Chesswood Group Limited

2012

ANNUAL REPORT

Chesswood Group Limited

FOR THE YEAR ENDED DECEMBER 31, 2012

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FOR THE YEAR ENDED DECEMBER 31, 2012

TO OUR SHAREHOLDERS

Chesswood continued its pattern of growth in 2012, led once again by Pawnee's growth in its portfolio and earnings. The portfolio closed the year at US$150 million in receivables, up from US$130 million last year, while its pre-tax earnings were ahead of last year by almost $1.8 million.

This growth helped lead the way to another record year for Chesswood, as we earned $16.6 million before taxes this past year, compared to $13.1 million in 2011, for an improvement of more than 25%.

This year's results also reflect the achievement of operating profitability by our legal finance business, Case Funding. In the fourth quarter of 2012, Case Funding generated a pre-tax profit of approximately $110,000 before the positive effect of reversing a previously accrued contingent bonus, which boosted its Q4 pre-tax earnings by an additional $863,000 to almost $1.0 million.

The wind down of our Canadian vehicle leasing business was completed in 2012 while our Acura dealership had another steady year of earnings, as it entered a much needed cycle of model renewals in its product line.

We have traditionally used this space to recognize the hard work, achievement and dedication of our operating teams in Fort Collins, Colorado, New York City and Toronto, Ontario. This year is no different, and our thanks go out to all our staff who once again demonstrated the strength of their commitment and the great skills they bring to bear, each and every day. We are very grateful for their efforts, as they are the foundation of Chesswood's success.

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 Case Funding Inc. ("Case Funding"), Chesswood is involved in the business of providing financing to plaintiffs and attorneys and the purchase of medical liens that form part of litigation throughout the United States. Through its interest in Lease-Win Limited ("Lease-Win"), Chesswood had a portfolio of automobile leases under administration, the remainder of which were sold or came to term during the year.

The Company's annual report and annual information form for the year-ended December 31, 2012, 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.

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 December 31, 2012, Pawnee administered 9,009 leases and loans in its portfolio, with remaining scheduled payments of approximately U.S.$150.1 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.$75,000;

(iii) a personal guarantee of at least the major shareholder/owner is obtained; and

(iv) all scheduled payments are required to be paid by direct debit out of the lessee's/borrower 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 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 score 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 all 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 14-30%. At December 31, 2012, approximately 59.3% of Pawnee's lease and loan receivables consisted of the "B+" product.

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 (and thus are referred to as loans therein). Underwriting requirements and standards and pricing 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 borrowers operate. At December 31, 2012:
    - no state represented more than 10.8% of the number of Pawnee's total active leases and loans, with the exception of California which represented 13.0%;
    - Pawnee financed over 70 equipment categories, with its five largest categories by volume, being restaurant, auto repair, titled trucks and trailers, fitness and computer equipment, which combined accounted for 54.4% of the number of active leases and loans;
    - its lessees and borrowers operated in over 85 different industry segments, with no industry concentration accounting for more than 15.4% of its number of active leases and loans;
    - no lessee/borrower accounted for more than 0.01% of its total lease and loan portfolio; and
    - its largest source of originations accounted for 12.5% of its gross lease and loan receivable, and its ten largest origination sources accounted for 35.0% of its gross lease and loan receivable.

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

SHERWAY LP AND LEASE-WIN

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

On August 24, 2012, Lease-Win sold 99 leases to an independent leasing company for gross proceeds of $1.2 million. The remaining 137 leases that were outstanding at December 31, 2011 have since been paid out by the lessees. Lease-Win continues to operate cars4U.com.

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

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 legal financing to plaintiffs and attorneys throughout the United States.

The entire team of Quick Cash joined Case Funding, combining their legal finance experience with Chesswood's specialty finance expertise and financial resources to build a growth-oriented legal finance business.

The legal 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 (as determined by Case Funding) and provides legal funding for plaintiffs based on Case Funding's views of the strength of their lawsuits. Quick Cash has been in the legal 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 Legal Funding Market – Overview

Legal 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, legal funding improves fairness in the legal process by permitting a person lacking the required funds to continue pursuing a claim against a defendant. Legal 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 legal 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 legal funding markets in the U.K. and Australia are reasonably mature, legal 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 legal 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 legal funding companies.

Internationally there are several firms engaged exclusively in legal 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 Loans

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, and the balance is paid upon payout or partial payout; underwriting and origination fees; 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; and quarterly financial statements of the firm.

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 assist in our ongoing administration as it relates to the assessment of changes to any significant cases in each basket, including a formal review three times a year.

Case Funding's staff visits the office of all attorneys requesting a loan in excess of $100,000 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.

Because these loans 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 Advances

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. 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 legal 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 advances are made in smaller amounts and can therefore provide Case Funding with "smoother" cash flow and a diversification of risk. In addition, it is not 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, Case Funding receives a lien on the case proceeds which is acknowledged by the plaintiff's attorney via a "Letter of Protection". Because no interest is charged, the margin is the difference between the price Case Funding pays and the amount it ultimately collects. Medical liens are generally purchased later in the life cycle of the case and 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 enables 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 December 31, 2012, Case Funding employed 9 full-time equivalent employees.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") is a review of the financial condition and financial performance of Chesswood Group Limited ("Chesswood" or the "Company") for the three months and year ended December 31, 2012. This discussion should be read in conjunction with the audited consolidated financial statements and accompanying notes of the Company for the year ended December 31, 2012 set forth in the Company's 2012 Annual Report. The fiscal year of the Company ends on December 31. The date of this MD&A is March 5, 2013. 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 Case Funding Inc. ("Case Funding"), Chesswood is involved in the business of legal financing to plaintiffs and attorneys and the purchase of medical liens that form part of litigation throughout the United States. Through its interest in Lease-Win Limited ("Lease-Win"), Chesswood had a portfolio of automobile leases under administration most of which were sold during the year and the balance of which were paid out by the lessees during the year.

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 consolidated 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 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, 2012 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, consolidated 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 and loans;
- our provision for credit losses;
- increasing competition;
- increased governmental regulation of the rates and methods we use in financing and collecting on our equipment leases or loans or on the legal funding business generally;
- 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)*

	Mar 31 2011	June 30 2011	Sep 30 2011	Dec 31 2011	Mar 31 2012	June 30 2012	Sep 30 2012	Dec 31 2012
Number of leases and loans outstanding (#)	7,631	7,936	8,111	8,258	8,401	8,625	8,701	9,009
Gross lease and loan receivable ("GLR") (1)	$112,615	$120,251	$125,021	$130,601	$134,613	$140,605	$141,971	$150,125
Residual receivable	$ 14,260	$ 15,106	$ 15,749	$ 16,354	$ 16,754	$ 17,258	$ 17,546	$ 18,015
Net investment in leases and loans receivable, before allowance (4)	$ 90,389	$ 96,372	$100,489	$105,905	$109,832	$115,074	$117,121	$123,497
Security deposits (nominal value) (4)	$ 10,179	$ 10,609	$ 10,930	$ 11,233	$ 11,478	$ 11,854	$ 12,074	$ 12,378
Allowance for doubtful accounts – previous method	$ 6,489	$ 5,588	$ 5,284	$ 4,798	$ 4,488	$ 4,303	$ 4,210	$ 4,364
Allowance for doubtful accounts – IFRS	$ 2,330	$ 2,312	$ 2,482	$ 2,198	$ 1,990	$ 2,259	$ 2,629	$ 2,950
Over 31 days delinquency (% of GLR) (2)	2.29%	2.08%	2.10%	1.90%	1.54%	1.64%	1.98%	2.23%
Net charge-offs for the three-months ended (3)	$ 1,407	$ 1,133	$ 1,114	$ 1,146	$ 1,097	$ 945	$ 1,017	$ 1,295
Provision for credit losses for the three-months ended – previous method	$ 243	$ 231	$ 810	$ 659	$ 788	$ 760	$ 924	$ 1,448
Provision for credit losses for the three-months ended – IFRS	$ 852	$ 1,145	$ 1,218	$ 980	$ 968	$ 1,238	$ 1,431	$ 1,635

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.

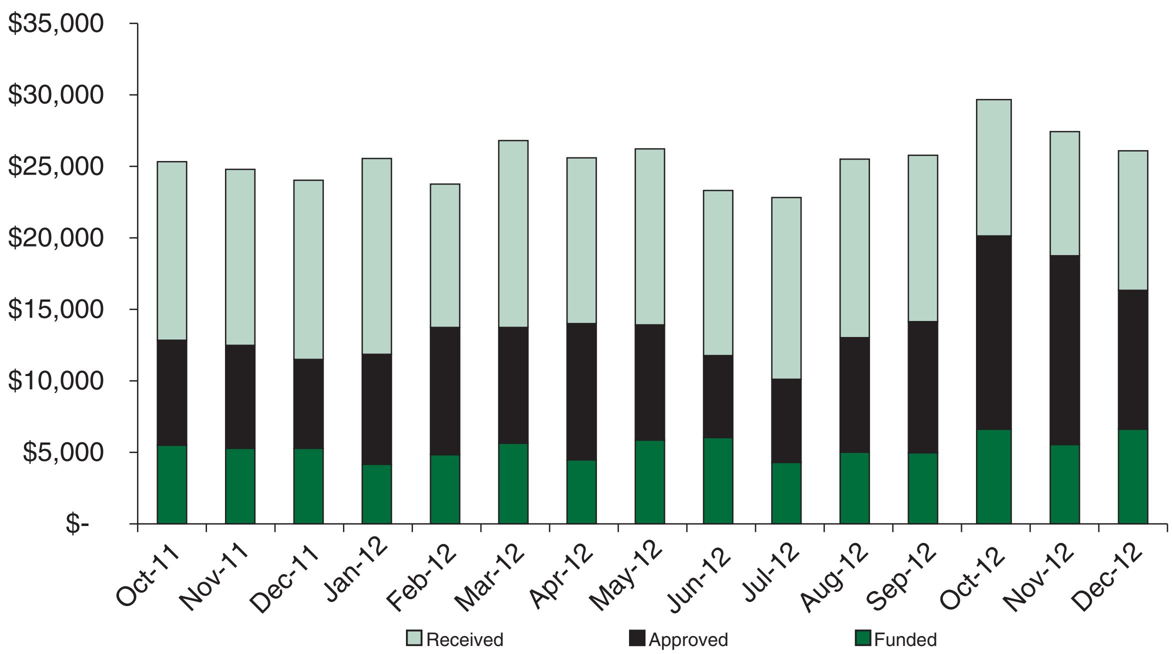
(3) Excludes the "charge-offs" of interest revenue on finance leases and loans on non-accrual leases recognized under IFRS.

(4) Excludes adjustment for discounting security deposits and increasing unearned income for interest savings on security deposits.

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 and 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, as well as other less significant metrics, usually results in a more detailed review, which may include, amongst other things, a 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. Pawnee applies several basic principles for all credit decisions on new leases and loans, including the requirement that all business owners personally guarantee the lease/loan and must therefore submit their personal credit information for consideration, and all scheduled payments must be paid through direct debit. 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/loan originations and segmenting this pool into quarterly or annual vintages according to when the leases and loans 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/loans to be approved or stop originating leases/loans 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 initially monitored Case Funding's overhead expenses as they compared 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.

As Case Funding has grown since June 2011, its portfolio, processes and systems are subject to ongoing enhancement and change, in monitoring, measurement and analyses.

All attorney loans are subject to conditional approval of a credit committee after having first been evaluated by Case Funding's credit underwriting. That conditional approval most often reflects the fact that a prospective attorney borrower's basket of cases must still meet Case Funding's legal underwriting criteria. Legal underwriting generally commences after a borrower's credit profile has been determined to meet Case Funding's standards.

Operationally, Case Funding monitors the collection of attorney interest payments (generally made monthly by ACH) and activity in the borrower's trust accounts, as two key steps out of a number of control measures, that provide effective monitoring tools of the borrower's payment history and settlement activity. There are a variety of other controls and processes in place to monitor these loans, including regularly scheduled updates from the borrowers, on the status of their cases.

Plaintiff advances are also subject to regularly scheduled updates from the plaintiff's attorney as to the status of the case and any changes that may have taken place since the last update. The plaintiff portfolio is also periodically examined for the aging of the advances and concentration by case types, amongst other metrics.

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 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 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.

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 share-based 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.

For 2010, 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.

Management refers to operating income in the MD&A which equals income before undernoted items presented on the consolidated statement of income.

Adjusted EBITDA (1) For the quarter-ended *($ thousands)*	2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net income	$1,705	$1,077	$1,098	$2,629	$1,901	$2,307	$1,558	$3,223
Interest expense (3)	980	925	881	913	901	928	918	906
Tax expense (4)	2,021	1,443	1,465	1,628	1,998	1,863	1,677	2,100
Amortization and impairment	177	181	183	187	183	172	164	160
EBITDA (1)	**$4,883**	**$3,626**	**$3,627**	**$5,357**	**$4,983**	**$5,270**	**$4,317**	**$6,389**
Interest expense	(980)	(925)	(881)	(913)	(901)	(928)	(918)	(906)
Share-based compensation expense	500	429	342	373	427	329	334	346
Contingent consideration and bonus (2)	—	—	165	43	43	47	48	(863)
Foreign exchange loss (gain)	78	15	(18)	(120)	53	(240)	338	(208)
Fair value adjustments – interest rate swaps	(335)	321	283	(238)	(161)	203	169	(218)
Adjusted EBITDA (1)	**$4,146**	**$3,466**	**$3,518**	**$4,502**	**$4,444**	**$4,681**	**$4,288**	**$4,540**

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

(2) Contingent consideration and bonus relates to a potential Incentive Payment Amount on the acquisition of Case Funding. Each reporting period, Chesswood assessed the fair value of the contingent payable and any change flowed through to the consolidated statement of income. It was determined at December 31, 2012 that the probability that Case Funding would reach the targeted amount of normalized net income (“NNI”) was minimal. The estimate of the fair value of contingent consideration and bonus payable requires very subjective assumptions to be made of various potential operating result scenarios and discount rates. Although the Company believes that there will be no Incentive Payment Amount due in June 2014, it will continue to periodically review NNI results and an updated assessment of various probability weighted projected NNI scenarios. If circumstances change and the Company determines that an earn-out payment may be due, such future revisions may materially change the estimate of the fair value of contingent consideration and therefore materially affect the Company’s future financial results. Previously disclosed EBITDA and Adjusted EBITDA amounts have been amended to reflect this change.

(3) In Q4 2012, it was determined for accounting purposes that customer security deposits should be discounted with the offsetting adjustment to net investment in leases and equipment finance agreements (unearned income). Interest expense is now grossed-up by the imputed interest savings on the customer security deposits, with an offsetting increase in interest revenue on finance leases and loans. The previously disclosed 2011 and 2012 quarterly interest expense amounts were adjusted in Q4 of 2012 to reflect this change. This adjustment affects previously reported EBITDA but not Adjusted EBITDA.

(4) In Q4 2012, it was determined that the dividend withholding tax expense on intercompany dividends should be classified as current tax expense and not as a component of other expenses for greater transparency. Previously disclosed EBITDA and Adjusted EBITDA amounts have been amended to reflect this change.

SELECTED FINANCIAL INFORMATION

($ thousands, except per share figures)	For the years ended December 31, 2010	2011	2012
Revenue (6)(9)	$ 80,407	$ 77,864	$ 86,596
Gross margin before expenses (9)	27,172	30,296	33,236
Basic earnings per share (2)(3)(4)	$ 0.41	$ 0.59	$ 0.80
Diluted earnings per share (2)(3)(4)	$ 0.37	$ 0.56	$ 0.77
Total assets (6)	$139,367	$147,366	$161,395
Long-term financial liabilities (5)(6)	83,917	77,428	86,381
Dividends/distributions per-share	$ 0.465	$ 0.600	$ 0.640
Adjusted EBITDA (1)(8)	$ 13,523	$ 15,632	$ 17,953
Dividends/distributions	$ 4,704	$ 6,673	$ 7,239

As at and for the quarter-ended *($ thousands, except per share figures)*	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4 (7)
Revenue (6)(9)	$ 17,921	$ 19,070	$ 19,106	$ 21,767	$ 19,174	$ 23,142	$ 21,474	$ 22,806
Gross margin before expenses (9)	7,208	7,185	7,402	8,501	8,017	8,633	8,228	8,358
Income before tax, and gain (loss) on interest rate swaps, and fx (8)	3,469	2,856	2,993	3,942	3,834	4,180	3,790	4,034
Income before tax (8)	3,726	2,520	2,563	4,257	3,899	4,170	3,235	5,323
Provision for taxes (8)	2,021	1,443	1,465	1,628	1,998	1,863	1,677	2,100
Net income	$ 1,705	$ 1,077	$ 1,098	$ 2,629	$ 1,901	$ 2,307	$ 1,558	$ 3,223
Basic earnings per share (2)(3)	$ 0.16	$ 0.10	$ 0.09	$ 0.24	$ 0.17	$ 0.20	$ 0.14	$ 0.29
Diluted earnings per share (2)(3)	$ 0.15	$ 0.09	$ 0.09	$ 0.23	$ 0.16	$ 0.20	$ 0.13	$ 0.28
Total assets (6)	133,755	135,288	143,957	147,366	149,431	163,214	153,742	161,395
Long-term financial liabilities (6)	66,153	70,422	75,909	77,428	77,007	89,302	83,220	86,381
Other Data								
Adjusted EBITDA (1)(8)	$ 4,146	$ 3,466	$ 3,518	$ 4,502	$ 4,444	$ 4,681	$ 4,288	$ 4,540
Dividends declared (3)	1,632	1,662	1,688	1,691	1,694	1,809	1,867	1,869
Dividends declared per share (1)(2)	$ 0.15	$ 0.15	$ 0.15	$ 0.15	$ 0.15	$ 0.16	$ 0.165	$ 0.165

(1) Adjusted EBITDA is a non-GAAP measure. See "Non-GAAP Measures" for the definition of Adjusted EBITDA.
(2) Based on weighted average shares outstanding during period.
(3) Includes dividends on Exchangeable Securities (non-controlling interest).
(4) 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.
(5) In 2010, per IFRS, Fund Units, Exchangeable Securities and share-based compensation reserve were classified as liabilities and had to be marked to market at each reporting period. In 2011, per IFRS, these items are classified as equity items.
(6) Previously disclosed amounts for 2010, 2011 and quarterly 2012 revenue, total assets, and long-term financial liabilities were adjusted in Q4 of 2012 as it was determined that customer security deposits should be discounted with the offsetting entry to net investment in leases or equipment finance agreements (unearned income). Interest expense on consolidated statement of income is now grossed-up by the imputed

interest savings on the customer security deposits with an offsetting increase in interest revenue on finance leases and loans. This adjustment affects previously reported EBITDA but not Adjusted EBITDA.

(7) While Case Funding continues to grow and shows promise, the projected results are less than the original forecasts. It has been determined that the estimated probability that Chesswood will have to pay the contingent consideration and bonus in June 2014 is extremely low. The $850,000 accrual at September 30, 2012, relating to the contingent consideration ($680,000) and bonus ($170,000) was reversed in Q4 2012. While management believes the $399,000 deferred tax asset at Case Funding will be realized, given the uncertainty of forecasting the growth of Case Funding, the timing of the utilization of the tax losses was not certain and thus the deferred tax asset established in Q4 2011 was reversed in Q4 2012. Previously disclosed quarterly Adjusted EBITDA amounts did not consider contingent consideration and bonus, the calculation of quarterly Adjusted EBITDA was updated in Q4 2012.

(8) In Q4 2012, it was determined that the dividend withholding tax expense on intercompany dividends should be classified as current tax expense and not as a component of other expenses for greater transparency. Previously disclosed provision for taxes, income before tax and Adjusted EBITDA amounts have been amended to reflect this change.

(9) Canadian automotive business represents approximately 60% of the Company's total revenue [2010 – 61.4%, 2011 – 59.2%, 2012 – 58.5%], however only represents approximately 20% of the Company's gross margin before expenses [2010 – 22.9%, 2011 – 20.6%, 2012 – 18.0%]. The Canadian automotive revenue can significantly fluctuate throughout the year and year-to-year based on seasonality, sales volumes and market conditions with little effect to the Company's gross margin before expenses. The Company's management believes the gross margin before expenses is a better measure by which to track the Company's consolidated performance.

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2012 AND 2011

Pawnee and Case Funding's U.S. dollar results for the year ended December 31, 2012 were converted at approximately 0.9996, which was the average exchange rate for the period. The U.S. dollar results for the year ended December 31, 2011 were converted at approximately 0.9891, which was the average exchange rate for the corresponding period.

Please see Note 36 – *Segment Information* in the notes to the Company's consolidated financial statements for a breakdown of operating results and other information by industry segment and geographic location.

For the year ended December 31, 2012, the Company reported consolidated net income of $9.0 million compared to $6.5 million in the prior year, an increase of $2.5 million or 38.5% year-over-year.

There were two significant adjustments to Case Funding's results, the net impact of which increased net income by $326,000 for the year. The $326,000 increase in net income is comprised of a $725,000 reversal of contingent consideration and bonus accrual and the reversal of a deferred tax asset of $399,000. While Case Funding continues to grow and shows promise, the projected results are less than the original forecasts. It has been determined that the estimated probability that Chesswood will have to pay the contingent consideration and bonus in June 2014 is extremely low.

While management believes the $399,000 deferred tax asset at Case Funding will be realized, given the uncertainty of forecasting the growth of Case Funding, the timing of the utilization of the tax losses was not certain and thus the $395,000 deferred tax asset (and $4,000 foreign exchange impact) established in Q4 2011 was reversed in Q4 2012, leading to an increase in provision for taxes of $794,000 year-over-year.

For the year ended December 31, 2012, the Company reported consolidated operating income of $15.8 million compared to $13.3 million in the prior year, an increase of $2.5 million year-over-year.

The $2.5 million year-over-year increase in operating income was the result of:

- An increase in Pawnee's operating income by $1.7 million compared to the prior year, predominantly from a $3.2 million increase in finance income due to the growth in the portfolio, offset by a $1.1 million increase in provision for credit losses and a $334,000 increase in personnel and other expenses, compared to the prior year. Pawnee's actual net charge-offs decreased by U.S.$446,000 year-over-year. Pawnee's non-cash increase in allowance for doubtful accounts totaled U.S.$920,000 compared to a non-cash decrease of U.S.$603,000 in the allowance for doubtful accounts in 2011, which led to a U.S.$1.5 million increase in the provision for credit losses year-over-year.
- Case Funding's operating loss for the year ended December 31, 2012 was $579,000 less than the prior year. Case Funding was acquired on June 10, 2011, Chesswood did not acquire Case Funding's existing loan portfolio at the acquisition date and is gradually building a legal finance receivables portfolio. Case Funding's operating loss for year totaled $203,000; which includes $253,000 of non-cash share-based compensation expense. Prior to the non-cash share-based compensation expense, Case Funding had pre-tax earnings of $50,000.
- Automotive operations operating income decreased $221,000 year-over-year which includes a decrease in operating income from Sherway of $69,600 and a $151,400 decrease in Lease-Win's income.

Sherway's gross margin decreased by $40,300 year-over-year as a result of a decrease in used vehicle, service and parts gross margins offset by an increase in new vehicle gross margins and a $61,000 increase in interest expense year-over-year due to higher inventory levels throughout the year. New vehicle sales at Sherway were up by 113 vehicles in 2012 compared to the prior year. Acura introduced its new ILX model in the first half of 2012, as well as the newly re-designed RDX. Lease-Win operating income decrease of $151,400 year-over-year includes a decrease in cars4U.com income of $74,000 and also reflects the wind-down in the leasing portfolio. While generating a net loss for accounting purposes, Lease-Win generated cash flow that was sufficient to cover its operating needs and final tax payments on behalf of the fleet wind down commenced in 2008. Share based compensation relating to the automotive operations decreased by $68,000.

- Corporate overhead before taxes and foreign exchange decreased by $493,000, predominantly from $425,000 of costs incurred in 2011 relating to the acquisition of Case Funding and a $189,000 decrease in share-based compensation, offset by a $79,000 increase in personnel expense. 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 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 taxes for the year ended December 31, 2012 totaled $7.6 million compared to $6.6 million in the prior year. The $7.6 million provision for taxes for the year ended December 31, 2012 is comprised of $4.1 million in current tax expense, $488,000 in withholding tax on intercompany dividends (previously included in other expenses) and $3.0 million in deferred tax expense.

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

Pawnee and Case Funding's U.S. dollar results for the three-months ended December 31, 2012 were converted at approximately 0.9913, which was the average exchange rate for the three-month period. The U.S. dollar results for the three-months ended December 31, 2011 were converted at approximately 1.0232, which was the average exchange rate for the corresponding period.

For the three months ended December 31, 2012, the Company reported consolidated net income of $3.2 million compared to $2.6 million in the same period in the prior year, an increase of $594,000 year-over-year.

There were two significant adjustments to Case Funding's results, the net impact of which increased net income by $464,000 for the three months ended December 31, 2012. The reversal of contingent consideration and bonus for Case Funding led to an increase in net income for the three months ended December 31, 2012 by $863,000 or $906,000 year-over-year. It has been determined that the estimated probability that Chesswood will have to pay the contingent consideration and bonus in June 2014 is extremely low. The $850,000 total accrued balance at September 30, 2012, relating to the contingent consideration ($680,000) and bonus ($170,000) was reversed in Q4 2012, along with $13,000 in foreign exchange impact. While management believes the $399,000 deferred tax asset at Case Funding will be realized, given the uncertainty of forecasting the growth of Case Funding, the timing of the utilization of the tax losses was not certain and thus the $395,000 deferred tax asset established in Q4 2011 was reversed in Q4 2012, leading to an increase in provision for taxes of $794,000 year-over-year.

	Equipment leasing – U.S.	Legal Financing – U.S. (3)	Automotive operations – Canada	Corporate overhead – Canada	Total
	For the three months-ended December 31, 2012 ($ thousands)				
Interest revenue on leases and loans (2)	$ 7,535	$454	$ 1	$ —	$ 7,990
Ancillary finance and other fee income	1,236	63	—	—	1,299
Interest expense (2)	(847)	—	—	—	(847)
Provision for credit losses	(1,635)	3	23	—	(1,609)
Finance margin	**6,289**	**520**	**24**		**6,833**
Revenue – automotive operations	—	—	13,517	—	13,517
Cost of sales – automotive operations	—	—	(11,992)	—	(11,992)
Gross margin before expenses	**6,289**	**520**	**1,549**	**—**	**8,358**
Personnel expense	883	246	686	290	2,105
Share-based compensation expense	87	41	25	193	346
Other expenses	838	123	515	237	1,713
Amortization	145	(1)	15	1	160
Income before undernoted items	**4,336**	**111**	**308**	**(721)**	**4,034**
Contingent consideration and bonus (1)	—	863	—	—	863
Unrealized gain on interest rate swaps	218	—	—	—	218
Unrealized gain on foreign exchange	—	—	—	208	208
Income before taxes	**4,554**	**974**	**308**	**(513)**	**5,323**
Provision for taxes (3)	1,594	399		107	2,100
Net income	**$ 2,960**	**$575**	**$ 308**	**$(620)**	**$ 3,223**

(1) see paragraph before chart

(2) includes $172,200 in non-cash interest expense, based on the imputed interest savings on the customer security deposits, interest revenue on leases on loans is higher by the same amount. In Q4 of 2012, it was determined for accounting purposes that customer security deposits should be discounted with the offsetting adjustment to net investment in leases and equipment finance agreements (unearned income). Interest expense is now grossed-up by the imputed interest savings on the customer security deposits, with an offsetting increase in interest revenue on finance leases and loans. The previously disclosed 2011 and 2012 quarterly interest expense amounts were adjusted in Q4 of 2012 to reflect this change. This adjustment affects previously reported quarterly information.

(3) In Q4 of 2012, it was determined that the dividend withholding tax expense on intercompany dividends should be classified as current tax expense and not as a component of other expenses for greater transparency. Previously disclosed quarterly amounts have been amended to reflect this change.

The provision for taxes for the three-months ended December 31, 2012 totaled $2.1 million compared to $1.6 million in the same period of the prior year. The $2.1 million provision for taxes for the three-months ended December 31, 2012 is comprised of $2.9 million in current tax expense, $116,000 in withholding tax on intercompany dividends and a credit to deferred tax expense of $0.9 million.

For the three-months ended December 31, 2012, the Company reported consolidated operating income of $4.0 million compared to $3.9 million in the same period in the prior year, an increase of $92,000 year-over-year.

	For the three months-ended December 31, 2011 ($ thousands)				
	Equipment leasing – U.S.	Legal Financing – U.S. [3]	Automotive operations – Canada	Corporate overhead – Canada	Total
Interest revenue on leases and loans [1]	$ 7,218	$ 132	$ 101	$ —	$ 7,451
Ancillary finance and other fee income	1,113	45	—	—	1,158
Interest expense [1]	(853)	—	(21)	—	(874)
Provision for credit losses	(1,004)	—	4	—	(1,000)
Finance margin	**6,474**	**177**	**84**		**6,735**
Revenue – automotive operations	—	—	13,158	—	13,158
Cost of sales – automotive operations	—	—	(11,392)	—	(11,392)
Gross margin before expenses	**6,474**	**177**	**1,850**	**—**	**8,501**
Personnel expense	944	209	722	445	2,320
Share-based compensation expense	98	62	24	189	373
Other expenses	724	152	614	189	1,679
Amortization	149	—	35	3	187
Income before undernoted items	**4,559**	**(246)**	**455**	**(826)**	**3,942**
Contingent consideration and bonus	—	(43)	—	—	(43)
Unrealized gain on interest rate swaps	238	—	—	—	238
Unrealized gain on foreign exchange	—	—	—	120	120
Income before taxes	**4,797**	**(289)**	**455**	**(706)**	**4,257**
Provision for (recovery of) taxes [2]	1,881	(395)	27	115	1,628
Net income	**$ 2,916**	**$ 106**	**$ 428**	**$(821)**	**$ 2,629**

(1) includes $181,500 in non-cash interest expense, based on the imputed interest savings on the customer security deposits, interest revenue on leases on loans is higher by the same amount. In Q4 of 2012, it was determined for accounting purposes that customer security deposits should be discounted with the offsetting adjustment to net investment in leases and equipment finance agreements (unearned income). Interest expense is now grossed-up by the imputed interest savings on the customer security deposits, with an offsetting increase in interest revenue on finance leases and loans. The previously disclosed 2011 and 2012 quarterly interest expense amounts were adjusted in Q4 of 2012 to reflect this change. This adjustment affects previously reported quarterly information.

(2) In Q4 of 2012, it was determined that the dividend withholding tax expense on intercompany dividends should be classified as current tax expense and not as a component of other expenses for greater transparency. Previously disclosed quarterly amounts have been amended to reflect this change.

The $92,000 increase in operating income for the three-month period year-over-year was the result of:

- A decrease in Pawnee's operating income by $223,000 in the three-month period compared to the prior year, predominantly from a $446,000 increase in finance income due to an increased lease and loan portfolio and, offset by a $631,000 increase in provision for credit losses and a $38,000 increase in personnel and other expenses compared to the prior year. In the three-month period, Pawnee's actual net charge-offs increased by U.S.$149,000 year-over-year. Pawnee's non-cash increase in allowance for doubtful accounts totaled U.S.$351,000 compared to a non-cash increase of U.S.$159,000 in the allowance for doubtful accounts in the same period in 2011, which led to a U.S.$510,000 increase in the provision for credit losses year-over-year.
- Case Funding's operating income for the three-month period increased by $357,000 year-over-year and totaled $111,000. Case Funding was acquired on June 10, 2011 and Chesswood did not acquire Case Funding's existing loan portfolio at the acquisition date and is gradually building a legal finance receivables portfolio. The increase in finance revenue of $343,000 in the three month period year-over-year reflects the gradual growth in the portfolio of legal finance loans and advances.
- Automotive operations income before tax decreased $147,000 year-over-year which includes a decrease in income from Sherway of approximately $124,800, a $48,500 decrease in cars4U's income, and a $26,300 increase in Lease-Win's income. Sherway's results were down as gross profit from service, parts and used vehicles were down while interest costs on the vehicle financing increased by $19,450 year-over-year. New vehicle sales increased by 25 vehicles in Q4 2012 compared Q4 2011. The gross profit generated from Lease-Win's finance income and vehicle sales was down $108,600 in the three-month period compared to the prior year which reflects the sale of the remaining leasing portfolio in Q3 of 2012.
- Corporate overhead before foreign exchange decreased $105,000 year-over-year, predominantly from a $155,000 decrease in personnel expenses.

STATEMENT OF FINANCIAL POSITION

Total consolidated assets of the Company at December 31, 2012 were $161.4 million, an increase of $14.0 million from December 31, 2011. The exchange rate on December 31, 2012 was 0.9949 compared to 1.017 at December 31, 2011. The change in the foreign exchange rate decreased assets by $2.8 million, thus total assets excluding the foreign exchange impact increased by $16.8 million from December 31, 2011.

Cash totaled $5.6 million at December 31, 2012 compared to $7.3 million at December 31, 2011, a decrease of approximately $1.7 million. At December 31, 2012, approximately U.S.$8.1 million (2011 – U.S.$8.8 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.

Accounts receivable totaled $771,000 at December 31, 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 $7.9 million at December 31, 2012 compared to $6.1 million at December 31, 2011, an increase of $1.8 million. Vehicle inventory balances at dealerships fluctuate throughout the year based on seasonality, sales volumes and market conditions.

Prepaid expenses and other assets total $985,000 at December 31, 2012, an increase of $355,000 from December 31, 2011. Approximately $367,000 of the balance relates to tax receivable at Lease-Win, and accounts for the majority of the increase.

Finance receivables consist of the following:

	December 31, 2012	December 31, 2011
	($ thousands)	
Net investment in leases – pledged	**$ —**	$ 814
Legal finance receivables	**5,645**	1,616
Equipment financing agreements	**6,700**	65
Net investment in leases – Pawnee	**111,905**	103,948
Net investment in leases – Lease-Win	**—**	2,571
	$124,250	$109,014

On August 24, 2012, Lease-Win sold 99 leases to an independent leasing company for gross proceeds of $1.2 million. The remaining 137 leases that were outstanding at December 31, 2011 have since been paid out by the lessees. As of September 1, 2008, Lease-Win ceased originating new leases other than extensions with existing customers. The continued gradual wind-down of Lease-Win's lease portfolio led to a $814,000 decrease in net investment in leases – pledged and a $2.6 million decrease in net investment in leases since December 31, 2011.

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 are shown separately in the notes to the financial statements.

As at December 31, 2012, net investment in leases and EFAs totaled $118.6 million compared to $106.6 million at December 31, 2011, an increase of $12.0 million or 11.3%; the increase was comprised of:

	($ thousands)
Increase of 751 leases/loans since December 31, 2011 at Pawnee	$10,139
Increase of U.S.$884 per lease/loan in the average book value	7,548
Decrease in net investment in leases and EFAs from change in foreign exchange	(2,349)
Increase in allowance for doubtful accounts	(746)
Net decrease in net investment in non-securitized leases at Lease-Win – sale of leases	(1,269)
Net decrease in net investment in non-securitized leases at Lease-Win	(1,302)
Total increase in net investment in leases and EFAs	$12,021

The gross receivable of leases and loans under administration as at December 31, 2012 was approximately $149.3 million, compared to $136.4 million at December 31, 2011. Pawnee's gross lease and loan receivable represented $149.3 million (U.S.$150.1 million) of the total gross lease/loan receivable outstanding at December 31, 2012, compared to $132.8 million (U.S.$130.6 million) at December 31, 2011.

The $118.6 million in net investment in leases and loans is net of $2.9 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 and EFAs 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/EFAs reach 154 days contractually past due. As only a small percentage of the total lease and EFA receivable portfolio have monthly payments that are past due at any one reporting date, the portion of the 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 and loan (EFAs) 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 or loan (EFA's) receivables. All receivables originated by Pawnee are retained for their full term. Pawnee funds its leases and loans through a floating rate facility offered by a banking syndicate, as discussed below.

Legal finance receivables consist of funds advanced to plaintiffs, attorneys, and for the purchase of medical liens relating to plaintiff cases. At December 31, 2012, there were 366 advances and loans outstanding (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 or monthly fee in the contract. Legal finance receivables of $5.6 million represent $4.7 million in funds advances and approximately $900,000 in accrued net interest receivable. Since June 10, 2011, Case Funding has advanced approximately U.S.$7.3 million in loans and advances.

Additions to property and equipment totaled $261,000 for the year-ended December 31, 2012. Approximately $127,000 was spent on computer systems, the majority of which was spent at Pawnee. Approximately $56,700 of the property and equipment additions relates to architect and other preliminary costs associated with Sherway's re-imaging upgrade of the dealership. While not final, the current estimate of costs for the project is 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. At December 31, 2012, approximately $91,600 of the property and equipment was not being amortized as it relates to leaseholds improvements being constructed or computer systems being developed.

Intangible assets totaled $6.8 million at December 31, 2012 compared to $7.4 million at December 31, 2011. The $640,000 decrease in intangible assets is comprised of $500,000 in amortization of broker relationships and a $140,000 decrease 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 $13.9 million at December 31, 2012 compared to $14.1 million at December 31, 2011. The movement in the foreign exchange rate resulted in a decrease of $252,000 in goodwill during the year ended December 31, 2012. Goodwill is typically tested annually for impairment unless certain circumstances arise that would require an assessment prior to an annual review. The Company completed its annual goodwill impairment test as at December 31, 2012 and 2011 and determined that no impairment had occurred.

Accounts payable and other liabilities totaled $8.3 million at December 31, 2012 compared to $6.1 million at December 31, 2011, an increase of $2.2 million. Current taxes payable at Pawnee represented the majority of the increase, totaling $1.98 million at December 31, 2012 compared to $46,000 at December 31, 2011. The $667,000 increase in unfunded leases and EFAs year-over-year was the result of increase in Pawnee's lease and EFA portfolio and the increase in the average dollar value of the individual leases and EFAs year-over-year. See Note 18 for more detail on the balances that comprise accounts payable and other liabilities.

Vehicle inventory is financed through vehicle financing credit facilities, of which $6.2 million was outstanding at December 31, 2012 compared to $4.9 million at December 31, 2011, leaving $1.7 million of inventory that was self-financed as at December 31, 2012 compared to $1.2 million 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 December 31, 2012, the mark-to-market adjustment is a loss of approximately $2.5 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 December 31, 2012:

Effective Date	Notional Amount U.S.$	Annual Fixe 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 maturity. 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 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.

Borrowings totaled $47.6 million at December 31, 2012 compared to $41.7 million at December 31, 2011. Pawnee was utilizing U.S.$48.3 million of its credit facility at December 31, 2012 compared to U.S.$40.6 million at December 31, 2011. Chesswood has not withdrawn the final allowable dividends from Pawnee relating to 2012 and thus Pawnee's credit line would be approximately U.S.$8.5 million (2011 – U.S.$8.8 million) higher if the allowable dividends (and withholding tax) per Pawnee's debt covenants relating to January through November, had been paid. As well, Pawnee is expected to utilize its credit facility more in 2013 as it is required to pay tax installments in 2013. Please see future taxes payable discussions below.

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/loan 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 $11.0 million (December 31, 2011 – $10.0 million) in customer security deposits relates to security deposits held by Pawnee. Pawnee's primary contracts requires that the lessee/borrower 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 $1.0 million increase in the security deposit balance from December 31, 2011 is due to a $1.2 million nominal increase in security deposits at Pawnee, offset by a $249,000 decrease as a result of fluctuation in the foreign exchange rate and a $37,350 decrease in security deposits at Lease-Win.

Future taxes payable at December 31, 2012 totaled $25.3 million compared to $23.2 million at December 31, 2011, an increase of $2.1 million. The increase in future taxes payable is the result of a future tax provision of approximately $2.6 million and a $502,000 decrease as a result of the change in foreign exchange rate.

Pawnee has benefited from the accelerated bonus depreciation rules introduced in 2007 as part of the U.S. Economic Stimulus Act and has therefore been able to utilize a portion of operating cash flows normally used to pay taxes, to fund portfolio growth. While the "fiscal cliff" legislation, passed in early January 2013, extended bonus depreciation until the end of 2013, Pawnee will be required to pay taxes in 2013, after having taken full advantage of available bonus depreciation. Pawnee expects to make tax installment payments throughout 2013. The actual taxes payable for 2013 will be dependent on the growth of its lease portfolio in 2013 and is inherently difficult to predict. Pawnee has sufficient capital resources, including its line of credit, through which to satisfy its taxation obligations and fund its portfolio growth.

Tax at Pawnee is provided for using the asset and liability method of accounting. This method recognizes future tax assets and liabilities that arise from differences between the accounting basis of the subsidiary's assets and liabilities and their corresponding tax basis.

At December 31, 2012, there were 9,843,110 Common Shares outstanding (excluding the shares issuable in exchange for the Exchangeable Securities, as defined below) with a book value of $44.2 million. Including the Exchangeable Securities, Chesswood would have had 11,321,647 Common Shares outstanding.

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. In August 2012, the Board of Directors approved the repurchase and cancellation of up to 658,943 of the Company's outstanding Common Shares for the period commencing August 25, 2012 and ending on August 24, 2013. During 2012, 79,974 Common Shares had been repurchased under the normal course issuer bids resulting in a decrease of $359,250 in the value of Common Shares and $262,381 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 Chesswood U.S. Acquisitionco Ltd. ("U.S. Acquisitionco"). The Exchangeable Securities 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 Shares of the Company which provide the holders of the Exchangeable Securities voting equivalency to holders of Common Shares. 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.

Reserve represent the accumulated share-based compensation expensed over the vesting term for options and restricted share units unexercised at December 31, 2012.

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

LIQUIDITY AND CAPITAL RESOURCES OVERVIEW

The primary sources of cash for the Company and its subsidiaries 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 and loans, 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 and loan originations and growth using advances under credit facilities available when operating cash flow is not sufficient. At December 31, 2012, the Company's operating units had $18.1 million in additional borrowings available under various credit facilities, before any accordion provision, to fund business operations.

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

Pawnee has benefited from the accelerated bonus depreciation rules introduced in 2007 as part of the U.S. Economic Stimulus Act and has therefore been able to utilize a portion of operating cash flows normally used to pay taxes, to fund portfolio growth. While the "fiscal cliff" legislation, passed in early January 2013, extended bonus depreciation until the end of 2013, Pawnee will be required to pay taxes in 2013, after having taken full advantage of available bonus depreciation. Pawnee expects to make tax installment payments throughout 2013. The actual taxes payable for 2013 will be dependent on the growth of its lease portfolio in 2013 and is inherently difficult to predict. Pawnee has sufficient capital resources, including its line of credit, through which to satisfy its taxation obligations and fund its portfolio growth.

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

($ thousands)	2013	2014	2015	2016	2017+	Total
Accounts payable and other liabilities	$ 8,160	$ 26	$ 28	$ 31	$ 15	**$ 8,260**
Vehicle financing	6,199	—	—	—	—	**6,199**
Interest rate swaps	—	542	1,252	229	466	**2,489**
Borrowings *(a)*	—	—	—	47,577	—	**47,577**
Customer security deposits *(b)*	3,151	3,086	2,505	1,487	765	**10,994**
	$17,510	$3,654	$3,785	$49,324	$1,246	**$75,519**
Other financial commitments *(c)*	830	728	730	732	358	**$ 3,378**
Total commitments	$18,340	$4,382	$4,515	$50,056	$1,604	**$78,897**

a. *Pawnee's financing credit facility is a line-of-credit; as such the balance can fluctuate. The credit facility matures in 2016. The interest rate has a floating component, thus the interest payments are dependent on the balance of the line of credit and the interest rate at any point of time.*

b. *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 customer security deposits shown in the table above are not to be regarded as a forecast of future cash payments.*

c. *The Company and its subsidiaries are committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, expiring in 2013 and 2017. The leases contain renewal options for an additional term of 5 years. Acura Sherway has signed a contract to install a new dealer management system mandated by Acura Canada in the first quarter of 2013 which will cost $76,000 and requires monthly payments of approximately $5,000 per month for the next five years.*

The Company has no material "off-balance sheet" financing obligations, except for long-term premises lease agreements. Other commitments are disclosed in Note 30 of the annual consolidated financial statements for the year ended December 31, 2012.

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 tax are included in cash from operating activities. The Company considers net investment in leases, net investment in leases – pledged, legal finance receivables, vehicle financing, borrowings, 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 year ended December 31, 2012

The Company's operations generated cash flow from operations before the changes in operating assets and liabilities of $25.4 million during the year ended December 31, 2012 compared to $22.6 million in the year ended December 31, 2011, an increase of $2.8 million compared to the prior year.

The changes in net operating assets during the year ended December 31, 2012 reflects utilization of $16.3 million in funds compared to $24.4 million in the year ended December 31, 2011, an increase in cash flow of $8.1 million compared to the prior year. Funds utilized to fund net investment in leases and EFAs totaled $12.54 million in the year ended December 31, 2012 (net investment in leases, pledged net investment in leases, EFAs, borrowings, securitization debt payments and customer security deposits) compared to $22.45 million in the year ended December 31, 2011, a $9.9 million decrease in cash utilized for investing in net investment in leases and EFAs (or a $9.9 million increase in cash flow year-over-year). This $9.9 million year-over-year change relating to net investment in leases and EFAs, 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 April of the following year. In the first four months of 2012, Pawnee paid dividends (and remitted withholding tax) of U.S.$9.3 million relating to 2011 permitted dividends not yet taken compared to U.S.$1.9 million paid in April 2011 representing the October – December 2010 period subsequent to the September 2010 change in the banking agreement.

As well, Pawnee received a $5.1 million tax refund in 2011 and used it to fund net investment in leases and pay-down its line-of-credit. Chesswood continues to self-fund the growth in Case Funding's legal finance portfolio; in the year ended December 31, 2012, $4.1 million in cash was utilized compared to $1.6 million in 2011 (Case Funding was acquired on June 10, 2011 and limited loan origination occurred in 2011 while systems and processes were being established). Cash flow from accounts receivable, prepaid expenses and other assets, accounts payable and other liabilities totaled $931,000 in 2012 compared to cash outflow of $440,000 in 2011, an increase in cash flow of $1.4 million year-over-year from changes in working capital items from normal operating activities.

Net tax payments totaled $2.6 million in the year ended December 31, 2012 compared to a net receipt of $3.2 million in the prior year, translating to a $5.8 million decrease in cash flow year-over-year. Approximately $1.4 million of the $2.6 million relates to Pawnee (taxes paid in States that do not have the bonus depreciation and minimum federal taxes paid) and $1.2 million relates to Lease-Win.

Capital expenditures totaled $261,000 (2011 – $223,000) during the year ended December 31, 2012.

The Company paid dividends to the holders of Common Shares and Exchangeable Securities in the amount of $7.2 million during the year ended December 31, 2012 compared to $6.6 million in the prior year; an increase of $584,000 due to a higher number of shares outstanding and higher dividend per share amounts year-over-year.

In total, in the year ended December 31, 2012, there was a decrease in cash of $1.7 million compared to a decrease of $5.5 million in the prior year; an increase in cash flow of $3.8 million.

At December 31, 2012, approximately U.S.$8.1 million (2011 – U.S.$8.8 million) that is permitted to be sent up to Chesswood was still at Pawnee, being utilized to fund portfolio growth and lower interest costs.

For the three-months ended December 31, 2012

The Company's operations generated cash flow from operations before the changes in operating assets and liabilities of $6.7 million during the three-months ended December 31, 2012 compared to $6.1 million in the three-months ended December 31, 2011, an increase of $632,000 compared to the same period in the prior year.

The changes in net operating assets during the three-months ended December 31, 2012 reflects utilization of $4.9 million in funds compared to $5.0 million in the three-months ended December 31, 2011, a decrease in cash flow of $117,000 compared to the prior year. The amount of cash flow Chesswood directed to the growth in Case Funding's legal finance portfolio in the three month period increased by $1.1 million year-over-year. Cash flow from accounts receivable, prepaid expenses and other assets, accounts payable and other liabilities totaled $1.2 million in the three months ended December 31, 2012 compared to cash outflow of $1.4 million in the same period in the prior year, which translated to an increase in cash flow of $2.6 million year-over-year in the three month period from normal operating activities.

Chesswood had net tax payments of $703,000 in the three-months ended December 31, 2012 compared to $389,000 in the same period in the prior year. Approximately $400,000 of the $703,000 relates to Pawnee (taxes paid in States that do not have the bonus depreciation), $299,000 relates to Lease-Win and $3,000 at Chesswood.

Capital expenditures totaled $71,000 (2011 – $26,000) during the three-months ended December 31, 2012.

The Company paid dividends to the holders of Common Shares and Exchangeable Securities in the amount of $1.9 million during the three-months ended December 31, 2012 compared to $1.7 million in the same period in the prior year; an increase of $180,000 due to a higher number of shares outstanding and higher dividend per share amounts year-over-year.

In total, in the three-months ended December 31, 2012, there was a decrease in cash of $918,000 compared to a decrease of $167,000 in the same period in the prior year. At December 31, 2012, approximately U.S.$8.1 million (2011 – U.S.$8.8 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'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 and/or new credit facilities. Chesswood may require additional funds to finance future acquisitions and support significant internal growth initiatives such as Case Funding's operations and originations 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 Case Funding and Lease-Win, which either have no banking facility or 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.$85.0 million which can, subject to certain conditions, be extended to U.S.$115.0 million. As of December 31, 2012, Pawnee had used approximately U.S.$48.3 million of its available borrowing under this facility (U.S.$40.6 million 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 balance under its credit facility, and as of December 31, 2012 Pawnee has hedged U.S.$30.0 million, representing approximately 62.1% of the U.S.$48.3 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 December 31, 2012, U.S.$48.3 million was outstanding under the facility and Pawnee had capacity to draw up to and in excess of the U.S.$85.0 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 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 and loans (EFA's) are fixed. Pawnee seeks to mitigate that risk through the use of swap agreements that effectively convert floating rate debt to fixed rates.

Pawnee's current funding agreement expires on July 24, 2016. Pawnee has successfully renewed its funding facility on numerous occasions.

Dividends to Shareholders

The Company declared cash dividends during the year ended December 31, 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
July 31, 2012	$0.055
August 31, 2012	$0.055
September 30, 2012	$0.055
October 31, 2012	$0.055
November 30, 2012	$0.055
December 31, 2012	$0.055
	$0.640

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.

On February 7, 2013, the Company announced an increase in the monthly cash dividend to $0.06 per share, an increase of $0.005 per share, effective with the dividend for the month of February. The dividend will be payable to shareholders of record at the close of business on February 28, 2013 and will be paid on March 15, 2013.

OUTLOOK

As we look out into the balance of 2013, we are cautiously optimistic, like many others, about the possibility that the United States has started down the road to recovery, even if early indications suggest it may be a slow steady climb back.

If that is indeed the case, we would expect such a pattern to benefit Pawnee. A recovery should restore some badly needed confidence in the small business marketplace, which should in turn mean more origination activity for Pawnee, in addition to the growth initiatives already underway.

Acura Sherway is expecting to introduce at least two more newly redesigned models in 2013, continuing the process began last year by Acura. One of these models, the MDX, is Acura's flagship SUV and early reports look favorable.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Understanding the Company's accounting policies is essential to understanding the results of the Company's operations and financial condition. The Company's significant accounting policies are described in Note 3 to the Company's consolidated financial statements for the year ended December 31, 2012. 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 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.

Legal 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; however the effective interest rate is calculated using estimated cash flows based on an estimated settlement dated.

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.

Allowance for Doubtful Accounts

The carrying value of investment in leases and EFAs 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 and EFAs are each composed of a large number of homogenous leases and loans (EFAs are classified as loans for accounting purposes), with relatively small balances made to inherently risky borrowers. Pawnee charges-off leases and EFAs 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 and loans reach 154 days contractually past due.

Pawnee's allowance for doubtful accounts on Chesswood's consolidated financial statements is comprised of the net investment in leases and EFAs value that is over 30 days delinquent, plus any leases or loans 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. As only a small percentage of the total lease and loan receivable portfolio have monthly payments that are past due at any one reporting date, the portion of the lease and loan 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 and loan 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.

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.

Contingent consideration and bonus

Contingent consideration and bonus relates to the Incentive Payment Amount on the acquisition of Case Funding. This amount represented the fair value of the contingent consideration payable at December 31. The consideration is payable in the event that Case Funding's normalized net income ("NNI") for the 25th through 36th months following the Acquisition Date (June 10, 2011) achieves the targeted amount of approximately U.S.$4.7 million (the "Targeted Amount"), whereby 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. It was determined at December 31, 2012 that the probability that the Targeted Amount would be reached was minimal.

The estimate of the fair value of contingent consideration and bonus payable requires very subjective assumptions to be made of various potential operating result scenarios and discount rates. Although the Company believes that there will be no Incentive Payment Amount due in June 2014, it will continue to periodically review NNI results and an updated assessment of various probability weighted projected NNI scenarios. If circumstances change and the Company determines that an earn-out payment may be due, such future revisions may materially change the estimate of the fair value of contingent consideration and therefore materially affect the Company's future financial results.

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.

Taxes

Pawnee and Lease-Win use the asset and liability method to account for taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax 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 tax reporting purposes. This results in temporary differences between financial and tax reporting for which deferred taxes have been provided.

Significant management judgment is required in determining the provision for 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 probable, 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 income. The Company's estimate of its future taxes will vary based on actual results of the factors described above, and such variations may be material.

FUTURE ACCOUNTING CHANGES

Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities

Amendments to *IFRS 7 Financial Instruments: Disclosures* are effective for annual periods beginning on or after January 1, 2013 and introduce enhanced disclosure around the transfer of financial assets and associated risks. The Company plans to adopt these new standards when they become effective and has determined there is no impact of these new standards on its results of operations and financial position.

Financial Liabilities: Measurement

In October 2010, the IASB issued *IFRS 9 Financial Instruments*, which represents the completion of the first part of a three-part project to replace *IAS 39 Financial Instruments: Recognition and Measurement* with a new standard. As per the new standard, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income or loss section of the entity's statement of comprehensive loss, rather than within profit or loss. Additionally, IFRS 9 includes revised guidance related to the de-recognition of financial instruments. IFRS 9 applies to financial statements for annual periods beginning on or after January 1, 2015, with early adoption permitted. The Company plans to adopt these new standards when they become effective and is currently assessing the impact of this standard.

Consolidated Financial Statements

IFRS 10, *Consolidated Financial Statements*, 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 has the power to control, 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 to control. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company plans to adopt these new standards when they become effective and has determined there is no impact of these new standards on its results of operations and financial position.

Disclosure of interests in other entities

IFRS 12, *Disclosure of Interests in Other Entities,* includes amended disclosure requirements relating to subsidiaries, joint agreements, 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. The Company plans to adopt these new standards when they become effective and has determined there is no impact of these new standards on its results of operations and financial position.

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 when they become effective and has determined there is no impact of these new standards on its results of operations and financial position.

Financial Instruments (Presentation and Disclosures)

IAS 32, *Financial Instruments: Presentation*, and IFRS 7, *Financial Instruments: Disclosures* have been amended to include additional presentation and disclosure requirements for financial assets and liabilities that can be offset in the statement of financial position. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. The effective date for the amendments to IFRS 7 is annual periods beginning on or after January 1, 2013. The revised standards relates only to presentation and disclosure and will not impact the financial results of the Company.

Financial Instruments (Classification and Measurement)

IFRS 9, *Financial Instruments* will replace IAS 39, *Financial Instruments: Recognition and Measurement*. 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.

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 personnel and senior management teams.

Relationships with Brokers and Other Origination Sources

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

Pawnee's largest broker firm (which generated approximately U.S.$9.0 million in originations for Pawnee in 2012) has advised its funding sources (including Pawnee) that in the future, it intends to offer for sale to its funders an assignment of future cash flows from fully underwritten and executed lease and loan pools, separated into tranches by credit type, rather than on a one-by-one application basis, as in the past. There is no way to determine as yet, the extent to which, if at all, this change will impact Pawnee's overall originations in 2013 and beyond.

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) 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's leases and loans are written at fixed interest rates and terms. Pawnee generally finance their activities using both fixed rate and floating rate funds. To the extent Pawnee finances fixed rate leases and loans with floating rate funds, they are exposed to fluctuations in interest rates such that an increase in interest rates could narrow or eliminate the margin between the yield on a lease and loan and the effective interest rate paid by the borrower. 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 and Loan Applications

Pawnee's receivables consist primarily of lease and loan receivables originated under 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 equipment financing for such parties. The typical borrower 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 loans and certain delinquent leases and loans 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.

Analogous risks are faced by Case Funding in its business.

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 recently 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 origination volumes and the credit quality of new leases and loans at levels previously attained. Unfavourable economic conditions could also increase funding costs or operating cost structures, limit access to credit facilities, securitizations and other capital markets or result in a decision by lenders not to extend further credit. 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 loans, and negative publicity with respect to, among other things, fraud or deceptive practices by certain participants in the industry. Greater governmental scrutiny is also a risk, especially as to the tax treatment of certain transaction structures or other aspects of these transactions that, if changed, could result in additional tax, fee or other revenue to that governmental authority. Any of these factors may make leasing less attractive or diminish the profitability of the existing financing alternatives offered by our operating companies.

In addition to being impacted by factors or conditions in the United States, 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 and Loans

Losses from leases and loans in excess of Pawnee'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 may have to set aside additional reserves which could have a material adverse impact on their respective business, financial condition and results of operations and on the amount of cash available for dividends to our shareholders.

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

Analogous risks are faced by Case Funding in its business.

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

If judicial or other governmental rulings or actions or interpretations of laws adverse to the equipment finance 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/loans or equipment financed 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.

Analogous risks are faced by Case Funding in its business.

External Financing

Our operating subsidiaries depend and will continue to depend on the availability of credit from external financing sources to continue to finance new leases/loans, refinance existing leases/loans 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 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 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, and the ability to generate future advance originations.

Defenses to Enforcement of a Significant Number of Leases and Loans

Certain defenses and recovery impediments are more common in micro and small-ticket equipment finance transactions than with respect to equipment finance providers in other segments of the equipment finance industry. Management believes that certain of these risks are sufficiently addressed in Pawnee's existing 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 or loan. Any of these broker related risks can impair Pawnee's rights with respect to recovering the rents and/or property under its leases and loans. Pawnee has not been involved in any claims or litigation in relation to such risks and Pawnee does not conduct lien searches in the name of, require lien releases from, or file financing statements against the lease broker.

If the lessee/borrower or broker is the party to whom the vendor of the equipment has agreed to sell the property at the time of its delivery, then, under applicable commercial law, the lessee/borrower or broker, as applicable, may be deemed to have acquired title to the property prior to 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 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 equipment is less than U.S.$15,000 (or U.S.$10,000 if for a home business) for Pawnee's core product and U.S.$35,000 for the "B+" product, Pawnee's practice of requiring only a verbal confirmation that the property has been delivered and irrevocably accepted under the subject lease or loan, and/or inspecting the property to confirm the same, could make Pawnee vulnerable to certain defenses. By way of example, Pawnee's deemed failure to deliver conforming property under the lease or loan documents could be a defense to a lessee/borrower's "unconditional" obligation to pay the rents and certain other amounts. Pawnee has not suffered any material losses relating to these practices, however, there can be no assurance that it would not in the future.

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

Equipment finance companies are subject to laws and regulations relating to extending financing generally and are also members of industry associations which have adopted, among other things, codes of business practice. Laws, regulations and codes of business practice may be adopted with respect to existing leases and loans or the leasing, marketing, selling, pricing, financing and collections processes which might increase the costs of compliance of Pawnee, or require it to alter its respective business, strategy 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 documents often require payment of late payment fees, late charge interest, and other charges either relating to the non-payment, or enforcement of its leases and loans. 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 equipment finance 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/borrower or a group of lessees/borrowers 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 industry practices in their market segments. Nevertheless, certain attributes of these fees or charges, and Pawnee's practices, including that its leases and loans typically provide for several different fees and charges resulting in a substantial amount of fee income and the possibility that the fees and charges may exceed actual costs involved or may otherwise be deemed excessive, could attract litigation, including class actions, that would be costly even if 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 or funder of the leased or financed property suffering a loss receives the related insurance proceeds, the lease or loan also requires that the lessor or funder be named as a loss payee under the requisite casualty coverage. However, each lessee/borrower is ultimately relied upon to obtain and maintain the required coverage for financed equipment but there is no certainty that they will obtain the requisite coverage either conforming to the requirements of the lease or loan, or at all. Additionally, there are often policy provisions including exclusions, deductibles and other conditions that by their terms, or by reason of a breach, could limit, delay or deny coverage. There can be no assurance that any insurance will protect our operating company's interest in the equipment, and the failure by the lessee/borrower to obtain insurance or the failure by the operating companies to receive the proceeds from such insurance policies could have a material adverse impact on our business, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

Lessor Liability

There is a risk that a lessor, such as Pawnee, 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 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, as applicable, to liability to third parties.

Estimates Relating to Value of Leases

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

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

Competition From Alternative Sources of Financing

The business of micro and small-ticket equipment finance in the United States is highly fragmented and competitive. Pawnee focuses 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 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 equipment finance market, new competitors could enter this market at any time, especially if an improvement in the economy leads to a greater ability of small 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/borrowers, 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 loan 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 of cases

The returns on loans and/or advances made by Case Funding, and thus the returns for Chesswood, depend on litigation outcomes in the form of judgments or settlements. Litigation of individual cases entails a large degree of uncertainty, 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 attorney loans, Case Funding itself is a newer entity and thus has limited 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 legal 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. 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 ability to originate and service their lease and loan portfolio and (in the case of Pawnee) broker networks. If sustained or repeated, a system failure could negatively affect the operations of Pawnee. Pawnee maintains confidential information regarding lessees and borrowers in their computer systems. This infrastructure may be subject to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. A security breach of computer systems could disrupt operations, damage reputation and result in liability.

Competition in the Automobile Retailing Industry

The automobile 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 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. $212,890 per annum, triple net. The lease expires on April 30, 2016, and contains an option to renew for an additional five year term. The expense is included in general and administrative expense and is translated at the average exchange rate for the period. At December 31, 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 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 December 31, 2012 and have concluded that the disclosure controls and procedures were appropriately designed and have been effective, subject to the weaknesses described below.

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

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

Weakness of Controls

Based on management's evaluation of controls, it was concluded that the Company's disclosure controls and procedures and its ICFR had some weaknesses. A material weakness is defined as a deficiency, or a combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim consolidated 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.

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 December 31, 2012 that would have materially affected or would be reasonably likely to materially affect the Company's ICFR.

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 year ended December 31, 2012, as reported by the Toronto Stock Exchange.

2012	High	Low	Average Daily Volume
January	$7.00	$6.10	4,152
February	$7.00	$6.72	2,846
March	$7.40	$6.62	5,791
April	$7.47	$6.95	3,454
May	$7.80	$7.28	8,651
June	$7.85	$7.20	7,962
July	$7.80	$7.34	3,768
August	$8.40	$7.60	7,211
September	$8.60	$7.99	7,300
October	$9.50	$8.35	7,824
November	$9.30	$8.45	6,122
December	$9.25	$8.10	8,026
	$9.50	$6.10	6,241

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Chesswood Group Limited and all of the information in this Annual Report are the responsibility of Management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by Management in accordance with International Financial Reporting Standards. These statements include some amounts that are based on best estimates and judgment. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Financial information used elsewhere in the Annual Report is consistent with that in the financial statements. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

Chesswood Group Limited's policy is to maintain systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, accurate and reliable and that the Corporation's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

As more fully detailed in the accompanying MD&A, based on an assessment of the Corporation's ICFR using the Committee of Sponsoring Organizations Internal Control Integrated Framework, it was concluded that the Corporation's ICFR had certain weaknesses. Given the relatively small size of the Corporation's head office finance department personnel, the ICFR assessment concluded that (i) there were limited resources 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, (ii) the Corporation (at its head office) had not maintained effective controls over certain key end-user computer applications and appropriate security controls to manage access to key information, profiles and password protocols, and that improvement to exception reports were required and (iii) as a result of the lack of segregation of duties as referred to above, the anti-fraud controls are limited. It was also determined that the Corporation's whistle-blower policy had not been provided to part-time sales and mechanical staff at the Corporation's automotive dealership.

In order to mitigate the risk of material misstatement in the Corporation's consolidated financial statements, the Corporation (i) has additional review and monitoring controls at head office on a monthly basis and (ii) performs additional analysis and other post-closing procedures. No material exceptions were noted based on the year end procedures and no evidence of fraudulent activity was found.

The Audit Committee is appointed by the Board and is comprised of a majority of outside Directors. The committee meets periodically with Management and the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues to satisfy itself that each party is properly discharging its responsibilities. The Audit Committee reviews the Corporation's annual consolidated financial statements, the external auditors' report and other information in the Annual Report. The committee reports its findings to the Board for consideration by the Board when it approves the consolidated financial statements for issuance to the shareholders.

The consolidated financial statements have been audited by BDO Canada LLP, the independent external auditors, in accordance with generally accepted auditing standards on behalf of the Shareholders. The Auditors' Report outlines the nature of their examination and their opinion on the consolidated financial statements. BDO Canada LLP has full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the financial reporting.

Barry Shafran

Barry Shafran
President & CEO
March 5, 2013

To the Shareholders of
Chesswood Group Limited

We have audited the accompanying consolidated financial statements of Chesswood Group Limited, which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2012 and December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Chesswood Group Limited as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

March 5, 2013
Toronto, Ontario

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

	Note	**December 31, 2012**	December 31, 2011	December 31, 2010
ASSETS				
Cash and cash equivalents	*5*	**$ 5,591**	$ 7,338	$ 12,863
Accounts receivable	*6*	**771**	1,207	766
Inventories	*7*	**7,881**	6,079	6,754
Prepaid expenses and other assets	*8*	**985**	630	6,648
Finance receivables	*9*	**124,250**	109,014	90,300
Deferred tax assets	*24(c)*	**359**	732	570
Property and equipment	*15*	**893**	809	829
Intangible assets	*16*	**6,795**	7,435	7,420
Goodwill	*17*	**13,870**	14,122	13,217
TOTAL ASSETS		**$161,395**	$147,366	$139,367
LIABILITIES				
Accounts payable and other liabilities	*18*	**$ 8,260**	$ 6,133	$ 5,598
Vehicle financing	*19*	**6,199**	4,925	5,544
Interest rate swaps	*20*	**2,489**	2,551	2,464
Borrowings	*21*	**47,577**	41,690	43,320
Customer security deposits	*22*	**10,994**	9,991	8,459
Deferred tax liabilities	*24(d)*	**25,321**	23,196	18,325
Other liabilities		**—**	—	11,349
		100,840	88,486	95,059
SHAREHOLDERS' EQUITY				
Common shares	*25*	**44,215**	43,845	41,594
Non-controlling interest		**9,357**	9,269	—
Reserve – share-based compensation	*26*	**3,160**	2,269	—
Accumulated other comprehensive loss		**(1,883)**	(950)	(1,861)
Retained earnings		**5,706**	4,447	4,575
		60,555	58,880	44,308
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$161,395**	$147,366	$139,367

Approved by the board of Directors

C R Copeland

Fred Steiner, Chairman

Clare R Copeland

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(in thousands of dollars, except per share amounts)

	Note	2012	2011
Finance revenue			
Interest revenue on finance leases and loans		**$31,062**	$27,476
Ancillary finance and other fee income		**4,886**	4,272
		35,948	31,748
Finance expenses			
Interest expense		**3,414**	3,521
Provision for credit losses		**5,279**	4,157
		8,693	7,678
Finance margin		**27,255**	24,070
Revenue – automotive operations		**50,648**	46,116
Cost of sales – automotive operations			
Change in inventories		**(1,802)**	675
Automobiles, parts, and other costs		**46,230**	39,037
Interest expense		**239**	178
		44,667	39,890
Automotive gross margin		**5,981**	6,226
Gross margin before expenses		**33,236**	30,296
Expenses			
Personnel expenses		**10,026**	9,576
Other expenses		**6,693**	6,732
Amortization – property and equipment	*15*	**179**	233
Amortization – intangible assets	*16*	**500**	495
		17,398	17,036
Income before undernoted items		**15,838**	13,260
Contingent consideration	*18(a)*	**725**	(208)
Unrealized gain (loss) on interest rate swaps	*20*	**7**	(31)
Unrealized gain on foreign exchange		**57**	45
Income before income taxes		**16,627**	13,066
Provision for taxes	*24*	**(7,638)**	(6,557)
Net Income		**$ 8,989**	$ 6,509
Attributable to:			
Common shareholders		**$ 7,815**	$ 5,657
Non-controlling interest		**$ 1,174**	$ 852
Basic earnings per share	*28*	**$ 0.80**	$ 0.59
Diluted earnings per share	*28*	**$ 0.77**	$ 0.56

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2012	2011
Net income	**$ 8,989**	$6,509
Other comprehensive income (loss):		
Unrealized gain (loss) on translation of foreign operations	**(1,073)**	1,048
Comprehensive income for the period	**$ 7,916**	$7,557
Attributable to:		
Common shareholders	**$ 6,882**	**$6,567**
Non-controlling interest	**$ 1,034**	**$ 990**

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(in thousands of dollars)

	Note	Common Shares	Common Shares	Non-controlling interest	Share-based compensation Reserve	Accumulated other comprehensive loss	Retained earnings	Total
		(# '000s)						
Shareholders' equity – January 1, 2012		**9,811**	**$43,845**	**$9,269**	**$ 2,269**	**$ (950)**	**$ 4,447**	**$58,880**
Net income		**—**	**—**	**1,174**	**—**	**—**	**7,815**	**8,989**
Dividends declared	27	**—**	**—**	**(946)**	**—**	**—**	**(6,293)**	**(7,239)**
Share-based compensation		**—**	**—**	**—**	**1,436**	**—**	**—**	**1,436**
Exercise of restricted share units	26(b)	**40**	**306**	**—**	**(306)**	**—**	**—**	**—**
Exercise of options	26(a)	**72**	**423**	**—**	**(239)**	**—**	**—**	**184**
Repurchase of common shares under issuer bid	25(b)	**(80)**	**(359)**	**—**	**—**	**—**	**(263)**	**(622)**
Unrealized loss on translation of foreign operations		**—**	**—**	**(140)**	**—**	**(933)**	**—**	**(1,073)**
Shareholders' equity – December 31, 2012		**9,843**	**$44,215**	**$9,357**	**$ 3,160**	**$(1,883)**	**$ 5,706**	**$60,555**

	Note	Common Shares	Common Shares	Non-controlling interest	Share-based compensation Reserve	Accumulated other comprehensive loss	Retained earnings	Total
		(# '000s)						
Shareholders' equity – January 1, 2011		9,400	$41,594	$ —	$ —	$(1,861)	$ 4,575	$44,308
Shares eliminated on consolidation	25(a)	(2)	(27)	—	—	—	—	(27)
Reclassify from other liabilities on conversion to a corporation		—	—	9,167	2,182	—	—	11,349
Shares issued for business acquisition	17(a)	116	448	—	—	—	—	448
Net income		—	—	852	—	—	5,657	6,509
Dividends declared	27	—	—	(887)	—	—	(5,785)	(6,672)
Share-based compensation		—	—	—	1,644	—	—	1,644
Exercise of restricted share units	26(b)	175	1,085	—	(1,085)	—	—	—
Exercise of options	26(a)	122	745	—	(472)	—	—	273
Unrealized loss on translation of foreign operations		—	—	137	—	911	—	1,048
Shareholders' equity – December 31, 2011		9,811	$43,845	$9,269	$ 2,269	$ (950)	$ 4,447	$58,880

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(in thousands of dollars)

	Note	2012	2011
OPERATING ACTIVITIES			
Net income		**$ 8,989**	$ 6,509
Adjustments for:			
Costs associated with investing or financing activities included in net income		**—**	425
Non-cash items included in net income			
Amortization		**679**	728
Provision for credit losses		**7,381**	6,501
Share-based compensation expense		**1,436**	1,644
Provision for taxes		**7,638**	6,557
Other non-cash items	29	**(698)**	218
		16,436	15,648
Cash from operating activities before change in net operating assets		**25,425**	22,582
Change in operating assets			
Accounts receivable		**436**	(441)
Inventories		**(1,802)**	675
Finance receivables	29	**(23,453)**	(22,663)
Prepaid expenses and other assets		**1**	724
		(24,818)	(21,705)
Change in operating liabilities			
Accounts payable and other liabilities		**494**	(723)
Vehicle financing proceeds (payments) – net		**1,274**	(620)
Borrowings – net	29	**7,048**	(2,716)
Customer security deposits		**(256)**	1,353
		8,560	(2,706)
Cash from operating activities before tax refunds and payments		**9,167**	(1,829)
Income tax refund received		**24**	5,222
Income taxes paid		**(2,615)**	(2,003)
Cash from operating activities		**6,576**	1,390
INVESTING ACTIVITIES			
Acquisition costs of subsidiary	17(a)	**—**	(425)
Purchase of property and equipment		**(261)**	(223)
Cash used in investing activities		**(261)**	(648)
FINANCING ACTIVITIES			
Payment of financing costs	21	**(403)**	—
Proceeds from exercise of options	26	**184**	263
Repurchase of common shares	25	**(622)**	—
Fund Unit consolidation	25	**—**	(27)
Cash dividends paid	27	**(7,181)**	(6,597)
Cash used in financing activities		**(8,022)**	(6,361)
Unrealized foreign exchange gain (loss) on cash		**(40)**	94
Net decrease in cash and cash equivalents		**(1,747)**	(5,525)
Cash and cash equivalents, beginning of period		**7,338**	12,863
Cash and cash equivalents, end of period		**$ 5,591**	$ 7,338

Supplemental disclosures of cash flow information (see note 29)

Please see notes to the consolidated financial statements.

TABLE OF NOTES

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 ("Holding LP"). 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 the Company's legal 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. The Exchangeable Securities are reflected as non-controlling interest.

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 Company is involved in selling, servicing and leasing Acura automobiles in the Province of Ontario. Through its interest in Lease-Win, the Company had a portfolio of automobile leases under administration the remainder of which were sold or were paid out by the lessees during the year.

Our legal 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 basis, 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 years ended December 31, 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 Company's consolidated financial statements were authorized for issue on March 5, 2013 by the Board of Directors.

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. 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.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES

Exercise of judgment and use of accounting estimates and assumptions

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to apply a significant degree of judgment in applying the Company's financial accounting policies and to make certain assumptions and estimates that have a material effect on the reported amounts of assets, liabilities and contingent liabilities, revenue and expenses.

The assumptions and estimates are based on premises that reflect the facts that are known at any given time. Future economic factors are inherently difficult to predict and are beyond management's control. If the actual development differs from the assumptions and estimate, the premises used and, if necessary, the carrying amounts for the assets and liabilities in question are adjusted accordingly. The exercise of judgment is based on management's experience and also on past history. As a result, actual amounts could differ from these estimates.

There were no significant changes in estimates made in the interim periods that have been adjusted in the final quarter, except for the changes to contingent consideration and bonus payable.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are:

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.

Legal 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; however the effective interest rate is calculated using estimated cash flows based on an estimated settlement date.

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 were 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.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are:

Impairment of non-financial assets

The Company's impairment test of non-financial assets 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. 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.

Impairment of financial asset receivables

Quantifying the impairment of financial asset receivables is based on: for receivables that are in default, estimates of the carrying value that will ultimately not be collected and, for net investment in leases on a group receivable basis, the application of current delinquency rates at each reporting date.

Fair values

The fair value of interest rate derivatives, certain assets acquired and consideration paid in business acquisitions and available for sale financial assets are estimated using valuation techniques based on assumptions of, for example, future interest rate movements, the probability of success of legal claims and the timing of collections. The estimated fair values are sensitive to changes in these assumptions.

Contingent consideration and bonus

Contingent consideration and bonus relates to the Incentive Payment Amount on the acquisition of Case Funding. This amount represented the fair value of the contingent consideration payable at December 31. The consideration is payable in the event that Case Funding's normalized net income ("NNI") for the 25th through 36th months following the Acquisition Date (June 10, 2011) achieves the targeted amount of approximately U.S.$4.7 million (the "Targeted Amount"), whereby 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. It was determined at December 31, 2012 that the probability that the Targeted Amount would be reached was minimal.

The estimate of the fair value of contingent consideration and bonus payable requires very subjective assumptions to be made of various potential operating result scenarios and discount rates. Although the Company believes that there will be no Incentive Payment Amount due in June 2014, it will continue to periodically review NNI results and an updated assessment of various probability weighted projected NNI scenarios. If circumstances change and the Company determines that an earn-out payment may be due, such future revisions may materially change the estimate of the fair value of contingent consideration and therefore materially affect the Company's future financial results.

Tax

Determining the value of deferred tax assets recognized requires an estimate of the value of tax benefits that will eventually be realized by the Company.

U.S. federal tax legislation enacted in 2004 addresses perceived U.S. tax concerns over "corporate inversion" transactions. A "corporate inversion" generally occurs when a non-U.S. entity acquires "substantially all" of the equity interests in, or the assets of, a U.S. corporation or partnership, if, after the acquisition, former equity holders of the U.S. corporation or partnership own a specified level (referred to as the "percentage identity") of equity in the non-U.S. entity, excluding equity interests acquired in the acquiring entity in public offerings associated with the acquisition. Adverse U.S. tax consequences are only triggered if:

(a) Pawnee sells or licenses any of its assets as part of its acquisition by the Company, or licenses any assets to a related non-U.S. entity during the subsequent 10 years; or

(b) If it does sell or license any such assets, it does not offset its U.S. tax arising from such sales or licenses with loss carry-forwards, foreign tax credits or certain tax amounts with similar attributes.

Management has concluded that either or both of these conditions will not be triggered.

Share-based payments

The Black-Scholes option-pricing 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.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash and highly liquid investments with original maturities of three months or less.

Inventories

Inventories are valued at the lower of cost and net realizable value. The cost of new and used vehicles is determined using the specific item method and includes all direct expenditures required to bring each vehicle to its present location and condition, which includes preparing the vehicles for sale. The cost of automobile parts is the purchase cost on a first-in, first-out basis.

Net realizable value is the estimated selling price in the ordinary course of business less the costs necessary to make a sale.

Net investment in leases

The net investment in leases arises from the Company's automotive and equipment leasing operations and is described below under Revenue recognition.

The Company securitized a portion of its finance lease receivables at Lease-Win by transferring the receivables to a securitization trust in which neither the Company nor its subsidiaries were beneficiaries. The transfers did not result in substantially all the risks and rewards of legal ownership being transferred to the securitization trust. Therefore, the transferred lease receivables were presented separately on the Company's consolidated statement of financial position and the proceeds received were presented as a liability.

Allowance for doubtful accounts

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and the event has a negative impact on the estimated cash flows of the financial asset and the loss can be reliably estimated. Potential losses expected as a result of future events, no matter how likely based on past historical evidence, are not allowed to be recognized.

The carrying amount of the financial asset is reduced through the use of an allowance for doubtful accounts and the amount of loss is recognized as a provision for credit losses. Individually significant loans and receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Loans and receivables that are not considered to be individually impaired are reviewed for impairment on a group basis, determined by reference to the shared delinquency characteristics.

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. Pawnee's allowance for doubtful accounts 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.

Property and equipment

Property and equipment are measured at acquisition or purchase cost less scheduled depreciation based on the useful economic lives of the assets. No components (those parts of individual property and equipment assets having different economic lives than the remainder of the asset) have been identified. Scheduled depreciation is based on the following annual rates, which are reassessed annually:

Leasehold improvements	straight-line over the remaining lease term
Service vehicles and equipment	20% or 30% declining balance
Furniture and equipment	20% to 30% declining balance
Computer	20% to 30% declining balance

Goodwill and intangible assets

Goodwill is initially measured at cost which represents the excess of the price paid for an acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. After initial recognition goodwill is measured at cost less any accumulated impairment losses.

Purchased intangible assets are recognized as assets in accordance with IAS 38, *Intangible Assets*, where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be determined reliably. Intangible assets acquired are initially recognized at cost of purchase and are subsequently carried at cost less accumulated amortization, if applicable, and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Management has determined that trade names and the framework agreement have indefinite lives. The broker relationships are considered to have a finite life and are amortized on a scheduled straight-line basis over their estimated useful life of seven years.

The amortization period and method of amortization for intangible assets with finite lives are reassessed annually. Changes in the useful life or in the pattern of economic benefits derived are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually at the cash generating unit level and are reviewed annually to determine whether the indefinite life continues to be applicable. Any change from indefinite life to finite life would be accounted for prospectively.

Impairment of non-financial assets

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.

Impairment losses of continuing operations are recognized in the statement of income.

A previously recognized impairment loss for non-financial assets, excluding goodwill, is reversed if there has been a change in the assumptions used to determine recoverable amount since the previous impairment loss was recognized. The carrying amount after the reversal cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Impairment losses relating to goodwill cannot be reversed.

CGUs to which goodwill and intangible assets with indefinite lives have been allocated are tested for impairment annually as at December 31, and all CGUs are tested for impairment more frequently when there is an indication that the CGU may be impaired.

Revenue recognition

The Company's leasing operations use standard lease contracts which are non-cancelable finance leases and provide for monthly lease payments for periods of one to five years. Leases are accounted for as finance leases because substantially all of the risks and rewards incidental to legal ownership of the property are transferred to the lessee. The total present value of minimum lease payments to be received over the lease term is recognized at the commencement of the lease. The difference between this total value, net of incremental execution costs, and the cost of the leased asset is deferred income and is recognized as a reduction of the lease receivable, with the net result shown as net investment in leases. The deferred income is then recognized over the life of the lease using the effective interest method, which provides a constant rate of return on the net investment throughout the lease term.

The Company's revenue from the sale of automobiles is recognized when the following conditions are met: the risks and rewards of ownership of the vehicle are transferred to the customer, the sales price is agreed or determinable and the receipt of payment is probable. Revenues are stated net of discounts, if any.

The Company's revenue generated through the cars4U.com web-site is recorded on a net basis and represents the commissions earned on the transactions. Commissions are recognized when the transaction has been completed between the vender and purchaser and when the amount of commission revenue can be measured reliably and receipt of payment is probable.

Income on attorney financing loans and medical liens is recognized using the effective interest method, as described below under financial instruments – loans and receivables.

Plaintiff advances are carried at fair value, the accretion in value is recognized based on the effective interest method and recognized into finance income, and any changes in fair value are recorded in other comprehensive income until realized.

Share-based payment transactions

From time to time, the Company compensates certain members of management in the form of share-based compensation. The cost of equity-settled transactions with employees is recognized, together with a corresponding increase in equity, over the period during which the performance and or service conditions are fulfilled and ending on the vesting date at which point the employees become fully entitled to the award. The cumulative expense also takes into account the number of equity instruments that the Company expects will ultimately vest.

The fair-value of option grants are calculated using the Black-Scholes option pricing model and recognized as compensation expense over the vesting period of those grants and a corresponding adjustment is made to Reserves in Shareholders' Equity. Any consideration received on exercise of options together with amounts previously credited to Reserves for these options is credited to Common Shares.

The fair-value of Restricted Share Units ("RSUs") granted is calculated based on the market price of the Common Shares on the day of the grant. RSUs granted are considered to be in respect of future services and are recognized as compensation expense over the vesting period with a corresponding adjustment credited to Reserves in Shareholders' Equity. On exercise of the restricted units the amounts previously credited to Reserves is credited to Common Shares.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense determined as if the terms had not been modified. Additional expense is recognized for any modification which increases the total fair value of the share-based compensation arrangement, or is otherwise beneficial to the employee at the date of the modification.

When an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation and any expense not yet recognized is recognized immediately.

The dilutive effect of outstanding options is reflected as additional equity in the computation of diluted earnings per share.

Taxes

Taxes are accounted for using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the deferred 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 or substantively 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 for deferred tax benefits for which realization is not considered probable.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Earnings or loss per share

Earnings or loss per share is computed in accordance with IAS 33, *Earnings per Share*, as a measure of the income or loss for ordinary equity holders. Basic earnings per share is calculated by dividing net income or loss by the average number of outstanding shares. Diluted earnings per share is calculated to reflect the dilutive effect, if any, of any other commitment or instruments.

Foreign currency transactions

The financial statements of consolidated entities which are prepared in a foreign currency are translated using the functional currency concept of IAS 21, *The Effects of Changes in Foreign Exchange Rates*. The functional currency of a subsidiary is determined on the basis of the primary economic environment in which it operates and typically corresponds to the local currency. Income and expenses of subsidiaries with a different functional currency than the Company's presentation currency are translated in the Company's consolidated financial statements at the average exchange rate for the reporting period, and assets and liabilities are translated at the closing rate. Exchange differences arising from the translation are recognized in other comprehensive income.

Foreign currency payables and receivables in the statement of financial position are recorded at the transaction date at cost. Exchange gains and losses arising from conversion of monetary assets and liabilities at exchange rates at the end of the reporting period are recognized as income or expense.

The U.S. dollar exchange rates used in the Company's consolidated financial statements, are as follows:

Closing Rate As At December 31,		Average Rate For The Years Ended December 31,	
2012	2011	**2012**	2011
0.9949	1.0170	**0.9996**	0.9891

Financial instruments

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

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

Financial assets

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of income when the loans or receivables are derecognized or impaired. See Allowance for doubtful accounts.

Broker commissions related to the origination of financing leases are deferred and recorded as an adjustment to the yield of the net investment in financing leases.

The Company's cash and cash equivalents, accounts receivable, net investment in finance leases, attorney financings and most other receivables are classified as loans and receivables.

Financial assets at fair value through net income or loss

Financial assets at fair value through net income or loss include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through net income or loss upon initial recognition. All derivative financial instruments are included in this category, except for those that are designated and effective hedge instruments.

Assets in this category are measured at fair value with gains or losses recognized in net income or loss. The fair values of derivative financial instruments are based on changes in observable prices in active markets or by a valuation technique where no market exists. Upon initial recognition, attributable transaction costs are recognized in net income or loss as incurred.

The Company had no financial instruments in this category at December 31, 2012 and 2011.

Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Financial instruments are classified as held to maturity investments if the Company has the intention and ability to hold them to maturity.

Subsequent to initial recognition held to maturity investments are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying value of the investment, including impairment losses, are recognized in net income or loss.

The Company had no financial instruments in this category at December 31, 2012 and 2011.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are either designated as available for sale or do not qualify for inclusion in any other category.

The Company's plaintiff advances are designated as available for sale financial assets for accounting purposes.

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

Financial liabilities

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

Financial liabilities at fair value through net income or loss

Financial liabilities at fair value through net income or loss include financial liabilities that are either classified as held for trading or that meet certain conditions and are designated at fair value through net income or loss upon initial recognition. All derivative financial instruments and contingent consideration payable are included in this category, except for those that are designated and effective hedge instruments.

The Company's interest rate swap contracts are classified as held for trading for accounting purposes. The Company has not designated any financial instruments as hedges for accounting purposes.

Liabilities in this category are measured at fair value with gains or losses recognized in net income or loss. The fair values of derivative financial instruments are based on changes in observable prices in active markets or by a valuation technique where no market exists. Upon initial recognition, attributable transaction costs are recognized in net income or loss as incurred.

Loans and borrowings

Interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in net income or loss when the liabilities are derecognized.

The Company's financial liabilities include borrowings, accounts and other payables.

Transaction costs

Transaction costs incurred in connection with the issuance of financial liabilities are capitalized and recorded as a reduction of the carrying value of the related financial liabilities and amortized using the effective interest method.

Statement of cash flows

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. Exchange rate differences affecting cash items are presented separately in the statement of cash flows.

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 tax are included in cash from operating activities. The Company considers net investment in leases, net investment in leases – pledged, legal finance receivables, vehicle financing, borrowings, 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.

Accounting standards adopted in the current year

The following amendments to standards were adopted in the current year:

IAS 1, *Presentation of Financial Statements* ("IAS 1"), had been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that chose to present OCI items before taxes were required to show the amount of taxes related to the two groups separately. The amendment was effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The adoption of IAS 1 amendments did not have an impact on the consolidated financial statements.

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 consolidated financial statements.

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities

Amendments to *IFRS 7 Financial Instruments: Disclosures* are effective for annual periods beginning on or after January 1, 2013 and introduce enhanced disclosure around the transfer of financial assets and associated risks. The Company plans to adopt these new standards when they become effective and has determined there is no impact of these new standards on its results of operations and financial position.

Consolidated Financial Statements

IFRS 10, *Consolidated Financial Statements*, 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 has the power to control, 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 to control. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company plans to adopt these new standards when they become effective and has determined there is no impact of these new standards on its results of operations and financial position.

Disclosure of interests in other entities

IFRS 12, *Disclosure of Interests in Other Entities,* includes amended disclosure requirements relating to subsidiaries, joint agreements, 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. The Company plans to adopt these new standards when they become effective and has determined there is no impact of these new standards on its results of operations and financial position.

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 when they become effective and has determined there is no impact of these new standards on its results of operations and financial position.

Financial Instruments (Presentation and Disclosures)

IAS 32, *Financial Instruments: Presentation*, and IFRS 7, *Financial Instruments: Disclosures* have been amended to include additional presentation and disclosure requirements for financial assets and liabilities that can be offset in the statement of financial position. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. The effective date for the amendments to IFRS 7 is annual periods beginning on or after January 1, 2013. The revised standards relates only to presentation and disclosure and will not impact the financial results of the Company.

Financial Liabilities: Measurement

In October 2010, the IASB issued *IFRS 9 Financial Instruments*, which represents the completion of the first part of a three-part project to replace *IAS 39 Financial Instruments: Recognition and Measurement* with a new standard. As per the new standard, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income or loss section of the entity's statement of comprehensive loss, rather than within profit or loss. Additionally, IFRS 9 includes revised guidance related to the de-recognition of financial instruments. IFRS 9 applies to financial statements for annual periods beginning on or after January 1, 2015, with early adoption permitted. The Company plans to adopt these new standards when they become effective and is currently assessing the impact of this standard.

Financial Instruments (Classification and Measurement)

IFRS 9, *Financial Instruments* will replace IAS 39, *Financial Instruments: Recognition and Measurement*. 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.

5. CASH AND CASH EQUIVALENTS

Operating line of credit

At December 31, 2012 and 2011, Sherway had an authorized line of credit of $1.5 million which was not utilized at either date. The line of credit is secured by assignments of the book debts and a general security agreement over the assets of the dealership. See Note 19 and 21 for additional credit facilities available to Sherway and Pawnee.

6. ACCOUNTS RECEIVABLE

The accounts receivable balance principally relates to the Sherway dealership and includes amounts due from the manufacturer for financing contracts in transit, which are typically collected within seven to ten days.

The aging of the accounts receivable is as follows:

	December 31, 2012	December 31, 2011
	($ thousands)	
Current	**$688**	$1,108
31 – 60 days	**51**	38
61 – 90 days	**14**	19
More than 90 days	**18**	42
	$771	$1,207
Allowance for doubtful accounts	**—**	—
	$771	$1,207

Accounts receivable that are impaired at December 31, 2012 and 2011 are nominal.

7. INVENTORIES

	December 31, 2012	December 31, 2011
	($ thousands)	
New and demonstrator vehicles	**$6,204**	$4,431
Used vehicles	**1,521**	1,491
Parts and other	**156**	157
	$7,881	$6,079

The majority of the new and demonstrator vehicles are pledged as security for the vehicle financing floor plan facility. If the new and demonstrator vehicles are not specifically pledged under the floor plan facility they are pledged under a general security agreement over the dealership's other assets for the lines of credit. The lines of credit were not utilized at December 31, 2012 and 2011.

During the year-ended December 31, 2012, cost of sales relating to vehicles and part sales totaled $44.1 million (2011 – $39.4 million). During the year-ended December 31, 2012, demonstrator vehicles were written down by $82,500 (2011 – $89,400) based on the utilization of the vehicles. This cost is included in other expenses. Used vehicles were written down by $nil (2011 – $9,000) during the year, which is included in cost of sales. There was no reversal of any write-downs of inventory during the current or prior year. The provisions for valuation and usage included in inventory total $81,300 (2011 – $90,900).

8. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets comprise:

	December 31, 2012	December 31, 2011
	($ thousands)	
Property tax receivable	**$335**	$310
Tax receivable	**367**	—
Prepaid expenses and other current assets	**241**	277
Deposits – premises	**42**	43
	$985	$630

Prepaid expenses and other assets typically have maturities of less than one year, except for the deposits on the premises.

9. FINANCE RECEIVABLES

Finance receivables comprise:

	Note	**December 31, 2012**	December 31, 2011
		($ thousands)	
Net investment in leases – Pawnee	10	**$111,905**	$103,948
Net investment in leases – Lease-Win	10	**—**	2,571
Equipment financing agreements	11	**6,700**	65
Legal finance receivables	13	**5,645**	1,616
Net investment in leases – pledged	14	**—**	814
		$124,250	$109,014

10. INVESTMENT IN LEASES

(a) Net investment in leases includes the following:

	December 31, 2012	December 31, 2011
	($ thousands)	
Total minimum lease payments for leases	**$140,297**	$134,073
Residual values of leased equipment	**17,923**	18,215
	158,220	152,288
Initial direct costs of lease acquisition	**8,447**	8,051
Unearned income	**(51,871)**	(51,396)
Net investment in leases before allowance for doubtful accounts	**$114,796**	$108,943
Allowance for doubtful accounts *(b)*	**(2,891)**	(2,424)
Net investment in leases	**$111,905**	$106,519
Current portion	**46,432**	40,438
Net investment in leases – long-term portion	**$ 65,473**	$ 66,081

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

	For the year ended December 31, 2012		
	Pawnee equipment leases	Canadian automotive leases	Total
		($ thousands)	
Balance, beginning of year	**$ 2,236**	**$ 188**	**$ 2,424**
Provision for credit losses	**5,226**	**(26)**	**5,200**
Impact of change in foreign exchange rates	**(52)**	**—**	**(52)**
Charge-offs	**(6,618)**	**(165)**	**(6,783)**
Recoveries	**2,099**	**3**	**2,102**
Balance, end of year	**$ 2,891**	**$ —**	**$ 2,891**

	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	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 allowances for leases pledged

Scheduled collections of minimum lease payments receivable at December 31, 2012 are presented in the following table. The Company's experience has shown that the actual contractual payment streams will vary depending on a number of variables including: prepayment rates, charge-offs and modifications. Accordingly, the scheduled collections of minimum lease payments as at December 31, 2012 shown in the table below are not to be regarded as a forecast of future cash collections.

	Pawnee U.S. Equipment leases
	($ thousands)
2012	$ 62,598
2013	42,374
2014	23,434
2015	9,878
2016	2,013
2017 and thereafter	—
Total minimum lease payments	$140,297

New leases entered into during the year-ended December 31, 2012 at Pawnee resulted in an increase in the minimum lease payments recognized of $90.8 million (2011 – $94.9 million); the associated residual receivable for these new leases totaled $6.8 million (2011 – $7.2 million); and the unearned income totaled $40.2 million (2011 – $42.7 million).

11. 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.

	December 31, 2012	December 31, 2011
	($ thousands)	
Equipment financing agreements	$6,742	$ 65
Allowance for doubtful accounts (a)	(42)	(—)
Equipment financing agreements	**$6,700**	**$ 65**
Current portion	1,617	15
Equipment financing agreements – long-term portion	$5,083	$ 50

(a) Pawnee's leases and EFA's each are composed of a large number of homogenous agreements respectively, with relatively small balances. Pawnee's underwriting requirements and standards for EFAs are the same as those required for leases. The activity in the allowance for doubtful accounts is as follows:

	For the year ended December 31,	
	2012	2011
	($ thousands)	
Balance, beginning of year	**$—**	$—
Provision for credit losses	**46**	—
Charge-offs	**(4)**	—
Recoveries	**—**	—
Balance, end of year	**$ 42**	$—

12. FINANCE RECEIVABLES PAST DUE

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

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 $11.0 million (December 31, 2011 – $10.0 million) in security deposits from borrowers, 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 December 31, 2012	
($ thousands)	Current	1 - 30 days	31 - 60 days	61 - 90 days	Over 90 days
Equipment leases (Pawnee)	$109,454	$2,752	$1,335	$372	$883
EFA's (Pawnee)	6,699	—	42	—	—
	116,153	2,752	1,377	372	883
Impaired	44	90	436	87	883
Past due but not impaired	$ —	$2,662	$ 941	$285	$—

				As at December 31, 2011	
($ thousands)	Current	1 - 30 days	31 - 60 days	61 - 90 days	Over 90 days
Equipment leases (Pawnee)	$101,463	$2,672	$1,002	$464	$582
EFA's (Pawnee)	65	—	—	—	—
Vehicle leases (Lease-Win)	2,119	156	346	14	125
	$103,647	2,828	$1,348	$478	$707
Impaired	73	69	445	288	641
Past due but not impaired	$ —	$2,759	$ 903	$190	$ 66

The net investment in leases at Pawnee that have been modified (in 2011 or prior) and are current at December 31, 2012 is $2.4 million (December 31, 2011 – $2.6 million). On average the lease terms have been modified to extend the leases by approximately 2.7 months. Leases modified at Pawnee during the year-ended December 31, 2012 had a total net investment in lease balance at the time of modification of $4.7 million (2011 – $4.4 million). These amounts reflect the net investment in lease balances prior to payments collected since modification, or leases that terminated early after modifications or leases charged-off after modification. There were no EFA's that were modified in 2012 or 2011.

Collateral

Pawnee and Lease-Win are entitled to repossess financed equipment and vehicles if the borrower defaults on their lease or loan contract. At Pawnee, when a lease or loan is charged-off, the related equipment no longer has a carrying value on the financial statements. Any amounts recovered from the sale of equipment after a charge-off, are credited to the allowance for doubtful accounts when received; in the year-ended December 31, 2012, the proceeds from the disposal of repossessed equipment that was charged-off totaled $533,000 (2011 – $512,000). Repossessed equipment is held at various warehouses throughout the U.S. owned by a company contracted to repossess and remarket the equipment.

At Lease-Win, the estimated fair value of collateral (repossessed vehicles) received for net investment in leases on which impairment losses were recognized totaled $135,000 (2011 – $73,000) during the year. The collateral vehicles taken back and included in inventory at December 31, 2012 had a value of $135,000 (2011 – $nil). Vehicles in inventory are valued at the lower of cost and net realizable value.

13. LEGAL FINANCE RECEIVABLES

Legal finance receivables consist of:

	December 31, 2012	December 31, 2011
	($ thousands)	
Attorney loans and medical liens	$2,296	$ 701
Plaintiff advances (note 31 (a)(b)(c))	3,349	915
Legal finance receivables	**$5,645**	$1,616
Current portion *(i)*	2,728	632
Legal finance receivables – long-term portion	$2,917	$ 984

It was determined that there is no objective evidence that any of the attorney loans or medical liens are individually impaired at December 31, 2012 and 2011, thus an allowance for doubtful accounts was not recognized.

(i)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. The terms of the plaintiff advances are on a non-recourse basis, and payment depends on the success and potential claim size. Thus, the current portion is an estimate of future cash collections.

14. NET INVESTMENT IN LEASES – PLEDGED

Lease-Win sold financing leases through securitization transactions and retained servicing responsibilities and subordinated interests. Lease-Win retained the right to a portion of the future cash flows arising after investors in the securitization trust had received the return for which they contracted. The investors and the securitization trust have no recourse to Lease-Win's other assets for failure of debtors to pay when due. Lease-Win's retained interests are subordinate to the investors' interests. Their value is subject to credit, prepayment, and interest rate risks on the transferred receivables.

The securitization transactions do not result in the transfer of substantially all the risks and rewards of ownership of the leases, as required by IAS 39, *Financial Instruments: Recognition and Measurement*, and therefore the receivables have not been derecognized. The securitization agreement operates as a flow through, whereby Lease-Win retains the contractual right to collect the cash flows but assumes a contractual obligation to pay the cash flows to the securitization trust. Lease-Win retains substantially all the risks of ownership of the transferred leases because the Company is exposed to fluctuations in the fair value of the unguaranteed residual and to credit losses caused by lease defaults.

The associated liability is disclosed in Note 21 – Borrowings.

Net investment in leases – pledged includes the following:

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

At Lease-Win, management reviewed 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 was done for both and shown under Note 10.

15. PROPERTY AND EQUIPMENT

	Leasehold improvements	Service equipment and vehicles	Furniture and equipment	Computer hardware and software	Total
			($ thousands)		
Cost:					
December 31, 2010	$719	$204	$324	$479	$1,726
Additions	7	6	192	18	223
Acquisition	—	—	1	—	1
Disposals	—	—	(4)	(7)	(11)
Translation	—	—	11	(8)	3
December 31, 2011	$726	$210	$524	$482	$1,942
Additions (a)(b)	73	—	27	161	261
Disposals	—	—	—	—	—
Translation	—	—	—	—	—
December 31, 2012	**$799**	**$210**	**$551**	**$643**	**$2,203**

	Leasehold improvements	Service equipment and vehicles	Furniture and equipment	Computer hardware and software	Total
			($ thousands)		
Accumulated amortization:					
December 31, 2010	$407	$107	$170	$213	$ 897
Amortization – current year	119	18	47	49	233
Disposals	—	—	—	(1)	(1)
Translation	—	—	3	1	4
December 31, 2011	$526	$125	$220	$262	$1,133
Amortization – current year	66	17	52	44	179
Disposals	—	—	—	—	—
Translation	—	—	(1)	(1)	(2)
December 31, 2012	**$592**	**$142**	**$271**	**$305**	**$1,310**

	Leasehold improvements	Service equipment and vehicles	Furniture and equipment	Computer hardware and software	Total
			($ thousands)		
Carrying amount:					
December 31, 2010	$312	$ 97	$154	$266	$ 829
December 31, 2011	$200	$ 85	$304	$220	$ 809
December 31, 2012	**$207**	**$ 68**	**$280**	**$338**	**$ 893**

(a) Additions to leasehold improvements during the year include $56,700 in costs related to Sherway's re-imaging upgrade of the dealership that have not been amortized. 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 provided 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.

(b) Computer hardware and software include $34,900 in costs related to computer software projects at Case Funding, Sherway, and cars4U.com that are in process and have not been amortized.

16. INTANGIBLE ASSETS

	Indefinite useful life		Finite useful life	
	Trade names	Framework agreement	Broker relationships	Total
	($ thousands)			
Cost:				
December 31, 2010	$5,371	$889	$3,481	$ 9,741
Acquisitions	361	—	—	361
Translation	136	—	79	215
December 31, 2011	$5,868	$889	$3,560	$10,317
Acquisitions	—	—	—	—
Translation	(128)	—	(77)	(205)
December 31, 2012	**$5,740**	**$889**	**$3,483**	**$10,112**

	Trade names	Framework agreement	Broker relationships	Total
	($ thousands)			
Accumulated amortization:				
December 31, 2010	$ —	$—	$2,321	$ 2,321
Amortization – current year	—	—	495	495
Translation	—	—	66	66
December 31, 2011	$ —	$—	$2,882	$ 2,882
Amortization – current year	—	—	500	500
Translation	—	—	(65)	(65)
December 31, 2012	**$ —**	**$—**	**$3,317**	**$ 3,317**

	Trade names	Framework agreement	Broker relationships	Total
	($ thousands)			
Carrying amount:				
December 31, 2010	$5,371	$889	$1,160	$ 7,420
December 31, 2011	$5,868	$889	$ 678	$ 7,435
December 31, 2012	**$5,740**	**$889**	**$ 166**	**$ 6,795**

Trade names were acquired in the acquisitions of Pawnee and Case Funding and can be renewed annually, at nominal cost and for an indefinite period. There is no legal limit to the life of these trade names. The framework agreement, which was acquired in the acquisition of Sherway, can be renewed every five years at no cost and with no limit on the number of renewal periods. The businesses to which these intangible assets relate have established names in the market and, given the stability in the demand for their products and services, management expects to be able to derive economic benefit from these intangible assets for an indefinite period of time and has therefore determined them to be of indefinite life.

The remaining amortization period for the broker relationships is four months.

The following table shows the carrying amount of indefinite-lived identifiable intangible assets by CGU as at:

	December 31, 2012	December 31, 2011
	($ thousands)	
Pawnee	**$5,372**	$5,492
Case Funding	**368**	376
Sherway	**889**	889
Total indefinite-lived intangible assets	**$6,629**	$6,757

17. GOODWILL

The majority of the goodwill was recognized upon the acquisition of Pawnee and the cars4U group of companies on May 10, 2006. The goodwill allocated to each CGU and movements in goodwill consist of the following:

	Pawnee	Case Funding	Sherway	Lease-Win	Total
			($ thousands)		
Cost:					
December 31, 2010	$36,074	$—	$3,923	$2,703	$42,700
Acquisition *(a)*	—	638	—	—	638
Translation	813	26	—	—	839
December 31, 2011	$36,887	$664	$3,923	$2,703	$44,177
Translation	(802)	(14)	—	—	(816)
December 31, 2012	**$36,085**	**$650**	**$3,923**	**$2,703**	**$43,361**

	Pawnee	Case Funding	Sherway	Lease-Win	Total
			($ thousands)		
Accumulated impairment:					
December 31, 2010	$25,377	$—	$1,403	$2,703	$29,483
Impairment – current year	—	—	—	—	—
Translation	572	—	—	—	572
December 31, 2011	$25,949	$—	$1,403	$2,703	$30,055
Impairment – current year	—	—	—	—	—
Translation	(564)	—	—	—	(564)
December 31, 2012	**$25,385**	**$—**	**$1,403**	**$2,703**	**$29,491**

	Pawnee	Case Funding	Sherway	Lease-Win	Total
			($ thousands)		
Carrying amount:					
December 31, 2010	$10,697	$—	$2,520	$—	$13,217
December 31, 2011	$10,938	$664	$2,520	$—	$14,122
December 31, 2012	**$10,700**	**$650**	**$2,520**	**$—**	**$13,870**

The Company completed its annual goodwill impairment test as at December 31, 2012 and 2011 and determined that no impairment had occurred. Goodwill is considered impaired to the extent that its carrying amount exceeds its recoverable amount. The recoverable amounts of the Company's CGUs were determined based on its value-in-use ("VIU"). The calculation of VIU incorporated five years of cash flow estimates and was based on the following key variables:

i) The five years of cash flows were based on achieving key operating metrics and drivers based on management estimates, past history, the current economic outlook, and were approved by Chesswood management. The key assumptions on which Pawnee cash flows were based on which the recoverable amount is most sensitive to is lease origination volumes and net charge-offs. The key assumptions on which Sherway cash flows were based on which the recoverable amount is most sensitive to were vehicle sales and gross margins. Management's approach to determining the values assigned to each key assumption was to assess past history and prior budget variances, consider the current market conditions and future economic outlook.

ii) Terminal value incorporated into the VIU calculations was estimated by applying the growth rates in the following chart to the last year of the five years of cash flow estimates. The growth rates reflect the historical average core inflation rate which does not exceed the long term average growth rate for the industry.

	Pawnee	Case Funding	Sherway
Terminal value growth rates:			
December 31, 2011	3.0%	3.0%	2.0%
December 31, 2012	3.0%	3.0%	2.0%

iii) The following pre-tax discount rates were applied in determining the recoverable amount of the CGUs. The discount rates were based on the weighted average cost of capital, adjusted for a liquidity and a risk premium.

	Pawnee	Case Funding	Sherway
Pre-tax discount rates:			
December 31, 2011	30.05%	24.71%	24.47%
December 31, 2012	30.05%	23.62%	24.47%

The Company believes that any reasonably possible change in the key assumptions on which its CGU's recoverable amounts are based would not cause the CGU's carrying amounts to exceed their recoverable amounts. If the future were to adversely differ from management's best estimate of key assumptions and associated cash flows were to be materially adversely affected, the Company could potentially experience future material impairment charges in respect of its goodwill and intangible assets with indefinite lives.

(a) 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 legal 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 legal 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 (incentive payment amount)	516	503
	$1,024	$1,000

The amounts allocated to goodwill will not be 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 assesses the fair value of the contingent payable and any change will flow through the income statement.

The Acquisition agreement also provides 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 CHW 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 a 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 nominal value.

Transaction costs relating to this Acquisition of $425,000 have been expensed in 2011 and are included in other expenses.

18. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprise:

	December 31, 2012	December 31, 2011
	($ thousands)	
Dividends payable	**$ 623**	$ 564
Accounts payable	**451**	449
Sales tax payable	**867**	793
Customer deposits and prepayments	**224**	127
Unfunded leases and EFAs	**1,590**	923
Taxes payable	**1,975**	46
Payroll related payables and accruals	**1,053**	866
Accrued liabilities	**631**	780
Property taxes payable on equipment leases	**296**	238
Withholding taxes payable	**425**	475
Contingent bonus payable (a)	**—**	148
Contingent consideration (a)	**—**	590
Deferred lease incentive	**125**	134
	$8,260	$6,133

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.

(a) Contingent consideration and bonus relates to the Incentive Payment Amount on the acquisition of Case Funding. This amount represented the fair value of the contingent consideration payable at December 31. See note 17(a). It was determined at December 31, 2012 that the probability that the Targeted Amount would be reached was minimal.

The estimate of the fair value of contingent consideration and bonus payable requires very subjective assumptions to be made of various potential operating result scenarios and discount rates. Although the Company believes that there will be no Incentive Payment Amount due in June 2014, it will continue to periodically review NNI results and an updated assessment of various probability weighted projected NNI scenarios. If circumstances change and the Company determines that an earn-out payment may be due, such future revisions may materially change the estimate of the fair value of contingent consideration and therefore materially affect the Company's future financial results.

19. VEHICLE FINANCING

Sherway has an $8.5 million floor plan facility available, bearing interest at the bank's prime rate plus 0.625% (2011 – 0.625%) or the Canadian Dollar Offering Rate ("CDOR") plus 2.125% (2011 – 2.125%), secured by the related vehicles and a general security agreement over the dealership's other assets. Advances under the floor plan are due on the earlier of the date of sale of the related vehicle and 12 months after the receipt of the loan. The repayment terms of 12 months may be extended for an additional 90 days, subject to an immediate repayment of 10% of the principal amount. Under the facility, repayment may be extended for a second 90-day term subject to a further 20% repayment. Based on monthly average debt levels, the effective interest rate paid during the year was 3.25% (2011 – 3.51%).

20. 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 are recorded as an adjustment to interest expense. Adjustments to the fair value of the interest rate swaps are recorded as fair value adjustments on the statement of income. The fair value of interest rate swaps is based upon the estimated net present value of cash flows.

The following swap agreements were outstanding at December 31, 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

21. BORROWINGS

Borrowings is comprised of:

	December 31, 2012	December 31, 2011
	($ thousands)	
Pawnee credit facility *(a)*	**$48,089**	$41,268
Deferred financing costs – Pawnee	**(512)**	(285)
Borrowings – Pawnee	**47,577**	40,983
Securitization debt – Lease-Win *(b)*	**—**	707
	$47,577	$41,690

(a) Pawnee's credit facility allows borrowings of up to U.S.$85.0 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.$48.3 million was utilized at December 31, 2012 (2011 – U.S.$40.6 million). The facility can be extended, subject to certain conditions, to U.S.$115.0 million (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 amount, and matures on July 24, 2016. At December 31, 2012 and 2011, Pawnee was in compliance with all covenants. Based on monthly average debt levels, the effective interest rate paid during the year was 5.78% (2011 – 6.71%).

(b) The securitization trust received the return for which it was contracted in the securitization agreement. The loan was secured by the associated pledged investment in leases. The securitization trust had no recourse to Lease-Win's other assets in the event that lessees fail to make payments when due. The leases all matured or were terminated and paid out during the year ended December 31, 2012.

22. CUSTOMER SECURITY DEPOSITS

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

	December 31, 2012	December 31, 2011
	($ thousands)	
Security deposits that will be utilized within one year	**$3,547**	$3,113
Security deposits that will be utilized in future years	**8,832**	8,385

23. MINIMUM PAYMENTS

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

($ thousands)	2013	2014	2015	2016	2017+	Total
Accounts payable and other liabilities	$ 8,160	$ 26	$ 28	$ 31	$ 15	**$ 8,260**
Vehicle financing	6,199	—	—	—	—	**6,199**
Interest rate swaps	—	542	1,252	229	466	**2,489**
Borrowings *(i)*	—	—	—	47,577	—	**47,577**
Customer security deposits *(ii)*	3,151	3,086	2,505	1,487	765	**10,994**
	$17,510	$3,654	$3,785	$49,324	$1,246	**$75,519**
Other financial commitments *(iii)*	830	728	730	732	358	**$ 3,378**
Total commitments	$18,340	$4,382	$4,515	$50,056	$1,604	**$78,897**

i. Pawnee's financing credit facility is a line-of-credit; as such the balance can fluctuate. The credit facility matures in 2016.

ii. 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 customer security deposits shown in the table above are not to be regarded as a forecast of future cash payments.

iii. The Company and its subsidiaries are committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, expiring in 2013 and 2017. The leases contain renewal options for an additional term of 5 years. Acura Sherway has signed a contract to install a new dealer management system required by Honda in the first quarter of 2013 which will cost $76,000 and requires monthly payments of approximately $5,000 per month for the next five years.

For other commitments, refer to Note 30.

24. TAXES

(a) Tax expense consists of the following:

	For the year-ended **December 31, 2012**	December 31, 2011
	($ thousands)	
Current tax expense	**$4,649**	$2,359
Deferred tax expense	**2,989**	4,198
Total tax expense	**$7,638**	$6,557

(b) The table below shows the reconciliation between tax expense reported in the Statement of Income and the tax expense that would have resulted from applying the combined Canadian Federal and Ontario tax rate of 26.50% (2011 – 28.25%) to pre-tax income. The decrease in the statutory rate resulted from legislated decreases in the Canadian Federal and Ontario tax rate.

	For the year-ended **December 31, 2012**	December 31, 2011
	($ thousands)	
Income before taxes	**$16,627**	$13,066
Canadian tax rate	**26.50%**	28.25%
Expected tax expense	**4,406**	3,691
Tax cost of non-deductible items	**176**	525
Deferred tax assets not recognized	**535**	—
Other	**(49)**	157
Withholding tax on intercompany dividend	**488**	475
Higher effective tax rates in foreign jurisdictions	**2,082**	1,709
Provision for taxes	**$ 7,638**	$ 6,557

(c) The tax effects of the temporary differences giving rise to the Company's deferred tax asset are as follows:

	December 31, 2012	December 31, 2011
	($ thousands)	
Deferred tax assets:		
Intangible assets	**$ 704**	$ 716
Tax losses carried forward	**653**	439
	1,357	1,155
Deferred tax liabilities:		
Unrealized gain on plaintiff advances	**227**	32
Deferred tax assets, net	**$1,130**	$1,123
Deferred tax assets not recognized	**(771)**	(391)
	$ 359	$ 732

The company has determined that it is probable that all recognized deferred tax assets will be realized through a combination of future reversals of temporary differences and taxable income.

Deferred tax assets are recognized to the extent that the realization of the related tax benefit through future taxable profits is probable. At December 31, 2012, the company had $1,453,700 (2011 – $1,563,100) in deductible temporary differences related to intangible assets for which it did not recognize deferred tax assets.

At December 31, 2012, while management believes the $407,000 net deferred tax asset recorded in 2011 will be realized, given the uncertainty of forecasting the growth of Case Funding, the timing of the utilization of the tax losses was not certain and thus the deferred tax asset was reversed in 2012 (including the foreign exchange impact). As well, the net tax losses from 2012 were not recognized; thus at December 31, 2012, the company had in total U.S.$1,545,300 in net tax losses carried forward for which it did not recognize deferred tax assets.

Effective January 1, 2011, the Fund completed its reorganization from an income trust structure into a corporation. On January 1, 2011, as a result of the conversion to a corporation, the rate applied to the deferred tax assets reverted back to the corporate tax rate from the Unitholders' marginal tax rate, which caused a reduction of the deferred tax asset and deferred tax expense of $250,000. The Fund adopted IAS 12, *Income Taxes* on transition to IFRS at January 1, 2010, under which, the Fund was required to recognize deferred tax assets on undistributed taxable assets and use the rate that would be applied to those undistributed earnings which in the Fund's case, would be the Unitholders' marginal tax rate. On October 31, 2006, the Minister of Finance for Canada ("Finance") announced proposed changes to the Income Tax Act (Canada) which modify the taxation of certain flow-through entities including mutual fund trusts and their unitholders. On June 22, 2007, this legislation received royal assent and applies a tax at the trust level on distributions of certain income from a "specified investment flow through" ("SIFT") trust and treats such distributions as dividends to unitholders. The legislation provided that existing SIFT trusts will be grandfathered and the trust distribution tax would not apply until 2011 as long as normal growth guidelines were met. The Fund was considered a SIFT trust and if it had remained an income trust was subject to the trust distribution tax commencing in 2011. After June 22, 2007, the Fund was required to recognize deferred tax assets and liabilities based on estimated temporary differences expected as at January 1, 2011, and on the basis of its structure at each reporting date. Canadian GAAP and IFRS did not permit the Fund to consider future changes to its structure.

(d) The tax effects of the significant components of temporary differences giving rise to the Company's net deferred tax payable are as follows:

	December 31, 2012	December 31, 2011
	($ thousands)	
Deferred tax assets:		
Leased assets	**$14,142**	$ 8,265
Allowance for doubtful accounts	**1,136**	863
Tax losses carried forward	**103**	6,230
Intangible assets	**—**	65
Accrued liabilities	**1,735**	1,609
	$17,116	$17,032
Deferred tax liabilities:		
Lease receivables	**$42,437**	$40,228
	$42,437	$40,228
Deferred taxes payable	**$25,321**	$23,196
Deferred taxes payable to be realized in the next 12 months	**$ 8,311**	$ 3,583

The company has determined that it is probable that all recognized deferred tax assets will be realized through a combination of future reversals of temporary differences and taxable income. The unused tax losses of $1.9 million expire in 2031.

The company has not recognized deferred tax liabilities in respect of unremitted earnings in foreign subsidiaries as it is not considered probable that this temporary difference will reverse in the foreseeable future. At December 31, 2012, the temporary difference related to unremitted earnings in foreign subsidiaries amount to $20.2 million (2011- $13.0 million).

(e) Deferred tax balances within the consolidated statements of financial position were comprised of the following:

	December 31, 2012	December 31, 2011
	($ thousands)	
Deferred tax assets (c)	**$ 359**	$ 732
Deferred taxes payable (d)	**(25,321)**	(23,196)
Net deferred taxes payable	**$(24,962)**	$(22,464)

Reconciliation of net deferred tax payable	**2012**	2011
	($ thousands)	
Balance, beginning of year	**$(22,464)**	$(17,755)
Deferred tax expense in the statements of income (a)	**(2,989)**	(4,198)
Translation difference recognized in OCI	**491**	(511)
Net change in net deferred tax payable during the year	**(2,498)**	(4,709)
Balance, end of year	**$(24,962)**	$(22,464)

25. 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 bids

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. From January 1, 2012 to August 24, 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.

In August 2012, the Board of Directors approved the repurchase and cancellation of up to 658,943 of the Company's outstanding Common Shares for the period commencing August 25, 2012 and ending on August 24, 2013. During the period ended December 31, 2012, 21,436 Common Shares have been repurchased under this normal course issuer bid resulting in a decrease of $97,000 in the value of Common Shares and $80,000 in Retained Earnings. Decisions regarding the timing of purchases are based on market conditions and other factors.

26. COMPENSATION PLANS

(a) Share options

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

	For the year ended December 31,	
	2012	2011
Balance, beginning of period	**1,227,750**	712,500
Granted	**367,500**	637,500
Exercised	**(72,350)**	(122,250)
Balance, end of period	**1,522,900**	1,227,750

During the year-ended December 31, 2012, 367,500 (2011 – 637,500) options were granted. The options vest 30% at the end of the first year, another 35% at the end of the second year, and the remaining 35% at the end of the third year. The option exercise price is equal to the 10-day volume weighted average price of the Shares at the date prior to the day such Options were granted and are satisfied through the issue of common shares upon exercise. The options expire on the 10th anniversary of the grant date.

The value of the options granted during the year was determined using the Black-Scholes option pricing model with the following assumptions:

	2012	2011
Weighted average share price at date	$7.93	$7.26
Expected volatility (*)	63% - 71%	68% - 71%
Expected life [years]	5 - 7	5 - 7
Expected dividend yield	7.25% - 8.12%	6% - 7%
Risk-free interest rate	1.25% - 1.53%	1.31% - 2.68%
Weighted average grant date fair value	$2.54	$2.65

(*) based on the historical volatility of the Company's share price over expected life of options.

During the year ended December 31, 2012, personnel expense and reserve - share-based compensation included $1.1 million (2011 – $1.1 million) relating to option expense. As of December 31, 2012, unrecognized non-cash compensation expense related to the outstanding options was $1.2 million (2011 – $1.5 million), which is expected to be recognized over the remaining vesting period.

During the year ended December 31, 2012, 72,350 options were exercised (2011 – 122,250) for total cash consideration of $183,668 (2011 – $263,000). On exercise, the fair value of options that had been expensed to date during the vesting period of $238,798 (2011 – $472,000) was transferred from Reserve to Common Shares. For the options exercised in 2012, the weighted average share price at the date of exercise was $7.99 (2011 – $6.97).

An analysis of the options outstanding at December 31, 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	211,650	211,650	June 22, 2019	$ 2.06
April 13, 2010	206,250	127,500	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	60,000	December 6, 2021	$ 6.14
June 25, 2012	237,500	—	June 24, 2022	$ 7.45
July 9, 2012	5,000	—	July 8, 2022	$ 7.42
December 6, 2011	125,000	—	December 6, 2022	$ 8.86
	1,522,900	630,400		

At December 31, 2012, the weighted average exercise price is $6.50 (2011 – $5.84) and the weighted average remaining contractual life for all options outstanding is 8.01 years (2011 – 8.44 years). The options exercisable at December 31, 2012 have a weighted average exercise price of $5.39 (2011 – 247,250 options at $5.89).

(b) Restricted share units

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

	For the year ended December 31, 2012	2011
Balance, beginning of period	**57,000**	195,000
Granted	**51,500**	37,000
Exercised	**(39,500)**	(175,000)
Balance, end of period	**69,000**	57,000

During the year ended December 31, 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 dividends 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 year ended December 31, 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. Compensation cost was measured based on the market price of the Shares on the acquisition date of Case Funding, which was $7.73.

During the year ended December 31, 2012, personnel expense and reserve – share-based compensation included $317,550 (2011 – $539,000) relating to RSUs.

On exercise of the 39,500 RSUs, during the year ended December 31, 2012, the value of the RSUs of $306,300 (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 $7.35 (2011 – 175,000 shares @ $7.77).

As of December 31, 2012, unrecognized non-cash compensation expense related to non-vested RSUs was $158,100 (2011 – $92,000).

The following RSUs are outstanding at December 31, 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)(i) and (ii) Other financial commitments.

27. DIVIDENDS

The following dividends were paid to Common Shareholders and Exchangeable Securities holders during the year-ended December 31, 2012:

Record date	Payment date	Cash dividend per share ($)	Total dividend amount ($thousands)
December 31, 2011	January 16, 2012	$0.050	$ 564
January 31, 2012	February 15, 2012	$0.050	565
February 28, 2012	March 15, 2012	$0.050	565
March 31, 2012	April 16, 2012	$0.050	565
April 30, 2012	May 15, 2012	$0.050	566
May 31, 2012	June 15, 2012	$0.055	622
June 30, 2012	July 16, 2012	$0.055	621
July 31, 2012	August 15, 2012	$0.055	621
August 31, 2012	September 17, 2012	$0.055	623
September 30, 2012	October 15, 2012	$0.055	623
October 31, 2012	November 15, 2012	$0.055	623
November 30, 2012	December 17, 2012	$0.055	623
Paid during the year-ended December 31, 2012			**$7,181**

The following dividends were declared but not paid to Common Shareholders and Exchangeable Securities holders during the year-ended December 31, 2012:

Record date	Payment date	Cash dividend per share ($)	Total dividend amount ($thousands)
December 31, 2012	January 15, 2013	$0.055	$623

The following dividends were declared before the financial statements were authorized for issue but not recognized during the year-ended December 31, 2012:

Record date	Payment date	Cash dividend per share ($)	Total dividend amount ($thousands)
January 31, 2013	February 15, 2013	$0.055	$ 623
February 28, 2013	March 15, 2013	$0.060	679
			$1,302

The following dividends were paid to Common Shareholders and Exchangeable Securities holders during the year-ended December 31, 2011:

Record date	Payment date	Cash dividend per share ($)	Total dividend amount ($thousands)
December 31, 2010	January 17, 2011	$0.045	$ 490
January 31, 2011	February 15, 2011	$0.050	544
February 28, 2011	March 15, 2011	$0.050	544
March 31, 2011	April 15, 2011	$0.050	544
April 30, 2011	May 16, 2011	$0.050	549
May 31, 2011	June 15, 2011	$0.050	550
June 30, 2011	July 15, 2011	$0.050	562
July 31, 2011	August 15, 2011	$0.050	562
August 31, 2011	September 15, 2011	$0.050	562
September 30, 2011	October 17, 2011	$0.050	563
October 31, 2011	November 15, 2011	$0.050	563
November 30, 2011	December 15, 2011	$0.050	564
Paid during the year-ended December 31, 2011			$6,597

The following dividends were declared but not paid to Common Shareholders and Exchangeable Securities holders during the year-ended December 31, 2011:

Record date	Payment date	Cash dividend per share ($)	Total dividend amount ($thousands)
December 31, 2011	January 16, 2012	$0.05	$564

28. EARNINGS PER SHARE

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

	For the years ended December 31,	
	2012	2011
Weighted average number of shares outstanding	**9,825,875**	9,623,475
Dilutive effect of options	**331,982**	354,230
Dilutive effect of RSUs	**58,918**	105,740
Weighted average shares outstanding for diluted earnings per share	**10,216,775**	10,083,445

Options to purchase 512,500 shares (2011 – 537,500) were outstanding during the year but were not included in the calculation of diluted earnings per share due to their anti-dilutive effect for the year.

29. CASH FLOW SUPPLEMENTARY DISCLOSURE

	For the years ended December 31,	
	2012	2011
	($ thousands)	
Non-cash items included in net income – other		
Gain on sale of leased vehicles	**$ (77)**	$ (149)
Amortization of deferred financing costs	**168**	173
Unrealized gain (loss) on interest rate swaps	**(7)**	31
Contingent consideration and bonus payable	**(725)**	208
Unrealized gain on foreign exchange	**(57)**	(45)
	$ (698)	$ 218
Finance receivables – change in		
Net investments in leases – pledged	**$ 814**	$ 4,729
Net investments in leases	**(13,420)**	(25,757)
Equipment finance agreements	**(6,730)**	(64)
Legal finance receivables	**(4,117)**	(1,571)
	$(23,453)	$(22,663)
Borrowings – change in		
Line-of-credit – Pawnee – net	**$ 7,755**	$ 1,653
Securitization debt payments	**(707)**	(4,369)
	$ 7,048	$ (2,716)
Non-cash transactions		
Common shares issued for business acquisition	**$ —**	$ 448
Common shares issued on exercise of restricted units	**$ 306**	$ 1,085

30. CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

(a) Contingent liabilities

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

(b) Other financial commitments

(i) Included in the employment agreement of one of Case Funding's senior executives, is an award of 7,500 RSUs issuable on the second anniversary of the Acquisition Date if the executive is still employed by Case Funding. The RSUs will vest on the day of grant.

(ii) The Company has entered into retention agreements with certain employees whereby such employees shall be entitled to certain retention severance amounts upon the occurrence of events identified in each respective agreement. Included in the retention agreement of Chesswood's Chief Executive Officer is an award of 125,000 options on the second anniversary of the agreement date, or earlier, in the case of a change of control.

(iii) Pawnee maintains a Simple IRA Plan (the "Plan") for its employees. Pawnee's obligation is to match contributions made by participating employees up to 3.0% of their base pay. For the years ended December 31, 2012 and 2011, Pawnee's matching contributions to the Plan totaled U.S.$51,300 and U.S.$46,900, respectively.

(iv) Incentive Payment Amount on the acquisition of Case Funding – The consideration is payable in the event that Case Funding's normalized net income ("NNI") for the 25th through 36th months following the Acquisition Date (June 10, 2011) achieves the targeted amount of approximately U.S.$4.7 million (the "Targeted Amount"), whereby 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.

31. FINANCIAL INSTRUMENTS

a) Categories

The carrying amounts and fair values of financial instruments are allocated below to IAS 39, *Financial Instruments: Recognition and Measurement*, categories:

At December 31, 2012	**Available for sale**		**Loans and receivables**		**Other liabilities**		**Held for trading**
($ thousands)	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Carrying amount**
ASSETS							
Cash *(iii)*			$5,591	$5,591			
Accounts receivable *(iii)*			$ 771	$ 771			
Legal finance receivables *(i)*	$3,349	$3,349	*(i)*	$2,295			
LIABILITIES							
Accounts payable (iii)					$ 8,017	$ 8,017	
Vehicle financing *(ii)*					$ 6,199	$ 6,199	
Interest rate swaps							$2,489
Borrowings *(ii)*					$47,577	$47,577	
Customer security deposits					$10,994	$10,994	

At December 31, 2011	**Available for sale**		**Loans and receivables**		**Other liabilities**		**Held for trading**
($ thousands)	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Carrying amount**
ASSETS							
Cash *(c)*			$7,338	$7,338			
Accounts receivable (iii)			$1,207	$1,207			
Legal finance receivables *(i)*	$ 915	$ 915	*(i)*	$ 701			
LIABILITIES							
Accounts payable (iii)					$ 5,543	$ 5,543	
Vehicle financing *(ii)*					$ 4,925	$ 4,925	
Interest rate swaps							$2,551
Securitization debt *(ii)*					$ 707	$ 707	
Borrowings *(ii)*					$40,983	$40,983	
Customer security deposits					$ 9,991	$ 9,991	

(i) There is no organized market for valuing the legal finance receivables. The carrying value is the amortized cost using the effective interest rate method.

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

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

b) Measurement hierarchy

All financial instruments measured at fair value need to be categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

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

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

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

The Company had no Level 1 financial instruments during the current or prior years.

The fair values of financial instruments are classified using the IFRS 7, *Financial Instruments: Disclosures*, measurement hierarchy as follows:

	December 31, 2012	
	Level 2	Level 3
	($ thousands)	
ASSETS		
Available for sale		
Plaintiff advances	$ —	$3,349
LIABILITIES		
Held for trading		
Interest rate swaps	$2,489	$ —
Total	$2,489	$3,349

	December 31, 2011	
	Level 2	Level 3
	($ thousands)	
ASSETS		
Available for sale		
Plaintiff advances	$ —	$ 915
LIABILITIES		
Held for trading		
Interest rate swaps	$2,551	$ —
Total	$2,551	$ 915

c) Reconciliation of Level 3 Financial Instruments

The following table sets forth a summary of changes in the carrying value of plaintiff advances:

	For the year-ended December 31, 2012						
($ thousands)	Balance at Dec. 31, 2011	New advances	Fair value accretion (i)	Losses	Collections	Foreign exchange impact (ii)	Balance at Dec. 31, 2012
Plaintiff advances	**$915**	**$2,560**	**$763**	**$(33)**	**$(834)**	**$(22)**	**$3,349**

	For the year-ended December 31, 2011						
($ thousands)	Balance at Dec. 31, 2010	New advances	Fair value accretion (i)	Losses	Collections	Foreign exchange impact (ii)	Balance at Dec. 31, 2011
Plaintiff advances	$—	$ 886	$ 94	$(—)	$ (91)	$ 26	$ 915

i. Management considered that the change in fair value for plaintiff advances, which are carried at fair value, related to the amortization of interest or successful settlement of advances during the period. The fair value accretion on plaintiff advances is included in interest revenue on finance leases and loans on statement of income.

ii. Difference between year-end foreign exchange rate and average exchange rate; amount included in other comprehensive income.

Fair value measurements are based on level 3 inputs of the three-level hierarchy system which indicates inputs for the assets that are not based on observable market data (unobservable inputs). Plaintiff advances are initially recorded at their fair value, equivalent to the funds advanced. Subsequent measurement of plaintiff advances will be at fair value utilizing a fair value model developed by the Company.

The principal assumptions used in the fair value model are as follows:

- Estimated duration of each plaintiff advance;
- Best estimate of anticipated outcome;
- Monthly fee per advance contract on nominal value of each plaintiff advance; and
- Market interest rate at which estimated cash flows are discounted.

The fair value of plaintiff advances is reviewed quarterly on an individual case basis. Events that may trigger changes to the fair value of each plaintiff advance include the following:

- Successful judgment of a claim in which the Company has a plaintiff advance;
- Unsuccessful judgment of a claim in which the Company has a plaintiff advance;
- Outstanding appeals against both successful and unsuccessful judgments;
- Receipt of funds to settle plaintiff advances;
- A case is dismissed with prejudice (meaning, it can never be re-filed anywhere);
- Change in monthly fee assessed on plaintiff advances;
- Market interest rate at which estimated cash flows are discounted.

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. At December 31, 2012, the average size of a plaintiff advance is U.S.$9,990 (2011 – U.S.$8,221). The fair value estimate is inherently subjective being based largely on an estimate of the duration of plaintiff advance and its potential settlement. In the Company's opinion there is no useful alternative valuation that would better quantify the market risk inherent in the portfolio and there are no inputs or variables to which the value of the plaintiff advances are correlated.

At December 31, 2012, should the estimated duration of plaintiff advances been 10% higher or lower than provided for in the Company's fair value estimation, while all other variables remained constant, the Company's income and net assets would have decreased by U.S.$(9,053) and (U.S.$10,152).

d) Gains and losses on financial instruments

The following table shows the net gains and losses arising for each IAS 39 category of financial instrument.

	For the years ended December 31,	
	2012	2011
	($thousands)	
Loans and receivables		
Provision for credit losses	**$(5,279)**	$(4,157)
Held for trading gains and (losses) on:		
Interest rate swaps	**7**	(31)
Net gain	**$(5,272)**	$(4,188)

e) ***Financial Risk Management***

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

There have been no changes in the Company's objectives, policies or processes for managing or for measuring any of the risks to which it is exposed since the previous year end.

i) Credit risk

Credit risk stems primarily from the potential inability of a customer or counterparty to a financial instrument to meet its contractual obligations, notwithstanding the existence of any collateral accepted. The Company's maximum exposure to credit risk is represented by the carrying amounts of cash, accounts receivable, finance receivables.

The Company's excess cash is held in accounts with a major Canadian chartered bank or at J.P. Morgan Chase in the United States. Management has estimated credit risk with respect to such balances to be nominal and monitors changes in the status of these financial institutions to mitigate potential credit risk.

Accounts receivable principally relate to the Sherway dealership. Of the total, 69.7% (2011 – 60.7%) represent amounts due from the manufacturer and financing contracts in transit, which are typically collected within seven to ten days. Credit risk for accounts receivable arises primarily due to the concentration of the receivable with the automotive manufacturer.

Pawnee's net investment in finance lease receivables and equipment finance agreements are originated with smaller, often owner-operated, businesses that have limited access to traditional financing. The typical borrower is a start-up business that has not established business credit or a business that has experienced some business credit difficulty at some time in its history. As a result, such leases and loans entail higher credit risk (reflected in higher than expected levels of delinquencies and loss) relative to the business equipment leasing market as a whole.

Credit risk is mitigated by: funding only "business essential" commercial equipment, where the value of the equipment is less than U.S.$75,000, obtaining at least one personal guarantee for each lease or loan, and by diversification on a number of levels, including: geographical across the United States, type of equipment funded, the industries in which Pawnee's lessees operate and statistically through the number of customers, none of which is individually significant. Furthermore, Pawnee's credit risk is mitigated by the fact that the standard lease contract most often requires that the lessee provide two payments as a security deposit, which, in the case of default, is applied against the lease receivable; otherwise the deposit is held for the full term of the lease and is then returned or applied to the purchase option of the equipment at the lessee's request.

Pawnee is entitled to repossess leased equipment if the lessees default on their lease contracts in order to minimize any credit losses. When an asset previously accepted as collateral is acquired, it undergoes a process of repossession and disposal in accordance with the legal provisions of the relevant market. Please see Note 12 for a further discussion on the repossession of collateral.

Pawnee's lease and loan receivables consist of a large number of homogenous leases and loans, with relatively small balances, and as such, the evaluation of the allowance for credit losses is performed collectively for the lease and loan receivable portfolio. More detailed information regarding this methodology is provided in the section on accounting policies.

Additional information on finance lease receivables that have been renegotiated or are considered to be impaired is provided in Note 10 – Investment in leases.

For Case Funding's attorney loans, in order to mitigate the potential for loss, the loans 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 loan 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 the case of attorney loans, 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 of which a portion is paid monthly, and the balance is paid upon payout or partial payout; requirement to report on an ongoing basis the status of cases in the basket; provision of the firm's monthly bank statements; and notice provisions for all settled cases including copies of all remittance cheques.

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. 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. At December 31, 2012, the average size of a plaintiff advance is U.S.$9,990 (2011 – U.S.$8,221).

ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Company's 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 December 31, 2012, the Company has $18.1 million (2011 – $15.6 million) in additional borrowings available under various credit facilities to fund business operations.

The Company's operations and growth are financed through a combination of the cash flows from operations and from borrowings under existing credit facilities. Prudent liquidity risk management requires managing and monitoring liquidity on the basis of a rolling cash flow forecast and ensuring adequate committed credit facilities are in place, to the extent possible, to meet funding needs.

Pawnee has a credit facility that allows borrowings of up to U.S. $85.0 million subject to certain percentages of eligible gross lease receivables, of which U.S. $48.3 million was utilized at December 31, 2012 (2011 U.S. $40.6 million). At this time, management believes that the syndicate of financial institutions that provides Pawnee's credit facility is financially viable and will continue to provide this facility, however there are no guarantees in the current economic environment.

Most of the Company's operating subsidiaries are subject to bank and/or manufacturer covenants relative to leverage and/or working capital. Pawnee is restricted in its ability to further merge, make acquisitions or be acquired, and is precluded from incurring additional debt without lender approval. Furthermore, dividends from Pawnee may not exceed 95% of Pawnee's consolidated net income, as determined in accordance with U.S. GAAP but excluding mark-to-market adjustments for interest rate swaps. The maturity structure for undiscounted contractual cash flows is presented in Note 23, minimum payments.

iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market price risks faced by the Company relate to interest rates and foreign currency.

iv) Interest rate risk

Pawnee's leases are written at fixed effective interest rates. To the extent that Pawnee finances fixed rate leases with floating rate funds, the Company is exposed to fluctuations in interest rates such that an increase in interest rates could narrow the margin between the yield on a lease and the interest rate paid by the Company to finance the working capital.

Pawnee manages and mitigates this interest rate risk, as a condition of its borrowing facility, by entering into interest rate swap agreements for a notional amount not less than 50% of the aggregate commitment. The interest rate swap agreements provide for payment of a fixed rate and, in return, Pawnee receives payment of the LIBOR-based floating rate. Pawnee's bank has the option to terminate the swaps, typically one year prior to the maturity date. See Note 20 for more information relating to interest rate swaps.

The interest earned on legal financing advances was not material during the period.

The following table presents a sensitivity analysis for a reasonable fluctuation in interest rates in the U.S. market and the effect on the Company for the year-ended December 31, 2012 and 2011:

	For the year-ended December 31, **2012**		2011	
	+100 bps	**-100 bps**	+100 bps	-100 bps
	($ thousands)			
Increase (decrease) in interest expense	**$ 215**	**$(215)**	$124	$(124)
Increase (decrease) in net income and equity	**(161)**	**161**	(96)	96

v) Foreign currency risk

The Company is exposed to fluctuations in the U.S. dollar exchange rate because significant operating cash inflows are generated in the U.S. while dividends are paid to shareholders in Canadian dollars. For the year-ended December 31, 2012 dividends totaled $7.2 million (2011 – $6.6 million).

Assets and liabilities of foreign operations denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at each period-end date. Revenue and expenses denominated in foreign currencies are translated into Canadian dollars at the average exchange rate for the period. The resulting unrealized exchange gains or losses on translation are reported in other comprehensive income. Therefore, currency risk is an important factor for assessing the Company's net income and financial position.

The following table presents a sensitivity analysis for a hypothetical fluctuation in U.S. dollar exchange rates and the effect on the Company for the years ended December 31, 2012 and 2011:

U.S. Denominated Balances	**December 31, 2012**	December 31, 2011
	($ thousands)	
Year-end exchange rate	**0.9949**	1.0170
U.S. denominated net assets in U.S.$ held in Canada	**$ 37**	$ 8
Effect of a 10% increase or decrease in the Cdn/U.S. dollar on U.S. denominated net assets	**$ 4**	$ 1

32. CAPITAL MANAGEMENT

The Company's capital is comprised of shareholders' equity which at December 31, 2012 comprised $60.6 million (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 during the year.

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.

In July 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 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 finance receivables 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 December 31, 2012, the Company's operating subsidiaries had $18.1 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. There are no bank covenants relating to the consolidated debt to equity calculation.

33. RELATED PARTY TRANSACTIONS

The Company has no parent or other ultimate controlling party.

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.$212,890 per annum, triple net. The lease expires on April 30, 2016, and contains an option to renew for an additional five year terms. The expense is included in other expense and is translated at the average exchange rate for the period. At December 31, 2012 and December 31, 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 and committed for services provided are 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 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 board of directors. Key management compensation is as follows:

	For the year ended December 31,	
	2012	2011
	($ thousands)	
Salaries, fees and other short-term employee benefits	**$1,100**	$1,026
Share-based compensation	**742**	931
Compensation expense of key management	**$1,842**	$1,957

34. 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.

35. COMPARATIVE FIGURES

Certain prior period amounts have been reclassified to conform to the current period's presentation. As a result of the reclassifications we were required to present the 2010 consolidated statement of financial position. The comparative summaries below includes only those balances from 2010 and 2011 that have been reclassified in 2012's Annual Report.

Consolidated Statement of Financial Position
Comparative figures reconciliation at December 31, 2010

($ thousands)	2010 balances as presented in 2011 Annual Report	Comparative adjustments	Reference	2010 balances as presented in 2012 Annual Report Comparatives
Net investment in leases-pledged	$ 5,543	$ (5,543)	*a*	$ —
Net investment in leases	86,182	(86,182)	*a*	—
		(1,425)	*d*	
Finance receivables	—	91,725	*a*	90,300
Securitization debt	5,076	(5,076)	*c*	—
Borrowings	38,244	5,076	*c*	43,320
Customer security deposits	9,884	(1,425)	*d*	8,459

Consolidated Statement of Financial Position
Comparative figures reconciliation at December 31, 2011

($ thousands)	2011 balances as presented in 2011 Annual Report	Comparative adjustments	Reference	2011 balances as presented in 2012 Annual Report Comparatives
Legal finance receivables	$ 1,616	$ (1,616)	*a*	$ —
Net investment in leases-pledged	814	(814)	*a*	—
Net investment in leases	108,091	(108,091)	*a*	—
		(1,507)	*d*	
Finance receivables	—	110,521	*a*	109,014
Accounts payable and other current liabilities	5,543	590	*b*	6,133
Securitization debt	707	(707)	*c*	—
Contingent consideration	590	(590)	*b*	—
Borrowings	40,983	707	*c*	41,690
Customer security deposits	11,498	(1,507)	*d*	9,991

Consolidated Statement of Income
Comparative figures reconciliation for the year-ended December 31, 2011

($ thousands)	2011 balances as presented in 2011 Annual Report	Comparative adjustments	Reference	2011 balances as presented in 2012 Annual Report Comparatives
Interest revenue on finance leases and loans	$26,075	$ 700	*e*	$26,804
Interest expense	3,368	700	*e*	4,097
Personnel expenses	9,720	(144)	*b*	9,576
Other expenses	7,226	(64)	*b*	
		45	*f*	
		(475)	*g*	6,732
Contingent consideration and bonus	—	208	*b*	(208)
Unrealized gain on foreign exchange	—	(45)	*f*	45
Provision for taxes	6,082	475	*g*	6,557

(a) *Legal 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. With the requirement to disclose equipment finance agreements separately for accounting purposes, management felt there were too many lines on the statement of financial position and felt note disclosure would be more appropriate.*

(b) *Contingent consideration payable was grouped with accounts payable and other current liabilities because of its immaterial balance and the 2012 balance is zero. The fair value accretion of the contingent consideration payable was moved from other expenses to undernoted items in the 2011 consolidated statement of income to correspond with the presentation of the 2012 reversal adjustment.*

(c) *Securitization debt was grouped with borrowings due to its similarity and the 2012 balance is zero.*

(d) *In Q4 2012, it was determined for accounting purposes that customer security deposits should be discounted, with the offsetting adjustment to unearned income for net investment in leases and equipment finance agreements.*

(e) *In conjunction with (d) above, interest expense and interest revenue on finance leases and loans are now presented on a gross basis assuming an imputed interest savings on the customer security deposits.*

(f) *Although immaterial in the periods presented, unrealized gain on foreign exchange has been separately disclosed for greater transparency.*

(g) *Although immaterial in the periods presented, the dividend withholding tax expense on intercompany dividends has been classified as current tax expense and not as other expenses for greater transparency.*

36. 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, Legal 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 Legal Financing segment is located in the United States and is a provider of legal 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.

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, Legal 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.

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 year ended December 31, 2012 ($ thousands)				
	Equipment Financing – U.S.	**Legal Financing – U.S.**	**Automotive operations – Canada**	**Corporate overhead – Canada**	**Total**
Interest revenue on finance leases and loans	$ 29,595	$ 1,351	$ 116	$ —	$ 31,062
Ancillary finance and other fee income	4,636	250	—	—	4,886
Interest expense *(a)*	(3,399)	—	(15)	—	(3,414)
Provision for credit losses	(5,272)	(33)	26	—	(5,279)
Finance margin	**25,560**	**1,568**	**127**	**—**	**27,255**
Revenue – automotive operations	—	—	50,648	—	50,648
Cost of sales – automotive operations	—	—	(44,667)	—	(44,667)
Gross margin before expenses	**25,560**	**1,568**	**6,108**	**—**	**33,236**
Personnel expenses	3,745	1,022	2,782	1,041	8,590
Share-based compensation expense	338	253	103	742	1,436
Other expenses	3,214	494	2,262	723	6,693
Amortization	582	2	90	5	679
Income before undernoted items	**17,681**	**(203)**	**871**	**(2,511)**	**15,838**
Contingent consideration and bonus reversal	—	725	—	—	725
Unrealized gain on interest rate swaps	7	—	—	—	7
Unrealized gain on foreign exchange	—	—	—	57	57
Income before taxes	**17,688**	**522**	**871**	**(2,454)**	**16,627**
Provision for (recovery of) taxes	6,836	399	(105)	508	7,638
Net income	**$ 10,852**	**$ 123**	**$ 976**	**$(2,962)**	**$ 8,989**
Net cash from (used in) operating activities	$ 10,276	$(4,045)	$ 2,361	$(2,016)	$ 6,576
Net cash used in investing activities	(123)	(39)	(92)	(7)	(261)
Net cash used in financing activities	(403)	—	—	(7,619)	(8,022)
Total Assets	$137,045	$ 7,116	$ 13,590	$ 3,644	$161,395
Total Liabilities	92,142	155	7,147	1,396	100,840
Finance receivables	118,605	5,645	—	—	124,250
Goodwill	10,700	650	2,520	—	13,870
Intangible assets	5,538	368	889	—	6,795
Property and equipment expenditures	123	39	92	7	261

(a) includes $680,500 in non-cash interest expense, based on the imputed interest savings on the customer security deposits, interest revenue on leases on loans is higher by the same amount.

	For the year ended December 31, 2011 ($ thousands)				
	Equipment Financing – U.S.	Legal Financing – U.S. (a)	Automotive operations – Canada	Corporate overhead – Canada	Total
Interest revenue on finance leases and loans	$ 26,759	$ 160	$ 557	$ —	$ 27,476
Ancillary finance and other fee income	4,227	45	—	—	4,272
Interest expense *(b)*	(3,338)	—	(183)	—	(3,521)
Provision for credit losses	(4,149)	—	(8)	—	(4,157)
Finance margin	**23,499**	**205**	**366**	**—**	**24,070**
Revenue – automotive operations	—	—	46,116	—	46,116
Cost of sales – automotive operations	—	—	(39,890)	—	(39,890)
Gross margin before expenses	**23,499**	**205**	**6,592**	**—**	**30,296**
Personnel expenses	3,559	520	2,891	962	7,932
Share-based compensation expense	404	138	171	931	1,644
Other expenses	3,010	329	2,295	1,098	6,732
Amortization	572	—	143	13	728
Income before undernoted items	**15,954**	**(782)**	**1,092**	**(3,004)**	**13,260**
Contingent consideration and bonus	—	(208)	—	—	(208)
Unrealized loss on interest rate swaps	(31)	—	—	—	(31)
Unrealized gain on foreign exchange	—	—	—	45	45
Income before taxes	**15,923**	**(990)**	**1,092**	**(2,959)**	**13,066**
Provision for (recovery of) taxes	6,209	(395)	10	733	6,557
Net income	**$ 9,714**	**$ (595)**	**$ 1,082**	**$(3,692)**	**$ 6,509**
Net cash from (used in) operating activities	$ 4,942	$(2,307)	$ 1,189	$(2,434)	$ 1,390
Net cash used in investing activities	(209)	—	(14)	(425)	(648)
Net cash used in financing activities	—	—	—	(6,361)	(6,361)
Total Assets	$123,496	$ 3,532	$ 15,525	$ 4,813	$147,366
Total Liabilities	78,794	815	7,553	1,324	88,486
Finance receivables	104,013	1,616	3,385	—	109,014
Goodwill	10,938	664	2,520	—	14,122
Intangible assets	6,170	376	889	—	7,435
Property and equipment expenditures	209	—	14	—	223

(a) Results for period from June 10, 2011 to December 31, 2011.

(b) includes $700,100 in non-cash interest expense, based on the imputed interest savings on the customer security deposits, interest revenue on leases on loans is higher by the same amount.

Chesswood Group Limited

Directors and Officers

Directors and Officers

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

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

Jeffrey Wortsman
Director
President & C.E.O., Danier Leather Inc.

Barry Shafran
Director
President & C.E.O., Chesswood Group Limited
Chairman and C.E.O., Pawnee Leasing Corporation

David Obront
Director
President, DOit Investments Ltd.

Robert Day
Director
Former Chairman, Pawnee Leasing Corporation

Samuel Leeper
Director
Former C.E.O., Pawnee Leasing Corporation

Executive Team

Barry Shafran
President & C.E.O.
Chesswood Group Limited
Chairman and C.E.O.
Pawnee Leasing Corporation

Lisa Stevenson
Director of Finance
Chief Financial Officer

Other Information

Auditors
BDO Canada LLP

Transfer Agent
Equity Financial Trust Company

Corporate Counsel
McCarthy Tétrault LLP

Website
www.chesswoodgroup.com

Toronto Stock Exchange Symbol
CHW

Chesswood
Group Limited

TSX: CHW
Executive Office:
Chesswood Group Limited
4077 Chesswood Drive, Toronto, Ontario, Canada M3J 2R8
Tel. 416.386.3099 • Fax. 416.386.3085
email:investorrelations@ChesswoodGroup.com
www.chesswoodgroup.com