.S.$3.6 million (2011 – U.S.$4.2 million) that is permitted to be sent up to Chesswood was still at Pawnee, being utilized to fund portfolio growth and lower interest costs.

Those increases in cash flows during the six month period year-over-year were offset by the following decreases in cash flow. Chesswood continues to self-fund the growth in Case Funding's litigation finance portfolio; in the six months ended, $1.9 million in cash was utilized (Case Funding was acquired on June 10, 2011 and limited loan origination occurred in June 2011 while systems and processes were being established).

The change in cash flow from normal business operations led to a $436,000 decrease in cash flow for the six-month period year-over-year driven from the change inventories net of vehicle financing, accounts payable and other current liabilities, accounts receivable and prepaid expenses and other assets.

Chesswood had net tax payments of $1.1 million in the six-months ended June 30, 2012 compared to net tax receipt of $4.0 million in the same period of the prior year, a net decrease of $2.9 million in cash flow year-over-year. Approximately $606,000 of the $1.1 million relates to Pawnee (States that do not have the bonus depreciation and U.S.$175,000 in minimum federal tax) and $451,000 relates to Lease-Win. 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 $79,000 (2011 – $179,000) during the six-months ended June 30, 2012.

The Company paid dividends to shareholders in the amount of $3.4 million during the six-months ended June 30, 2012 compared to $3.2 million in the same period in the prior year; an increase of $226,000 due to higher number of shares outstanding and higher dividend per share amounts year-over-year.

In total, in the six-months ended June 30, 2012, there was an increase in cash of $2.1 million compared to a decrease of $2.8 million in the same period in the prior year; an increase of $4.9 million. The increase in cash predominantly reflects the timing of when the permitted dividends are sent up from Pawnee as discussed above offset by the tax refund received in the prior year.

For the three-months ended June 30, 2012

The Company's operations generated cash flow from operations before the changes in operating assets and liabilities of $6.3 million during the three-months ended June 30, 2012 compared to $5.5 million in the three-months ended June 30, 2011, an increase of $791,000 compared to the same period in the prior year.

The changes in net operating assets during the three-months ended June 30, 2012 reflects utilization of $1.6 million in funds compared to $2.3 million in the three-months ended June 30, 2011, an increase in cash flow of $722,000 compared to the prior year. The change in cash flow from normal business operations led to a $649,000 decrease in cash flow for the three-month period year-over-year driven from the change inventories net of vehicle financing, accounts payable and other current liabilities, accounts receivable and prepaid expenses and other assets. The amount of cash flow Chesswood directed to the growth in Case Funding's litigation finance portfolio in the three months ended increased by $1.0 million year-over-year, thus decreasing cash flow from operations.

Cash inflow from lease financing of $8.9 million (2011 - $3.8 million) for the three-months ended June 30, 2012, an increase of $4.1 million, reflects the timing of when the permitted dividends are sent up from Pawnee. 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. In April 2012, Pawnee issued dividends (and remitted withholding tax) of U.S.$8.5 million relating to the majority of the 2011 dividends payable not yet taken compared to U.S.$1.9 million paid in April 2011 representing the October – December 2010 subsequent to the September 2010 change in the banking agreement. Instead of funding net investment in leases with operating cash flow, the growth in net investment in leases over the prior year is now funded by the increase in lease financing.

During the three-months ended June 30, 2012, investment in net direct financing leases and equipment finance agreements (net of security deposits and securitization debt payments) totalled $5.8 million (2011 – $6.4 million); a increase of $556,000 in operating cash flows. 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. At June 30, 2012, approximately U.S.$3.6 million (2011 – U.S.$4.2 million) that is permitted to be sent up to Chesswood was still at Pawnee, being utilized to fund portfolio growth and lower interest costs.

Chesswood had net tax payments of $626,000 in the three-months ended June 30, 2012 compared to $495,000 in the same period in the prior year. Approximately $474,000 of the $626,000 relates to Pawnee (States that do not have the bonus depreciation and $175,000 in minimum federal tax) and $155,000 relates to Lease-Win.

Capital expenditures totaled $20,000 (2011 – $17,000) during the three-months ended June 30, 2012.

The Company paid dividends to shareholders in the amount of $1.7 million during the three-months ended June 30, 2012 compared to $1.6 million in the same period in the prior year; an increase of $109,000 due to higher number of shares outstanding and higher dividend per share amounts year-over-year.

In total, in the three-months ended June 30, 2012, there was an increase in cash of $5.1 million compared to an increase of $713,000 in the same period in the prior year; an increase of $4.4 million. The increase in cash reflects the timing of when the permitted dividends are sent up from Pawnee as discussed above.

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 June 30, 2012, Pawnee had used approximately U.S.$48.5 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 June 30, 2012 Pawnee has hedged U.S.$30.0 million, representing approximately 61.9% of the U.S.$48.5 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 June 30, 2012, U.S.$48.5 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 component, 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 six months ended June 30, 2012 as follows:

Shareholder Record Date	Per Share
January 31, 2012	$0.050
February 28, 2012	$0.050
March 31, 2012	$0.050
April 30, 2012	$0.050
May 31, 2012	$0.055
June 30, 2012	$0.055
	$0.310

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.

OUTLOOK

The U.S. economy continues to be characterized by uncertainty. It is management's belief that the level of uncertainty along with the resultant "wait and see" behavior of the American entrepreneur has become more pronounced during this last quarter.

We hope to see continued growth in our portfolios through the balance of the year, in this uncertain economic climate. We are cautious about macro-economic conditions in the U.S., given the polarized nature of election politics and the many fiscal "cliffs" that loom, for the end of the year. It is difficult to see a path toward economic improvement, prior to the election.

We are in the process of finalizing a re-imaging of Acura Sherway's facility. We expect to begin a significant enhancement of the dealership in mid-2013, which will coincide with additional new product introductions by Acura.

Tepid growth and fiscal inaction in the U.S. could affect Pawnee and Case Funding by softening demand for our products. That said, we continue to drive the growth strategy for all of our businesses and believe that, notwithstanding the short-term economic indicators, Chesswood is well positioned.

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 June 30, 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 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.

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 cannot 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 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 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.

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.

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 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.

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.

Cyclicality 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.

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.

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 June 30, 2012 and December 31, 2011 there was no amount payable in respect of the lease.

2) Case Funding provides Quick Cash Inc. (“Quick Cash”), an entity controlled by a director of Case Funding and the CEO of Case Funding, with personnel and facilities to manage the portfolio of existing loans managed by Quick Cash and required origination and placement services in respect of future loans (Quick Cash is prohibited from making loans, other than those which Case Funding does not wish to make and Quick Cash is responsible for all out-of-pocket third party fees and expenses relating to its business).

   Payments received for services provided will be as follows:

Months	Amount
June – December 2011	Nil
January – June 2012	$16,000/month
July 2012 – June 2013	$4,000/month
July 2013 – June 2014	$1,000/month

This revenue is recorded in Ancillary finance and other fee income. The amounts being charged were determined at the time of Case Funding's acquisition and reflect negotiated market terms and the expected level of administrative services that will be provided to Quick Cash over the term of the agreement.

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 June 30, 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 June 30, 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 June 30, 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 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 six months ended June 30, 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
April	$7.47	$6.95	3,454
May	$7.80	$7.28	8,651
June	$7.85	$7.20	7,962
	$ 7.85	$6.10	5,480

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)

	Note	**June 30, 2012**	December 31, 2011
		(unaudited)	*(audited)*
ASSETS			
Cash and cash equivalents		**$ 9,455**	$ 7,338
Accounts receivable		**1,393**	1,207
Inventories		**10,134**	6,079
Prepaid expenses and other assets		**727**	630
Finance receivables	*5*	**120,088**	110,521
Deferred tax assets		**724**	732
Property and equipment		**790**	809
Intangible assets		**7,194**	7,435
Goodwill		**14,146**	14,122
TOTAL ASSETS		**$ 164,651**	$ 148,873
LIABILITIES			
Accounts payable and other liabilities	*10*	**$ 5,228**	$ 5,543
Vehicle financing		**8,895**	4,925
Interest rate swaps	*11*	**2,599**	2,551
Contingent consideration		**664**	590
Lease financing	*12*	**49,219**	41,690
Customer security deposits		**12,137**	11,498
Deferred tax liabilities		**26,120**	23,196
		104,862	89,993
SHAREHOLDERS' EQUITY			
Common shares	*14*	**44,018**	43,845
Non-controlling interest		**9,342**	9,269
Reserve - share-based compensation		**2,633**	2,269
Accumulated other comprehensive loss		**(1,081)**	(950)
Retained earnings		**4,877**	4,447
		59,789	58,880
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 164,651**	$ 148,873

Please see notes to the condensed consolidated interim financial statements.

CHESSWOOD GROUP LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 and 2011
(in thousands of dollars, except per share amounts, unaudited)

	FOR THE THREE MONTHS ENDED JUNE 30, 2012	FOR THE THREE MONTHS ENDED JUNE 30, 2011	FOR THE SIX MONTHS ENDED JUNE 30, 2012	FOR THE SIX MONTHS ENDED JUNE 30, 2011
Finance revenue				
Interest revenue on finance leases and loans	**$ 7,694**	$ 6,419	**$ 14,967**	$ 12,793
Ancillary finance and other fee income	**1,250**	1,056	**2,394**	2,108
	8,944	7,475	**17,361**	14,901
Finance expenses				
Interest expense	**695**	698	**1,369**	1,452
Provision for credit losses	**1,279**	1,111	**2,248**	1,948
	1,974	1,809	**3,617**	3,400
Finance margin	**6,970**	5,666	**13,744**	11,501
Revenue - automotive operations	**14,037**	11,419	**24,616**	21,741
Cost of sales - automotive operations				
Change in inventories	**(597)**	1,904	**(4,055)**	975
Automobiles, parts, and other costs	**12,899**	7,945	**25,644**	17,770
Interest expense	**72**	51	**121**	104
	12,374	9,900	**21,710**	18,849
Automotive gross margin	**1,663**	1,519	**2,906**	2,892
Gross margin before expenses	**8,633**	7,185	**16,650**	14,393
Expenses				
Personnel expenses	**2,647**	2,297	**4,991**	4,466
Other expenses	**1,809**	1,973	**3,623**	3,487
Amortization - property and equipment	**46**	60	**104**	114
Amortization - intangible assets	**126**	121	**251**	244
	4,628	4,451	**8,969**	8,311
Income before undernoted items	**4,005**	2,734	**7,681**	6,082
Unrealized gain (loss) on interest rate swaps	**(203)**	(321)	**(42)**	14
Unrealized gain (loss) on foreign exchange	**240**	(15)	**187**	(93)
Income before income taxes	**4,042**	2,398	**7,826**	6,003
Provision for income taxes	**(1,735)**	(1,321)	**(3,618)**	(3,221)
Net Income	**$ 2,307**	$ 1,077	**$ 4,208**	$ 2,782
Attributable to:				
Common shareholders	**$ 2,006**	$ 943	**$ 3,657**	$ 2,416
Non-controlling interest	**$ 301**	$ 134	**$ 551**	$ 366
Basic earnings per share *(Note 16)*	**$ 0.20**	$ 0.10	**$ 0.37**	$ 0.26
Diluted earnings per share *(Note 16)*	**$ 0.20**	$ 0.09	**$ 0.36**	$ 0.24

Please see notes to the condensed consolidated interim financial statements.

CHESSWOOD GROUP LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 and 2011
(in thousands of dollars, unaudited)

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2012	2011	**2012**	2011
Net income	**$ 1,192**	$ (156)	**$ 4,208**	$ 2,782
Other comprehensive income (loss):				
Unrealized gain (loss) on translation of foreign operations	**558**	784	**(151)**	(1,077)
Comprehensive income for the period	**$ 1,750**	$ 628	**$ 4,057**	$ 1,705
Attributable to:				
Common shareholders	**$ 486**	$ (233)	**$ (131)**	$ (936)
Non-controlling interest	**$ 72**	$ (30)	**$ (20)**	$ (141)

CHESSWOOD GROUP LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2012 and 2011
(in thousands of dollars, unaudited)

	Note	Common Shares (# '000s)	Common Shares	Non-controlling interest	Share-based compensation Reserve	Accumulated other comprehensive loss	Retained earnings	Total
Shareholders' equity - January 1, 2012		9,811	$ 43,845	$ 9,269	$ 2,269	$ (950)	$ 4,447	$ 58,880
Net income		-	-	551	-	-	3,657	4,208
Dividends declared		-	-	(458)	-	-	(3,044)	(3,502)
Share-based compensation		-	-	-	756	-	-	756
Exercise of restricted share units	15(b)	40	306	-	(306)	-	-	-
Exercise of options	15(a)	23	129	-	(86)	-	-	43
Repurchase of common shares under issuer bid	14(b)	(59)	(262)	-	-	-	(183)	(445)
Unrealized loss on translation of foreign operations		-	-	(20)	-	(131)	-	(151)
Shareholders' equity - June 30, 2012		**9,815**	**$ 44,018**	**$ 9,342**	**$ 2,633**	**$ (1,081)**	**$ 4,877**	**$ 59,789**

	Note	Common Shares (# '000s)	Common Shares	Non-controlling interest	Share-based compensation Reserve	Accumulated other comprehensive loss	Retained earnings	Total
Shareholders' equity - January 1, 2011		9,400	$ 41,594	$ -	$ -	$ (1,861)	$ 4,575	$ 44,308
Shares eliminated on consolidation	14(a)	(2)	(27)	-	-	-	-	(27)
Reclassify from other liabilities on conversion to a corporation		-	-	9,167	2,182	-	-	11,349
Shares issued for business acquisition	21	116	448	-	-	-	-	448
Net income		-	-	366	-	-	2,416	2,782
Dividends declared		-	-	(444)	-	-	(2,850)	(3,294)
Share-based compensation		-	-	-	929	-	-	929
Exercise of restricted share units	15(b)	175	1,085	-	(1,085)	-	-	-
Exercise of options	15(a)	76	478	-	(309)	-	-	169
Unrealized loss on translation of foreign operations		-	-	(141)	-	(936)	-	(1,077)
Shareholders' equity - June 30, 2011		**9,765**	**$ 43,578**	**$ 8,948**	**$ 1,717**	**$ (2,797)**	**$ 4,141**	**$ 55,587**
Net income		-	-	486	-	-	3,241	3,727
Dividends declared		-	-	(443)	-	-	(2,935)	(3,378)
Share-based compensation		-	-	-	715	-	-	715
Exercise of options		46	267	-	(163)	-	-	104
Unrealized gain on translation of foreign operations		-	-	278	-	1,847	-	2,125
Shareholders' equity - December 31, 2011		**9,811**	**$ 43,845**	**$ 9,269**	**$ 2,269**	**$ (950)**	**$ 4,447**	**$ 58,880**

Please see notes to the condensed consolidated interim financial statements.

CHESSWOOD GROUP LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 and 2011
(in thousands of dollars, unaudited)

	Note	FOR THE THREE MONTHS ENDED JUNE 30, 2012	FOR THE THREE MONTHS ENDED JUNE 30, 2011	FOR THE SIX MONTHS ENDED JUNE 30, 2012	FOR THE SIX MONTHS ENDED JUNE 30, 2011
OPERATING ACTIVITIES					
Net income		**$ 2,307**	$ 1,077	**$ 4,208**	$ 2,782
Adjustments for:					
Costs associated with investing or financing activities included in net income		**-**	425	**-**	425
Non-cash items included in net income					
Amortization		**172**	181	**355**	358
Gain on sale of leased vehicles		**(29)**	(41)	**(45)**	(63)
Unrealized gain (loss) on interest rate swaps		**203**	321	**42**	(14)
Provision for credit losses		**1,754**	1,759	**3,186**	3,138
Share-based compensation expense		**329**	429	**756**	929
Provision for income taxes		**1,735**	1,321	**3,618**	3,221
Accretion in contingent consideration and bonus payable		**47**	-	**90**	-
Net (gain) loss on foreign exchange		**(240)**	15	**(187)**	93
		3,971	3,985	**7,815**	7,662
Cash from operating activities before change in net operating assets		**6,278**	5,487	**12,023**	10,869
Change in operating assets					
Accounts receivable		**(181)**	458	**(186)**	(360)
Inventories		**(597)**	1,904	**(4,055)**	975
Net investment in leases - pledged		**310**	1,308	**736**	2,822
Net investment in leases		**(4,242)**	(6,836)	**(8,320)**	(13,351)
Equipment finance agreements		**(1,973)**	-	**(2,814)**	-
Litigation finance receivables		**(1,017)**	(40)	**(1,942)**	(40)
Prepaid expenses and other assets		**29**	904	**164**	1,096
		(7,671)	(2,302)	**(16,417)**	(8,858)
Change in operating liabilities					
Accounts payable and other liabilities		**6**	(97)	**(429)**	(372)
Vehicle financing		**316**	(2,884)	**3,970**	(1,269)
Lease financing (payments) - net		**8,854**	3,795	**8,018**	(1,529)
Securitization debt payments		**(287)**	(1,243)	**(681)**	(2,658)
Customer security deposits		**384**	407	**607**	774
		9,273	(22)	**11,485**	(5,054)
Cash from operating activities before tax refunds and payments		**7,880**	3,163	**7,091**	(3,043)
Income tax refund received		**3**	-	**3**	5,075
Income taxes paid		**(629)**	(495)	**(1,079)**	(1,124)
Cash from operating activities		**7,254**	2,668	**6,015**	908
INVESTING ACTIVITIES					
Acquisition costs of subsidiary	21	**-**	(425)	**-**	(425)
Purchase of property and equipment		**(20)**	(17)	**(79)**	(179)
Cash used in investing activities		**(20)**	(442)	**(79)**	(604)
FINANCING ACTIVITIES					
Proceeds from exercise of options	15	**35**	165	**47**	165
Repurchase of common shares	14	**(445)**	-	**(445)**	-
Fund Unit consolidation	14	**-**	-	**-**	(27)
Cash dividends paid		**(1,752)**	(1,643)	**(3,446)**	(3,220)
Cash used in financing activities		**(2,162)**	(1,478)	**(3,844)**	(3,082)
Unrealized foreign exchange gain (loss) on cash		**56**	(35)	**25**	(48)
Net increase (decrease) in cash and cash equivalents		**5,128**	713	**2,117**	(2,826)
Cash and cash equivalents, beginning of period		**4,327**	9,324	**7,338**	12,863
Cash and cash equivalents, end of period		**$ 9,455**	**$ 10,037**	**$ 9,455**	$ 10,037

Supplemental disclosures of cash flow information (see note 17)

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 of the 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 reporting currency is the Canadian dollar. The financial statements are presented in thousands of Canadian dollars except per share amounts. 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 June 30, 2012 and 2011. The statements of financial position have been translated using the rate on the date of the statements of financial position and the exchange difference is included in other comprehensive income.

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 Six Months Ended	
June 30, 2012	December 31, 2011	**June 30, 2012**	June 30, 2011
1.0191	1.0170	**1.0057**	0.9769

The Company's Financial Statements were authorized for issue on August 1, 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 company's most recently issued Annual Report which includes information necessary or useful to understanding the Company's businesses and financial reporting. 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. These reclassifications include litigation finance receivables, net investment in leases – pledged and net investment in leases are now grouped together as finance receivables on the statement of financial position compared to being listed separately on the statement of financial position in the Annual Report for the year ended December 31, 2011. Securitization debt is grouped with lease financing.

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 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 in both annual and interim financial statements. 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	**June 30, 2012**	December 31, 2011
		($ thousands)	
Net investment in leases – pledged	6	**$78**	$814
Litigation finance receivables	7	**3,556**	1,616
Equipment financing agreements	8	**2,851**	65
Net investment in leases - Lease-Win	9	**1,484**	2,571
Net investment in leases - Pawnee	9	**112,119**	105,455
		$120,088	$110,521

6. NET INVESTMENT IN LEASES – PLEDGED

Net investment in leases – pledged includes the following:

	June 30, 2012	December 31, 2011
	($ thousands)	
Total minimum lease payments for securitized leases	**$22**	$181
Residual values of leased vehicles	**58**	656
	$80	$837
Unearned income	**(2)**	(23)
Net investment in leases – pledged	**$78**	$814
Current portion	**78**	789
Net investment in leases – pledged – long-term portion	**$-**	$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 June 30, 2012.

($ thousands)	Balance at Dec. 31, 2011	New loans and advances	Financing costs, net	Fair value movement due to effective interest rate (a)	Losses	Collections	Foreign exchange impact (b)	Balance at June 30, 2012
Plaintiff advances	$915	$756	$-	$232	$(31)	$(336)	$10	$1,546
Attorney loans	515	941	34	208		(351)	12	1,359
Medical liens	186	287	52	124		(5)	7	651
Total	$1,616	$1,984	$86	$564	$(31)	$(692)	$29	$3,556

(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 other comprehensive income.

It was determined that there is no objective evidence that any of the litigation finance receivables are individually impaired at June 30, 2012, thus an allowance for doubtful accounts was not recognized.

8. EQUIPMENT FINANCING AGREEMENTS

Pawnee introduced an Equipment Finance Agreement ("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 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 rate method.

Equipment financing agreements consist of:

	June 30, 2012	December 31, 2011
	($ thousands)	
Gross loans advanced	**$ 3,874**	$ 88
Unearned revenue	**(1,023)**	(23)
	$2,851	$65

9. NET INVESTMENT IN LEASES

Net investment in leases includes the following:

	June 30, 2012	December 31, 2011
	($ thousands)	
Total minimum lease payments for non-securitized leases	**$ 140,108**	$ 134,073
Residual values of leased equipment	**18,555**	18,215
	158,663	152,288
Initial direct costs of lease acquisition	**8,427**	8,051
Unearned income	**(51,088)**	(49,889)
Net investment in leases before allowance for doubtful accounts	**$ 116,002**	$ 110,450
Allowance for doubtful accounts	**(2,399)**	(2,424)
Net investment in leases	**$ 113,603**	$ 108,026
Current portion	**42,979**	40,438
Net investment in leases – long-term portion	**$ 70,624**	$ 67,588

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

	For the six-months ended June 30, 2012		
	Pawnee equipment leases	Canadian automotive leases (*)	Total
	($ thousands)		
Balance, beginning of period	**$2,236**	**$188**	**$2,424**
Provision for credit losses	**2,218**	**(1)**	**2,217**
Impact of change in foreign exchange rates	**6**	**-**	**6**
Charge-offs	**(3,095)**	**(91)**	**(3,186)**
Recoveries	**937**	**1**	**938**
Balance, end of period	**$2,302**	**$97**	**$2,399**

	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 and EFAs before allowance for doubtful accounts represents the full carrying value of the leases and EFAs not just the lease payments that are past due. The net investment in leases and EFAs presented excludes the $12.1 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.

					As at June 30, 2012
($ thousands)	Current	1-30 days	31 - 60 days	61 - 90 days	Over 90 days
Equipment leases and EFAs (Pawnee)	$112,802	$2,545	$868	$563	$493
Vehicle leases (Lease-Win)	1,337	158	20	37	30
	$114,139	$2,703	$888	$600	$523
Impaired	157	254	222	304	523
Past due but not impaired	$-	$2,449	$666	$296	$-

					As at December 31, 2011
($ thousands)	Current	1-30 days	31 - 60 days	61 - 90 days	Over 90 days
Equipment leases EFAs (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 LIABILITIES

Accounts payable and other liabilities comprise:

	June 30, 2012	December 31, 2011
	($ thousands)	
Dividends payable *(Note 15)*	**$621**	$564
Accounts payable	**382**	924
Sales tax payable	**927**	793
Customer deposits and prepayments	**161**	127
Unfunded leases	**1,074**	923
Income taxes payable	**13**	46
Payroll related payables and accruals	**768**	866
Accrued liabilities	**726**	780
Property taxes payable on equipment leases	**245**	238
Contingent bonus payable	**166**	148
Deferred lease incentive	**145**	134
	$5,228	$5,543

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

11. INTEREST RATE SWAPS

Pawnee enters into interest rate swap agreements under its banking facility, that provide for payment of an annual fixed rate, in exchange for a LIBOR based floating rate amount. The interest rate swaps are intended to offset a portion of the variable interest rate risk on the credit facility.

Pawnee's interest rate swaps are not considered trading instruments as Pawnee intends to hold them until maturity. 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 are 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.

The following swap agreements were outstanding at June 30, 2012:

Effective Date	**Notional Amount U.S.$**	**Annual Fixed Rate**	**Maturity date**
March 2011	$15 million	3.12%	March 2014
March 2012	$15 million	4.00%	March 2015
April 2013	$15 million	0.96%	April 2016
March 2014	$15 million	1.33%	March 2017
March 2015	$15 million	1.56%	March 2017

12. LEASE FINANCING

Lease financing is comprised of:

	June 30, 2012	December 31, 2011
	($ thousands)	
Pawnee credit facility *(a)*	**$49,389**	$41,268
Deferred financing costs - Pawnee	**(196)**	(285)
Lease financing – Pawnee	**49,193**	40,983
Securitization debt – Lease-Win *(b)*	**26**	707
	$49,219	$41,690

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.$48.5 million was utilized at June 30, 2012 (December 31, 2011 – U.S.$40.6 million). At June 30, 2012, the facility borrowing limit was $55.0 million (December 31, 2011 – U.S.$55.0 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 June 30, 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.

13. 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 liabilities	$4,938	$24	$192	$28	$31	$15	$5,228
Vehicle financing	8,895	-	-	-	-	-	8,895
Interest rate swaps	-	-	743	1,504	125	227	2,599
Securitization debt *(a)*	15	11		-	-	-	26
Contingent consideration	-	-	664	-	-	-	664
Lease financing *(b)*	-	49,193	-	-	-	-	49,193
Customer security deposits *(a)*	1,724	3,359	3,353	2,071	1,355	275	12,137
Financial commitments on statement of financial position	$15,572	$52,587	$4,952	$3,603	$1,511	$517	$78,742
Other financial commitments *(c)*	359	702	666	668	530	218	$3,143
Total commitments	$15,931	$53,289	$5,618	$4,271	$2,041	$735	$81,885

a) 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.

b) Pawnee's financing credit facility is a line-of-credit; as such the balance can fluctuate. The credit facility matures in 2013. See Note 23 – Subsequent Event.

c) In total, the Company and its subsidiaries are committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, expiring in 2013 and 2017. The leases contain renewal options for an additional term of 5 years.

For other commitments, refer to Note 30(b)(ii)-(iv) in the company's 2011 Annual Report.

14. COMMON SHARES

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 six months ended June 30, 2012, 58,538 Common Shares have been repurchased under the normal course issuer bid resulting in a decrease of $262,250 in the value of Common Shares and $182,381 in Retained Earnings. Decisions regarding the timing of purchases are based on market conditions and other factors.

15. COMPENSATION PLANS

a) Share Options

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

	For the three-months ended		For the six-months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Balance, beginning of period	**1,221,750**	712,500	**1,227,750**	712,500
Granted	**242,500**	437,500	**242,500**	437,500
Exercised	**(17,100)**	(74,917)	**(23,100)**	(74,917)
Balance, end of period	**1,447,150**	1,075,083	**1,447,150**	1,075,083

During the six months ended June 30, 2012, salaries and commission expense and reserve - share-based compensation included $604,000 (2011 - $571,000) relating to option expense.

During the six months ended June 30, 2012, 23,100 options were exercised (2011 – 74,917) for total cash consideration of $47,586 (2011 - $165,264). On exercise, the fair value of options that had been expensed to date during the vesting period of $82,110 (2011 - $309,000) was transferred from Reserve to Common Shares. For the options exercised in 2012, the weighted average share price at the date of exercise was $7.38 (2011 – $7.21).

An analysis of the options outstanding at June 30, 2012 is as follows:

Grant date	Number of options outstanding	Vested	Expiry date	Exercise price
May 10, 2006	100,000	100,000	May 9, 2016	$10.00
June 23, 2009	246,650	246,650	June 22, 2019	$2.06
April 13, 2011	220,500	150,750	April 13, 2020	$4.49
April 25, 2011	287,500	86,250	April 24, 2021	$7.79
June 10, 2011	150,000	45,000	June 9, 2021	$7.73
December 6, 2011	200,000	-	December 6, 2021	$6.14
June 25, 2012	242,500	-	June 24, 2022	$7.25
	1,447,150	628,650		

At June 30, 2012, the weighted average exercise price is $6.17 (December 31, 2011 - $5.84) and the weighted average remaining contractual life for all options outstanding is 8.30 years (December 31, 2011 – 8.44 years). The options exercisable at June 30, 2012 have a weighted average exercise price of $5.10 (December 31, 2011 - 247,250 options at $5.89).

b) Restricted Share Units

A summary of the restricted share units outstanding is as follows:

	For the three-months ended		For the six-months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Balance, beginning of period	**57,000**	195,000	**57,000**	195,000
Granted	**51,500**	37,000	**51,500**	37,000
Exercised	**(39,500)**	(175,000)	**(39,500)**	(175,000)
Balance, end of period	**69,000**	57,000	**69,000**	57,000

During the six months ended June 30, 2012, an aggregate of 44,000 (2011 - 37,000) restricted share units ("RSUs") were granted to directors and expire in ten years. The grantees of such RSUs are not entitled to the distributions paid before the RSUs are exercised. Such RSUs vest one year from the date of issue and are to be settled by the issue of Shares. RSUs granted are in respect of future services and are expensed over the vesting period. Compensation cost is measured based on the market price of the Shares on the date of the grant of the RSUs, which was $7.45. During the six months ended June 30, 2012, 7,500 RSUs were granted in accordance with the Case Funding purchase agreement to a senior executive of Case Funding, the RSUs vested immediately and were exercised by the executive.

During the six months ended June 30, 2012, personnel expense and reserve - share-based compensation included $152,000 (2011 - $358,000) relating to RSUs.

On exercise of the 39,500 RSUs, during the six months ended June 30, 2012, the value of the RSUs of $306,000 (2011 – $1.1 million) that had been expensed during the vesting period was transferred from reserve - share-based compensation to Common Share capital. For the 39,500 RSUs exercised in 2012, the weighted average share price at the date of exercise was $7.33 (2011 – $7.70).

As of June 30, 2012, unrecognized non-cash compensation expense related to non-vested RSUs was $323,309 (2011 - $341,000).

The following RSUs are outstanding at June 30, 2012:

Grant date	Number of RSUs outstanding	Vested	Expiry date	Grant price
April 13, 2010	20,000	20,000	April 12, 2020	$4.49
April 25, 2011	5,000	5,000	April 24, 2021	$7.79
June 25, 2012	44,000	-	June 24, 2022	$7.45

See also Note 30 (b)(ii) in the 2011 Annual Report

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 June 30,		For the six-months ended June 30,	
	2012	2011	**2012**	2011
Weighted average number of shares outstanding	**9,823,217**	9,532,201	**9,817,358**	9,465,245
Dilutive effect of options	**312,946**	398,318	**303,653**	532,014
Dilutive effect of RSUs	**40,451**	126,176	**48,725**	178,796
Weighted average shares outstanding for diluted earnings per share	**10,176,614**	10,056,695	**10,169,736**	10,176,055

Options to purchase 780,500 shares (2011 – 387,500) 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. CASH FLOW SUPPLEMENTARY DISCLOSURE

	For the three-months ended		**For the six-months ended**	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	($ thousands)			
Non-cash transactions				
Common shares issued for business acquisition	**$-**	$459	**$-**	$459
Common shares issued on exercise of restricted units	**$1,085**	$1,085	**$306**	$1,085

18. CAPITAL MANAGEMENT

The Company's capital is comprised of shareholders' equity which at June 30, 2012 comprised $59.8 million (December 31, 2011 - $58.9 million). The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in the long-term and to provide adequate returns for shareholders.

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

There have been no changes in the Company's objectives, policies or processes for managing capital since the previous year-end.

The Company is not subject to externally imposed regulatory capital requirements. However, each of the Company's operating subsidiaries is subject to bank and/or manufacturer covenants relative to leverage and/or working capital. These bank covenants safeguard the capital in each of its operating subsidiaries. Pawnee is restricted in its ability to further merge, acquire companies or be acquired, or incur additional debt without lender approval. Furthermore, dividends from Pawnee 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, excluding mark-to-market adjustments for interest rate swaps. Under the loan agreement entered into on September 24, 2010, Pawnee's permitted dividends payable to Chesswood would be reduced to 90% of consolidated net income, as determined in accordance with U.S. GAAP, excluding mark-to-market adjustments for interest rate swaps, should Pawnee's leverage rise to a specified level.

Subsequent to June 30, 2012, Pawnee renewed and expanded its credit facility, for a term of four years, expiring July 24, 2016. The existing credit facility was due to mature in September 2013. The credit facility has been increased to US$85 million from US$55 million while the accordion feature of the loan agreement was increased to US$115 million from US$85 million. Chesswood has contributed US$2.0 million of additional capital to Pawnee, in conjunction with the new credit facility, to further support Pawnee's growth.

The Company's subsidiaries' objective is to maintain low cash balances, investing any free cash in leases 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 June 30, 2012, the Company's operating units had $7.7 million in additional borrowings available under various credit facilities, before any accordion provision, to fund business operations.

The Company itself does not have a credit facility available. Credit facilities of its operating subsidiaries are used to provide funding for the respective subsidiary's operations (namely to provide financing for the purchase of assets which are to be the subject of leases or to acquire vehicle inventory and support working capital). The credit facilities are not intended to directly fund dividends by the Company (and these facilities generally limit the amount which can be distributed up to the Company to the net income of the subject subsidiary).

Under Pawnee's debt to equity covenant calculation, customer security deposits are treated as an offset to net investment in leases and are not considered debt. Below is the Company's consolidated debt to equity analysis. There are no bank covenants relating to the consolidated debt to equity calculation.

	June 30, 2012	December 31, 2011
	($ thousands)	
Debt	$ 92,724	$78,495
Equity	$ 59,790	$58,880
Debt/Equity	1.55	1.33

19. RELATED PARTY TRANSACTIONS

The Company has no parent or other ultimate controlling party. Related party 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 June 30, 2012 and 2011 there was no amount payable in respect of the lease.

b) Case Funding provides Quick Cash Inc. (“Quick Cash”), an entity controlled by a director of Case Funding and the CEO of Case Funding, with personnel and facilities to manage the portfolio of existing loans managed by Quick Cash and required origination and placement services in respect of future loans (Quick Cash is prohibited from making loans, other than those which Case Funding does not wish to make and Quick Cash is responsible for all out-of-pocket third party fees and expenses relating to its business). Payments received for services provided will be as follows:

Months	Amount
June – December 2011	Nil
January – June 2012	$16,000/month
July 2012 – June 2013	$4,000/month
July 2013 – June 2014	$1,000/month

This revenue is recorded in Ancillary finance and other fee income. The amounts being charged were determined at the time of Case Funding’s acquisition and reflect negotiated market terms and the expected level of administrative services that will be provided to Quick Cash over the term of the agreement.

c) 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 June 30,		For the six-months ended June 30,	
	2012	2011	**2012**	2011
	($ thousands)		*($ thousands)*	
Salaries, fees and other short-term employee benefits	**$265**	$184	**$455**	$366
Share-based compensation	**125**	222	**363**	578
Compensation expense of key management and directors	**$390**	$406	**$818**	$944

20. 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.

21. BUSINESS ACQUISITION

On June 10, 2011 (the “Acquisition Date”), the Company acquired (the “Acquisition”) 100% of the outstanding common 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 Company did not acquire any interest in the advances previously extended by Quick Cash Inc. and therefore the shares of Quick Cash Inc. itself were not acquired as part of the business acquisition (as discussed below).

The primary reason for the Acquisition was to expand the Company's portfolio in specialty finance through a company established in a niche market within the litigation financing industry and ultimately enjoy healthy risk-adjusted returns.

The fair value of the consideration transferred to the former shareholders of Case Funding was satisfied through the issuance of 116,438 Common Shares of the Company, with an Acquisition Date fair value of $7.60 per common share, and U.S.$50,000 in cash. The vendors are restricted from trading the shares for a 3 year period. For valuation purposes, the discount on these restricted shares was calculated based on the theoretical price of a put option on the shares with an expiry date equal to the trading restriction period. A value of approximately $3.85 per Common Share was calculated.

The Acquisition is recorded using the acquisition method of accounting. Under this method, the identifiable assets acquired and the liabilities assumed are measured and recognized at their Acquisition Date fair values. Any excess of the Acquisition Date fair value of the consideration over the net of the Acquisition Date fair values of the identifiable assets acquired and the liabilities assumed is recognized as goodwill and any deficiency is recognized as a gain. Acquisition costs associated with a business combination are expensed in the period incurred. The results of operations have been consolidated from the Acquisition Date.

Goodwill recorded in connection with the acquisition is primarily attributable to the economic value associated with workforce of the acquired business, the expected profitability of the acquired business, the expected synergies and intangible assets that do not qualify for separate recognition.

The fair value of assets acquired and liabilities assumed was determined by the Company's management based on information furnished by the management of Case Funding and its own detailed review.

The determination of the fair value of consideration and identifiable assets and liabilities acquired is as follows:

	June 10, 2011	
	(U.S.$)	(Cdn$)
	($thousands)	
Property and equipment	$2	$1
Trade names	370	361
Goodwill	652	638
Fair value	$1,024	$1,000
Consideration		
Cash	$50	$49
Shares issued	458	448
Contingent consideration – cash (year 3 incentive payment amount)	516	503
	$1,024	$1,000

The amount allocated to goodwill is not deductible for tax purposes.

Incentive Payment Amount - In the event that Case Funding's normalized net income ("NNI") for the 25th through 36th months following the Acquisition Date achieves the targeted amount of approximately U.S.$4.7 million (the "Targeted Amount"), an amount of U.S.$1.4 million (the "Incentive Payment Amount") (or an identical percentage adjusted portion of the Incentive Payment Amount if NNI is less than, but at least 90% of, the Targeted Amount) will be paid no later than the 38th month. At the Acquisition Date, management estimated the amount allocated to the purchase price (80% of the incentive payment amount) had a value of U.S.$516,000. Each reporting period, Chesswood will have to assess the fair value of the contingent payable and any change will flow through the income statement.

The Acquisition agreement also provided for the future conditional acquisition of the shares of Quick Cash, through put/call option rights, based on its net cash position following certain wind-down milestones being met, for a maximum purchase price of U.S.$1.8 million, to be satisfied through the issuance to the vendors of Chesswood's Common Shares at the same issue price used for the purchase of Case Funding, $7.94. The put/call option rights on the shares of Quick Cash expire if not exercised on or before December 10, 2014. If Quick Cash has net cash position of less than $1.8 million at December 10, 2014 and the milestones have been reached, the Quick Cash shareholders will receive such number of Common Shares based on the net cash position divided by the U.S.$ equivalent of the $7.94 share price. If Quick Cash has more than $1.8 million net cash position after the milestones have been reached, the Quick Cash shareholders will receive the maximum Quick Cash purchase price in Common Shares ($1.8 million divided by U.S.$ equivalent of $7.94) plus 60% of the excess net cash position (in cash not shares); with the remaining 40% going to Chesswood. The Common Shares, if issued, will be subject to a 12 month contractual escrow. It was determined, for accounting purposes, that the put/call option rights for the future conditional acquisition of Quick Cash have a zero value.

Transaction costs relating to this Acquisition of $425,000 were expensed in 2011 and are included in general and administrative expenses.

As Case Funding was a newly incorporated and organized corporation which owns the tangible and intangible assets required to carry on the going forward business of Quick Cash, Case Funding did not have any comparative revenue and expense data. The revenue and expenses of Case Funding since Acquisition Date are disclosed in Note 22.

22. 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 six months ended June 30, 2012 ($ thousands)				
	Equipment Financing – U.S.	Litigation Financing – U.S.	Automotive operations -Canada	Corporate overhead - Canada	Total
Interest revenue on leases and loans	$ 14,301	$ 564	$ 102	$ —	$14,967
Ancillary lease and other fee income	2,255	139	—	—	2,394
Interest expense	(1,354)	—	(15)	—	(1,369)
Provision for credit losses	(2,218)	(31)	1	—	(2,248)
Finance margin	**12,984**	**672**	**88**	—	**13,744**
Revenue - automotive operations	—	—	24,616	—	24,616
Cost of sales – automotive operations	—	—	(21,710)	—	(21,710)
Gross margin	**12,984**	**672**	**2,994**	—	**16,650**
Personnel expenses	1,881	525	1,382	429	4,217
Share-based compensation expense	160	173	60	363	756
Contingent consideration and bonus *(a)*	—	90	—	—	90
Amortization	291	-	62	2	355
Other expenses	1,609	214	1,139	589	3,551
Income before other items	**9,043**	**(330)**	**351**	**(1,383)**	**7,681**
Unrealized gain on foreign exchange	—	—	—	187	187
Unrealized loss on interest rate swaps	(42)	—	—	—	(42)
Income before income taxes	9,001	**(330)**	351	(1,196)	7,826
Provision for (recovery of) income taxes	3,635	—	(30)	13	3,618
Net income	**$5,366**	**$(330)**	**$381**	**$(1,209)**	**$4,208**
Net cash from (used in) operating activities	$8,737	$(1,914)	$657	$(1,465)	$6,015
Net cash used in investing activities	(28)	(20)	(31)	—	(79)
Net cash used in financing activities	—	—	—	(3,844)	(3,844)
Total Assets	$132,911	$5,245	$17,490	$8,978	$164,624
Total Liabilities	92,784	984	10,110	937	104,815
Finance receivables	114,970	3,556	1,562	—	120,088
Goodwill	10,961	665	2,520	—	14,146
Intangible assets	5,928	377	889	—	7,194
Property and equipment expenditures	28	20	31	—	79

a) *Non-cash contingent consideration accretion of $71,607 was expensed in other expenses and $17,901 in non-cash contingent bonus was included in personnel expenses on statement of income.*

	For the six months ended June 30, 2011 ($ thousands)				
	Equipment Financing – U.S.	**Litigation Financing – U.S.(1)**	**Automotive operations -Canada**	**Corporate overhead - Canada**	**Total**
Interest revenue on leases and loans	$ 12,444	$ —	$ 349	$ —	$12,793
Ancillary lease and other fee income	2,108	—	—	—	2,108
Interest expense	(1,325)	—	(127)	—	(1,452)
Provision for credit losses	(1,951)	—	3	—	(1,948)
Finance margin	**11,276**	—	**225**	—	**11,501**
Revenue - automotive operations	—	—	21,741	—	21,741
Cost of sales – automotive operations	—	—	(18,849)	—	(18,849)
Gross margin	**11,276**	—	**3,117**	—	**14,393**
Personnel expenses	1,675	75	1,436	351	3,537
Share-based compensation expense	214	14	124	577	929
Contingent consideration and bonus	—	—	—	—	—
Amortization	280	-	72	6	358
Other expenses	1,448	29	1,094	916	3,487
Income before other items	**7,659**	**(118)**	**391**	**(1,850)**	**6,082**
Unrealized loss on foreign exchange	—	—	—	(93)	(93)
Unrealized gain on interest rate swaps	14	—	—	—	14
Income before income taxes	**7,673**	**(118)**	**391**	**(1,943)**	**6,003**
Provision for income taxes	2,966			255	3,221
Net income	**$4,707**	**(118)**	**$391**	**$(2,198)**	**$2,782**
Net cash from operating activities	$1,969	$(75)	$200	$(1,186)	$908
Net cash used in investing activities	(162)	—	(14)	(428)	(604)
Net cash used in financing activities	—	—	—	(3,082)	(3,082)
Total Assets	$107,967	$1,195	$18,341	$8,826	$136,329
Total Liabilities	69,182	566	9,753	1,241	80,742
Finance receivables	90,703	40	6,107	—	96,850
Goodwill	10,371	583	2,520	—	13,474
Intangible assets	6,091	357	889	—	7,337
Property and equipment expenditures	162	—	14	3	179

(1) Results for period from June 10, 2011 to June 30, 2011.

	For the three months ended June 30, 2012 ($ thousands)				
	Equipment Financing – U.S.	Litigation Financing – U.S.	Automotive operations -Canada	Corporate overhead - Canada	Total
Interest revenue on leases and loans	$ 7,293	$ 363	$ 38	$ —	$7,694
Ancillary finance and other fee income	1,176	74	—	—	1,250
Interest expense	(690)	—	(5)	—	(695)
Provision for credit losses	(1,249)	(31)	1	—	(1,279)
Finance margin	**6,530**	**406**	**34**		**6,970**
Revenue - automotive operations	—	—	14,037	—	14,037
Cost of sales – automotive operations	—	—	(12,374)	—	(12,374)
Gross margin	**6,530**	**406**	**1,697**	—	**8,633**
Personnel expenses	1,036	289	733	251	2,309
Share-based compensation expense	63	112	29	125	329
Contingent consideration and bonus *(a)*	—	47	—	—	47
Amortization	146	—	25	1	172
Other expenses	837	95	588	251	1,771
Income before other items	**4,448**	**(137)**	**322**	**(628)**	**4,005**
Unrealized gain on foreign exchange	—	—	—	240	240
Unrealized loss on interest rate swaps	(203)	—	—	—	(203)
Income before income taxes	**4,245**	**(137)**	**322**	**(388)**	**4,042**
Provision for (recovery of) income taxes	1,697	—	(1)	39	1,735
Net income	**$2,548**	**$(137)**	**$323**	**$(427)**	**$2,307**
Net cash used in operating activities	$8,794	$(1,012)	$287	$(815)	$7,254
Net cash used in investing activities	(12)	(8)	—	—	(20)
Net cash used in financing activities	—	—	—	(2,162)	(2,162)
Property and equipment expenditures	12	8	—	—	20

a) *Non-cash contingent consideration accretion of $36,998 was expensed in other expenses and $9,249 in non-cash contingent bonus was included in personnel expenses on statement of income.*

	For the three months ended June 30, 2011 ($ thousands)				
	Equipment Financing – U.S.	Litigation Financing – U.S.*(1)*	Automotive operations -Canada	Corporate overhead - Canada	Total
Interest revenue on leases and loans	$ 6,268	$ —	$ 151	$ —	$6,419
Ancillary finance and other fee income	1,056	—	—	—	1,056
Interest expense	(642)	—	(56)	—	(698)
Provision for credit losses	(1,111)	—	—	—	(1,111)
Finance margin	**5,571**	—	**95**	—	**5,666**
Revenue - automotive operations	—	—	11,419	—	11,419
Cost of sales – automotive operations	—	—	(9,900)	—	(9,900)
Gross margin	**5,571**	—	**1,614**	—	**7,185**
Personnel expenses	862	75	745	186	1,868
Share-based compensation expense	135	14	58	222	429
Amortization	141	—	36	4	181
Other expenses	724	29	548	672	1,973
Income before other items	**3,709**	**(118)**	**227**	**(1,084)**	**2,734**
Unrealized loss on foreign exchange	—	—	—	(15)	(15)
Unrealized loss on interest rate swaps	(321)	—	—	—	(321)
Income before income taxes	**3,388**	**(118)**	**227**	**(1,099)**	**2,398**
Provision for income taxes	1,317	—	—	4	1,321
Net income	**$2,071**	**$(118)**	**$227**	**$(1,103)**	**$1,077**
Net cash from operating activities	$2,234	$(75)	$723	$(214)	$2,668
Net cash used in investing activities	—	—	(14)	(428)	(442)
Net cash used in financing activities	—	—	—	(1,478)	(1,478)
Property and equipment expenditures	$-	—	$14	$3	$17

(1) Results for period from June 10, 2011 to June 30, 2011.

23. SUBSEQUENT EVENT

Pawnee renewed and expanded its credit facility, for a term of four years. The existing credit facility was due to mature in September 2013. The credit facility has been increased to U.S.$85 million from U.S.$55 million while the accordion feature of the loan agreement was increased to U.S.$115 million from U.S.$85 million.

Chesswood has contributed U.S.$2.0 million of additional capital to Pawnee, in conjunction with the new credit facility, to further support Pawnee's growth.

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
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DOit Investments Ltd.

Robert Day
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Former Chairman, Pawnee Leasing Corporation

Samuel Leeper
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Chesswood Group Limited
Chairman and C.E.O.,
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Lisa Stevenson
Director of Finance,
Chief Financial Officer

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