Chesswood Group Limited

2011 Annual Report

Chesswood Group Limited

FOR THE YEAR ENDED DECEMBER 31, 2011

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FOR THE YEAR ENDED DECEMBER 31, 2011

TO OUR SHAREHOLDERS

We're very pleased that 2011 was, once again, a record year of results. In both standards of accounting, the newly adopted IFRS and Canadian GAAP as it was in 2010 and prior for public companies, Chesswood had an exceptional 2011 and a great finish to the year, with a very strong fourth quarter.

We earned $12.6 million before taxes this past year, driven by the continued growth of Pawnee's portfolio and strong overall portfolio performance. With portfolio growth of more than 20% during the year, Pawnee's gross receivables now exceed $130 million for the first time in its history. Congratulations are in order to the great team we have at Pawnee!

Despite supply interruptions due to the earthquake and tsunami in Japan and the violent storms in south-east Asia, Acura Sherway posted results that were surprisingly strong.

We also launched our litigation finance business, Case Funding, in June of 2011. Case Funding originated almost $2.0 million in this first six-and-a-half month initial operating period, and is well on its way to building a portfolio of loans, advances and liens that will offer Chesswood stakeholders attractive risk-adjusted returns.

My thanks go out to our committed and engaged board of directors, and most of all to our very dedicated staff in all of our business units. We have outstanding personnel who not only work hard every day to help Chesswood grow, but are a pleasure to work with.

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

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

The Company's common shares ("Common Shares") are listed on the Toronto Stock Exchange under the symbol CHW.

BUSINESS OF PAWNEE

Pawnee is an equipment finance company that provides lease 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, 2011, Pawnee administered 8,258 leases in its portfolio, with remaining scheduled lease payments of approximately U.S.$130.6 million over the next five years.

Pawnee finances equipment where generally:

(i) the equipment is fundamental to the core operations of the lessee's business;

(ii) the cost of the equipment usually does not exceed U.S.$50,000;

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

(iv) all scheduled lease payments are required to be paid by direct debit out of the lessee's account.

Pawnee's business does not involve leasing 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 leasing brokers and lessors 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 leasing markets – the start-up market and the "B" credit market. The creditworthiness of start-up businesses does not fall into traditional credit categories because of their lack of business credit history. Pawnee defines "start-up" businesses to be those businesses with less than two years of operating history. "B" credit businesses are those that have two or more years of operating history and have some unique aspect to their overall credit profile such that they are not afforded an "A" rated credit source or that the business owner(s) do not have an "A" rated personal credit history.

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

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

Assessed as lower risk business than Pawnee's traditional "B" business, "B+" lessees receive funding based on rates that typically range from 14-26%. At December 31, 2011, approximately 47% of Pawnee's lease receivables consisted of the "B+" product. Pawnee expects its "B+" product to continue to grow.

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

Pawnee'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, but rather retains its leases for their full term,
- Pawnee's revenues are derived directly from its leases 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
- not only is there significant geographic diversification (within the United States) within Pawnee's portfolio of leases, there is also significant diversification in terms of the equipment funded and the industries in which Pawnee's lessees operate. At December 31, 2011:
    - no state represented more than 10.3% of the number of Pawnee's total active leases, with the exception of California which represented 12.2%;
    - Pawnee financed over 70 equipment categories, with its five largest categories by volume, being restaurant, auto repair, titled trucks and trailers, beauty salon and computer equipment, which combined accounted for 54.4% of the number of active leases;
    - its lessees operated in over 85 different industry segments, with no industry concentration accounting for more than 14.8% of its number of active leases;
    - no lessee accounted for more than 0.01% of its total lease portfolio; and
    - its largest source of lease originations accounted for 18.9% of its leases in the year ended December 31, 2011, and its ten largest origination sources accounted for 40.4% of its leases.

Pawnee's revenues and fundings are not dependent upon continuously finding third party buyers for its lease 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, 2011, Pawnee employed approximately 40 full-time equivalent employees, over one-third of whom are dedicated to collection and default remediation.

SHERWAY LP AND LEASE-WIN

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

Lease-Win had 236 leases in its portfolio under administration with remaining scheduled lease payments totaling approximately $3.6 million as at December 31, 2011. As of September 1, 2008, Lease-Win ceased originating new leases other than extensions with existing customers. Virtually all of Lease-Win's leases are open-ended leases, which limits Lease-Win's exposure to losses where the fair market value of a leased vehicle is less than its residual value at the end of the lease term.

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

CASE FUNDING

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

The purchase price was U.S.$1.0 million, of which U.S.$950,000 was satisfied through the issuance to the vendors of 116,438 Common Shares based on the average market trading price, volume adjusted for the 10 days prior to execution of the purchase agreement, of $7.94 and U.S.$50,000 in cash. The agreement also provides for the future conditional acquisition of Quick Cash, 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 Common Shares at the same issue price used for the purchase of Case Funding.

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

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

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

Attorney Fundings

Like all specialty finance businesses, Case Funding's attorney loans are structured and administered with a focus on risk management, developed over time, with the benefit of experience.

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

Case Funding primarily uses in-house lawyers to evaluate new applications for loans and advances. Case Funding's lawyers review the case files of cases being offered by the attorneys, and arrive at their own assessment of expected fees for the entire basket. These lawyers also perform ongoing administration as it relates to the assessment of changes to any significant cases in each basket, including a formal review every quarter.

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

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

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

Plaintiff Funding

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

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

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

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

Medical Liens

Case Funding has started funding medical liens, as they are very similar to plaintiff advances. There is significant 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 they would therefore have shorter durations than the average of plaintiff advances. The small ticket nature of medical liens can be an attractive way to diversify the portfolio with another high-yielding product.

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

Medical liens are recourse debt obligations of the patient.

As of December 31, 2011, Case Funding employed 7 full-time employees.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") is a review of the financial condition and results of operations of Chesswood Group Limited ("Chesswood" or the "Company") for the three months and year-ended December 31, 2011. This discussion should be read in conjunction with the audited consolidated financial statements and accompanying notes of the Company for the year ended December 31, 2011 set forth in the Company's 2011 Annual Report. The fiscal year of the Company ends on December 31. The date of this MD&A is March 7, 2012. All dollar amounts in this MD&A are Canadian dollars, unless otherwise indicated.

Through its interest in Pawnee Leasing Corporation ("Pawnee"), Chesswood is involved in the business of micro and small-ticket equipment leasing to small businesses in the start-up and "B" credit market in the lower 48 states of the United States. Through its interest in Sherway LP, Chesswood is involved in selling, servicing and leasing

Acura automobiles in the Province of Ontario. Through its interest in Lease-Win Limited ("Lease-Win"), Chesswood has a portfolio of automobile leases under administration. Through its interest in Case Funding Inc. ("Case Funding"), Chesswood is involved in the business of litigation financing to plaintiffs and attorneys and the purchase of medical liens that form part of litigation, throughout the United States.

The Company prepares its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") as set out in The Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and requires 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. While the adoption of IFRS has not had an impact on the Company's reported net cash flows, there has been material impact on its consolidated statements of financial position and consolidated statements of operations.

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

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

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

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

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

In 2008, the Canadian Accounting Standards Board confirmed that all publicly accountable enterprises must adopt IFRS in place of Canadian GAAP beginning on January 1, 2011 (for entities with a calendar year-end). Until December 31, 2010, the Fund prepared its interim and annual consolidated financial statements in accordance with Canadian GAAP. The Company applied IFRS for the first time in preparing its unaudited condensed consolidated interim financial statements for the fiscal quarter ended March 31, 2011. The comparative information is also prepared in accordance with IFRS and the effect of the transition is described in the following and in Note 38 to the Company's audited consolidated annual financial statements.

The Company applied IFRS 1, *First Time Adoption of IFRS,* in preparing its opening statement of financial position at January 1, 2010. Certain of the IFRS accounting policies adopted by the Company for this opening statement of financial position differed from the Canadian GAAP accounting policies previously applied. The resulting adjustments arose from events and transactions that occurred before the date of transition to IFRS. Therefore, as required by IFRS 1, those adjustments were recognized directly through retained earnings as at January 1, 2010.

The general principle of IFRS 1 is to apply IFRS prospectively, subject to exceptions required and exemptions permitted. The Company's first time adoption decisions regarding these exemptions are detailed below. Other options available under IFRS 1 that are not discussed in the following, are not material to the Company financial statements:

Business Combinations	The Company elected not to apply IFRS 3, Business Combinations, retrospectively to business combinations prior to January 1, 2010.
Cumulative translation difference	At transition, the Company elected to reset the cumulative foreign currency translation difference arising from the translation of foreign operations to zero.
Derecognition of financial assets and financial liabilities	The Company has applied the derecognition provisions of IAS 39, *Financial Instruments: Recognition and Measurement*, prospectively for transactions occurring on the date of transition.

As discussed above, our consolidated financial statements as at December 31, 2011 and for the year then ended have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). Additionally, our audited consolidated statement of financial position as at January 1, 2010 and our comparative audited consolidated financial statements for 2010 have been adjusted to reflect our adoption of IFRS on a retrospective basis, effective on January 1, 2010. Consequently, all comparative financial information presented in this MD&A reflects the consistent, retrospective application of IFRS.

The Fund performed an impairment test in accordance with IAS 36, *Impairment of Assets*, as at January 1, 2010 and December 31, 2010 and determined that no impairment had occurred.

The largest effects to 2010 under IFRS, compared to Canadian GAAP, is the treatment of distributions by IFRS as an expense, and the effect of valuing Fund Units, Exchangeable Securities and the conversion option on the convertible debentures at fair value and reflecting such adjustment on the income statement. Going forward, the

IFRS impact on the allowance for doubtful accounts and resulting impact on the provision for credit losses will account for the largest difference between Canadian GAAP and IFRS.

Chesswood's results are lower under IFRS compared to historical Canadian GAAP, as shown below:

	For the three-months ended December 31,		For the year-ended December 31,	
	2011	2010	2011	2010
	($thousands)			
Canadian historical GAAP net income	**$3,304**	**$ 2,278**	**$ 9,056**	**$ 6,977**
Provision for credit losses – Pawnee *(see below)*	(315)	(881)	(2,060)	(1,898)
Income tax effect of provision for credit losses	125	347	814	749
Share-based compensation (1)	(481)	(738)	(1,011)	(1,702)
AcG-12 – reversal of gain accounting on securitized leases	n/c	(21)	n/c	4
Prepaid commissions amortized on Lease-Win securitized leases, net of tax	(4)	(18)	(39)	(85)
Fair value net loss on Fund Units, Exchangeable Securities, Conversion option on convertible debentures (1)	—	(1,553)	—	(4,523)
Distributions to unitholders (1)	—	—	—	(1,294)
Income taxes – application of unitholder marginal tax rate on undistributed tax benefits (1) (2)	—	(134)	(251)	(878)
IFRS impact	(675)	(2,998)	(2,547)	(9,627)
IFRS net profit (loss)	**$2,629**	**$ (720)**	**$ 6,509**	**$(2,650)**

Notes:

(1) Changes driven by the IFRS impact on Income Fund elements. If the Fund had been a corporation during 2010, these adjustments would not have been required.

(2) 2011 adjustment occurred on January 1, 2011 on conversion to a corporation, this is not an on-going item in 2011.

n/c – AcG-12 impact for 2011 was not calculated.

The following narrative explains the significant differences between the previous historical Canadian GAAP and IFRS applied by the Company.

IFRS 1 – Cumulative translation difference

IAS 21, The *Effects of Changes in Foreign Exchange Rates,* requires an entity to determine the translation differences in accordance with IFRS from the date on which a subsidiary was formed or acquired. IFRS 1 allows cumulative translation differences for all foreign operations to be deemed to be zero at the date of transition to IFRS. At December 31, 2009 the accumulated foreign translation unrealized loss was $3.4 million. Management adopted this exemption and the accumulated foreign translation unrealized loss at December 31, 2009 was reallocated to retained earnings.

Securitization

On adopting IFRS, IAS 39 uses a risk and rewards model to determine whether an asset has been sold and therefore derecognition was appropriate. Using the substance over form concept, IFRS does not require that there be a legal transfer to a third party but instead requires that substantially all of the risks and rewards of ownership transfer. As a result, on transition at January 1, 2010, leases that were previously transferred in securitization transactions were brought back onto the statement of financial position with separate recognition of the associated securitization debt. Lease-Win also eliminated its retained interest in the securitized lease receivables and the servicing liability recognized under Canadian GAAP on transition to IFRS.

The accretion of the retained interest and amortization of the servicing liability under Canadian GAAP on the 2010 income statement was eliminated. Under IFRS, as the securitization debt is not offset against the securitized lease receivables, the interest paid to the securitization company cannot be offset against the direct financing income earned on the securitized leases. Thus, the direct financing income on the automotive leases will increase as will the interest expense.

There are no bank covenants relating to the consolidated debt to equity calculation, thus the additional debt as a result of recognized leases does not affect any bank or debt covenants. Lease-Win's existing covenants accommodate the additional debt levels in 2011.

Allowance for doubtful accounts

Both Canadian GAAP and IFRS calculate loan losses using the incurred loss model, however IFRS is more specific as to what qualifies as an "incurred event". Pawnee's policy is to maintain an allowance for doubtful accounts, as a percentage of its net investment in leases, equal to the last twelve-month rolling net charge-off percentage level.

Under IFRS, incurred losses require objective evidence of impairment that is supported by currently observable data, regardless of historical experience. IAS 39 states that 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 under IFRS. IAS 39 does not permit loan loss models that produce unallocated general allowances and does not permit establishment of an allowance on the day a loan is originated.

Pawnee's lease receivables are composed of a large number (7,436 at December 31, 2010 and 8,258 at December 31, 2011) of homogenous leases, with relatively small balances (U.S.$11,513 average at December 31, 2010 and U.S.$12,830 at December 31, 2011) made to inherently risky lessees. Pawnee charges-off leases when they become 154 days contractually past due, unless information indicates that an earlier charge-off is warranted. A high percentage of charge-offs are made before the subject leases reach 154 days contractually past due. As a small percentage of the total lease receivable portfolio have monthly lease payments that are past due at any one reporting date, the portion of the lease receivables that shows observable objective evidence of impairment at any one reporting date is quite small, despite long-term historical experience that indicates that future charge-offs with respect to the current lease receivable will typically exceed the level of observable impairment, in a matter of months.

For the consolidated financial statements under IFRS, Chesswood will maintain an allowance for doubtful accounts for Pawnee to cover leases in its portfolio that show observable signs of impairment at the statement of financial position date. Pawnee's allowance for doubtful accounts on Chesswood's consolidated financial statements is comprised of the net investment in leases value that is over 30 days delinquent, plus any leases identified as impaired less than 30 days delinquent and approximately 10% of the 1-30 day delinquent leases (those considered most likely to fall into the over 30 days delinquent category by the next month).

Thus, on transition to IFRS, there was a reduction of the allowance for doubtful accounts on the statement of financial position and an offsetting increase in retained earnings on Chesswood's consolidated financial statements. For the year-ended December 31, 2010, the provision for credit losses on the income statement under IFRS was higher than under Pawnee's method. These adjustments had an offsetting impact to the deferred taxes payable as at January 1, 2010 and December 31, 2010 and lower future tax expense for 2010.

Management would, accordingly, like to caution readers that the allowance for doubtful accounts for Pawnee only covers a portion of leases that have payments that are past due and/or impaired at the reporting date and does not consider any potential losses expected as a result of future events, no matter how likely, based on past historical evidence.

Allowance for doubtful accounts ("ADA") analysis for Pawnee	**Dec 31, 2011**	Dec 31, 2010	Dec 31, 2009
	(U.S.$ thousands)		
Net investment in leases less ("NIL") security deposits, before ADA	$94,672	$75,783	$71,445
Over 31 days delinquency (% of GLR)	1.90%	3.39%	6.23%
ADA – Previous method	$ 4,798	$ 7,653	$11,674
Previous method ADA % of NIL	5.07%	10.10%	16.34%
ADA – IFRS	$ 2,198	$ 2,993	$ 5,214
IFRS ADA % of NIL	2.32%	3.95%	7.30%
Decrease in ADA as result of adoption of IFRS	$ (2,600)	$ (4,660)	$ (6,460)

In response to financial reporting issues emerging from the global financial crisis, the IASB plans to make revisions to or to replace existing IFRS standards. On November 5, 2010, the IASB issued an exposure draft on the measurement and impairment of amortized cost financial instruments and on January 31, 2011 issued a supplemental document to that exposure draft *Financial Instrument: Impairment.* Financial instruments recorded at amortized cost include net investment in leases. Based on the Exposure Draft issued by the IASB, significant changes to the existing IFRS standard are anticipated; however, the IASB indicated that the new standard is unlikely to require adoption until at least 2014.

At this time Chesswood cannot reasonably determine the impact on the financial statements of the anticipated changes, but Chesswood recognizes that based on the IASB pronouncements to date, the methodology for the valuation of its lease receivables has changed in 2011 to comply with IFRS, as described earlier, and is expected to change again in 2014.

Deferred tax assets

Canadian GAAP required the Fund to recognize future income tax assets and liabilities based on estimated temporary differences, 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. Under Canadian GAAP, income taxes were not provided for by the Fund, as the policy of the Fund was to distribute all taxable income to the holders of its Fund Units ("Unitholders"). 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.

Presentation of Fund Units

A Fund Unit is a financial instrument for both Canadian GAAP and IFRS. Under IFRS, a liability arises where a financial instrument contains a contractual obligation to deliver cash or another financial asset to another entity. A mandatory requirement in the Fund's Declaration of Trust to distribute taxable income may have been interpreted as a contractual obligation to deliver cash. On May 13, 2010, management sought and obtained Unitholder approval for an amendment to the Declaration of Trust to permit greater discretion in making future distributions to allow Fund Units to be treated as equity. At the 2010 annual and special meeting of Unitholders approval was also obtained to convert the Fund to a dividend paying corporation. The conversion took effect on January 1, 2011.

Since this approval was obtained on May 13, 2010, the Fund Units appear as debt in the comparative IFRS statements of financial position presented prior to that date (namely as at January 1, 2010 and March 31, 2010). The Fund Units per IFRS were "financial liabilities held for trading" and as such, were accounted for at fair value with the change in fair value recognized in earnings.

When the Fund Units were reclassified to liabilities at the transition date to IFRS (January 1, 2010), they were adjusted to their fair value. The best measure of the fair value of the Fund Units was the trading price on the Toronto Stock Exchange at the transition date to IFRS and at each quarter-end until the Fund's Declaration of Trust was changed in May 2010.

Included in contributed surplus at December 31, 2009 on the Canadian GAAP financial statements was $1.8 million relating to Fund Units acquired under issuer bids where the book value of purchased Fund Units was greater than the purchase prices. If the Fund Units had always been valued at fair value under IFRS, this amount would have been booked through the income statement and therefore on transition to IFRS was moved from reserves (contributed surplus) to retained earnings.

Presentation of exchangeable securities

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 Fund subsidiary (Chesswood U.S. Acquisitionco Ltd. ("U.S. Acquisitionco")) were issued ("Exchangeable Securities"). The Exchangeable Securities are non-voting shares of U.S. Acquisitionco and were fully exchangeable for Fund Units, on a one-for-one basis, for no additional consideration, through a series of steps and entitled the holders to receive the same distributions as the Fund Units. Attached to the Exchangeable Securities were Special Voting Units of the Fund which provided the holders of the Exchangeable securities voting equivalency to Unitholders. Under Canadian GAAP, the Exchangeable Securities were classified as Fund Units in the Unitholder Equity section of the balance sheet and the value was determined on the date of issue and was never changed.

Under IFRS, the basic Fund Units can be presented in the Equity section after May 13, 2010 as discussed above. However, items convertible/exchangeable into Fund Units or settled by issuing Fund Units cannot be shown in the Equity section under IFRS. These items must be shown as liabilities under IFRS as the Fund Units give the holders the right to put the instrument (Fund Units) back to the issuer for cash. Therefore, even though the Exchangeable Securities were fully exchangeable for Fund Units, on a one-for-one basis, for no additional consideration; were entitled to receive the same distributions as the Fund Units; and had the same voting equivalency to Unitholders, for IFRS they have to be classified as a liability and must be measured at fair value at each reporting period end. As the Exchangeable Securities had the same features as Fund Units, the trading price of the Fund Units on the Toronto Stock Exchange represent the best method for valuing the Exchangeable Securities. The non-cash mark-to-market adjustment in 2010 flowed through the income statement.

After conversion to a corporation on January 1, 2011, the Exchangeable Securities remain exchangeable for Common Shares on a one-for-one basis, for no additional consideration, through a series of steps. The Exchangeable Securities entitle the holders to receive the same dividends as are paid on the Common Shares. The holders of the Exchangeable Securities hold special voting shares of Chesswood and have the same voting privileges as the 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, but rather only in the parent company). On conversion to a corporation on January 1, 2011, the Exchangeable Securities were moved from liabilities to non-controlling interest at the market price of the Fund Units at December 31, 2010 (which were exchanged, on a one-for-one basis, for Common Shares). The value of the non-controlling interest will fluctuate each reporting period with their portion of the net income and dividends.

Conversion option on convertible debentures

On August 10, 2008, the $3.5 million of convertible debentures were amended so as to provide for an extension of the maturity date to January 31, 2011 and the terms of conversion were amended as well. The debentures were changed to be convertible into Fund Units (at the holders' option) at a conversion price of $3.50 per Fund Unit (the conversion price was previously $15.58 per Fund Unit). The Fund had the option to convert the debentures into Fund Units (at the conversion price of $3.50 per Fund Unit) in the event that the 20-day average price for the Fund Units is at least $4.40 per Fund Unit.

Under Canadian GAAP, the conversion option feature of the convertible debentures was valued using the Black-Scholes option-pricing model on August 10, 2008 and presented as equity on the balance sheet.

Under IFRS, because the conversion option on the convertible debenture was to be settled with Fund Units, the conversion option is a liability measured at fair value at each reporting period using an option-pricing model.

On conversion of the convertible debentures to Fund Units, the fair value of the conversion option of the convertible debentures was transferred to the Fund Units classified in Other Liabilities. The difference in the fair value of the conversion option from January 1, 2010 to the date of conversion was recorded in the fair value adjustments on the income statement in the 2010 comparative financial statements. Thus, on the day of conversion to Fund Units, the total of the fair value of the conversion options and the principal portion of the convertible debentures equaled the fair value of the Fund Units (based on the trading price on the TSX) that were issued.

The value determined under the Black-Scholes formula has been adjusted since the Q1 2011 financial statements. Other Liabilities and Retained Earnings were adjusted on the January 1, 2010 statement of financial position and the fair value non-cash gain shown in the 2010 Q1 comparatives was lowered accordingly. The adjustment had a net zero impact on retained earnings.

Restricted share units

The Fund's Equity Incentive Plan provided for the granting of awards of Restricted Share Units ("RSUs") to trustees, directors and employees. The holders of such RSUs were not entitled to the distributions paid in respect of such Units before the RSUs were exercised. Such RSUs vested one year from the date of issue and were to be settled by the issue of Fund Units. RSUs granted were considered to be in respect of future services and under Canadian GAAP were recognized as an expense over the vesting period and credited to Contributed Surplus in Unitholders' Equity. Compensation cost was measured based on the market price of the Fund Units on the date of the grant of the RSUs.

Under IFRS, because these RSUs were to be settled with Fund Units, which gave the holder the right to put the instrument (Fund Units) back to the issuer for cash, the RSUs are a liability in the 2010 comparative consolidated financial statements measured at fair value at each reporting period. As the RSUs were settled by the issue of Fund Units, the trading price of the Fund Units on the Toronto Stock Exchange represented the best method for valuing the RSUs. The non-cash mark-to-market adjustment flows through the income statement as compensation expense. There is no tax impact because the non-cash mark-to-market adjustment is not tax deductible.

On conversion to a corporation on January 1, 2011, the Company's Equity Incentive Plan provides that RSUs are now settled with Common Shares of the Company and thus the share-based compensation "payable" is reclassified back to Equity as a reserve (contributed surplus). For 2011, the remaining unrecognized non-cash compensation expense related to non-vested RSUs will be recognized as compensation expense based on the share price at December 31, 2010 and will not be re-measured.

As of December 31, 2010, unrecognized non-cash compensation expense related to non-vested RSUs was $341,170 (Canadian GAAP – $247,073). The unrecognized expense under IFRS is based on the share price of $6.20 at December 31, 2010 when the RSUs "payable" was reclassified from liabilities to Equity compared to a share price of $4.49 when the RSUs were granted.

Unit options

The Fund had issued Unit Options to employees under the Fund's Equity Incentive Plan. Under Canadian GAAP, the value of the Unit Options was determined on date of grant and was expensed over the vesting period to Compensation Expense and to Contributed Surplus in Unitholders' Equity.

Under IFRS, because these Unit Options in 2010 were to be settled with Fund Units, which gave the holder the right to put the instrument (Fund Units) back to the issuer for cash, the Unit Options are a liability in the 2010 comparative consolidated financial statements measured at fair value at each reporting period using an option-pricing model. The non-cash mark-to-market adjustment will flow through the income statement as compensation expense. There is no tax impact to this change because the non-cash mark-to-market adjustment is not tax deductible.

In addition, under Canadian GAAP, the value of the Unit Options value was determined on the full grant and expensed straight line over the vesting period. Under IFRS, each vesting allotment is valued and expensed separately.

Finance lease income on impaired leases

Pawnee ceases to accrue finance lease income on leases after they become 94 days contractually past due unless information indicates that an earlier cessation of income is warranted. IFRS requires that finance lease income continue to be recognized on leases after they are identified as being impaired, until they are charged-off. Thus, the Company has to recognize finance lease income on impaired leases under IFRS. Since these leases were eventually charged-off no more than 60 days later, the increase in revenue recognized under IFRS would also need to be charged-off, so there is no net income or retained earnings impact.

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 4 to the Company's audited consolidated financial statements for year ended December 31, 2011. 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. Direct financing lease income is recognized under the effective interest method. The effective interest method of income recognition applies a constant rate of interest equal to the internal rate of return on the lease.

Transfer of Net Investment in Leases

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

Impairment of Goodwill

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

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

Allowance for Doubtful Accounts

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

Pawnee's lease receivables are composed of a large number (8,258 at December 31, 2011 and 7,436 at December 31, 2010) of homogenous leases, with relatively small balances (U.S.$12,830 average at December 31, 2011 and U.S.$11,513 at December 31, 2010) made to inherently risky lessees. Pawnee charges-off leases when they become 154 days contractually past due, unless information indicates that an earlier charge-off is warranted. A high percentage of charge-offs are made before the subject leases reach 154 days contractually past due. As a small percentage of the total lease receivable portfolio have monthly lease payments that are past due at any one reporting date, the portion of the lease receivables that shows observable objective evidence of impairment at any one reporting date is quite small, despite long-term historical experience that indicates that future charge-offs with respect to the current lease receivable will typically exceed the level of observable impairment, in a matter of months.

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

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

Share-based Payments

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

Interest Rate Swaps

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

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

Income Taxes

Pawnee and Lease-Win use the asset and liability method to account for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for future tax benefits for which realization is not considered more likely than not. Pawnee and Lease-Win account for their lease arrangements as operating leases for federal income tax reporting purposes. This results in temporary differences between financial and income tax reporting for which deferred taxes have been provided.

Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any necessary valuation allowance recorded against net deferred tax assets. The process involves summarizing temporary differences resulting from the different treatment of items, for example, leases for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the consolidated statement of financial position. Management must then assess the likelihood that deferred tax assets will be recovered from future taxable income or tax carry-back availability and, to the extent management believes recovery is not likely, a valuation allowance must be established. To the extent that we establish a valuation allowance in a period, an expense must be recorded within the tax provision in the statement of operations.

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

FUTURE ACCOUNTING CHANGES

Financial Instruments (Classification and Measurement)

The IASB has issued IFRS 9 – *Financial Instruments (Classification and Measurement)*, which is mandatory for accounting periods beginning January 1, 2013. IFRS 9 provides new requirements for how an entity should classify and measure financial assets and liabilities that are in scope of IAS 39.

Consolidated Financial Statements

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

Disclosure of interests in other entities

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

Fair value measurement

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

Other Comprehensive Income

In June 2011, the IASB issued amendments to IAS 1, Presentation of Financial Statements. The amendments require companies preparing financial statements in accordance with IFRS to group together items within Other Comprehensive Income ("OCI") that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. These amendments are effective for annual periods beginning on or after July 1, 2012.

Deferred Tax: Recovery of underlying assets

In December 2010, the IASB issued amendments to IAS 12, Income Taxes as Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12. 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. These amendments are effective for annual periods beginning on or after January 1, 2012.

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

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 or our portfolio of litigation financings and medical liens;
- our provision for credit losses;
- increasing competition;
- increased governmental regulation of the rates and methods we use in financing and collecting on our leases and the rates and methods we use in financing and collecting on our portfolio of litigation financings and medical liens;
- the ability of our personnel at Case Funding to properly estimate the value and outcome of cases;
- 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 and %'s)*

	Mar 31 2010	June 30 2010	Sep 30 2010	Dec 31 2010	Mar 31 2011	June 30 2011	Sep 30 2011	Dec 31 2011
Number of leases outstanding (#)	7,079	7,191	7,363	7,436	7,631	7,936	8,111	8,258
Gross lease receivable ("GLR") (1)	$103,742	$104,541	$105,908	$107,498	$112,615	$120,251	$125,021	$130,601
Residual receivable	$ 12,931	$ 13,104	$ 13,416	$ 13,677	$ 14,260	$ 15,106	$ 15,749	$ 16,354
Net investment in leases, before allowance	$ 80,605	$ 81,709	$ 83,484	$ 85,613	$ 90,389	$ 96,372	$100,489	$105,905
Security deposits	$ 9,204	$ 9,332	$ 9,615	$ 9,830	$ 10,179	$ 10,609	$ 10,930	$ 11,233
Allowance for doubtful accounts – previous method	$ 11,145	$ 10,099	$ 8,829	$ 7,653	$ 6,489	$ 5,588	$ 5,284	$ 4,798
Allowance for doubtful accounts – IFRS	$ 4,071	$ 3,359	$ 3,323	$ 2,993	$ 2,330	$ 2,312	$ 2,482	$ 2,198
Over 31 days delinquency (% of GLR) (2)	4.54%	3.79%	3.58%	3.39%	2.29%	2.08%	2.10%	1.90%
Net charge-offs for the three-months ended (3)	$ 2,576	$ 2,030	$ 1,428	$ 1,620	$ 1,407	$ 1,133	$ 1,114	$ 1,146
Provision for credit losses for the three-months ended – previous method	$ 2,047	$ 984	$ 158	$ 445	$ 243	$ 231	$ 810	$ 659
Provision for credit losses for the three-months ended – IFRS	$ 1,611	$ 1,364	$ 1,431	$ 973	$ 852	$ 1,145	$ 1,218	$ 980

Notes:

(1) Excludes residual receivable.

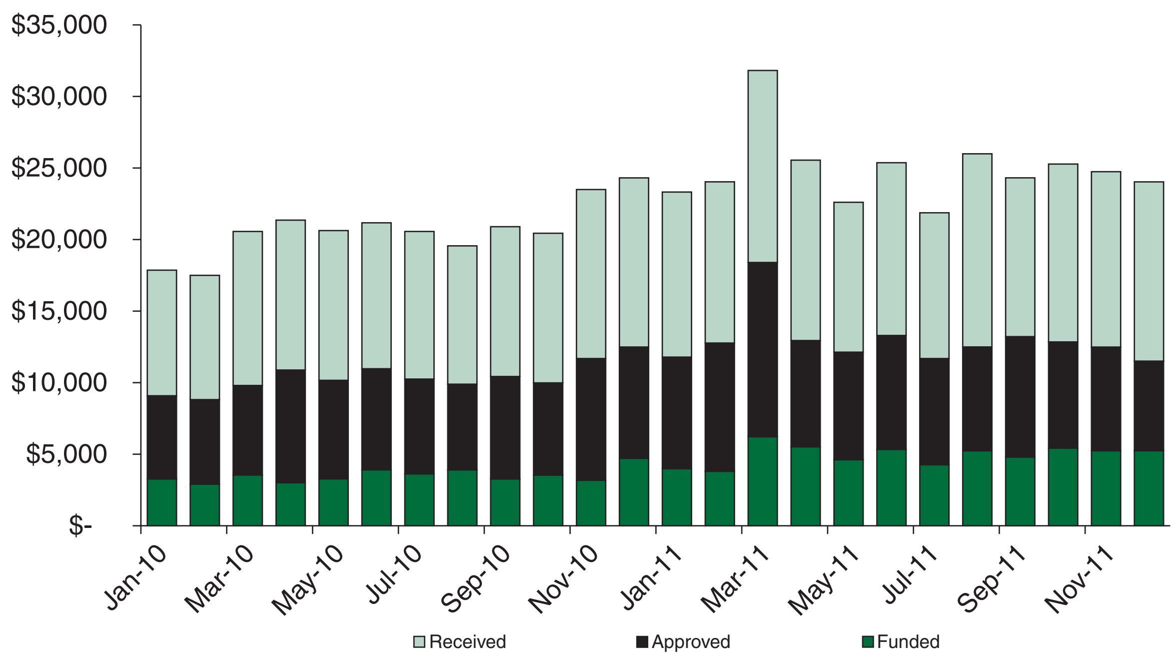
(2) Over 31-days delinquency includes non-accrual gross lease receivables. Pawnee ceases to accrue interest income on leases after they become 94 days contractually past due unless information indicates that an earlier cessation of income is warranted and charges-off leases when they become 154 days contractually past due, unless information indicates that an earlier charge-off is warranted.

(3) Excludes the "charge-offs" of direct finance lease income on non-accrual leases recognized under IFRS.

Lease Application, Approval and Origination Volume

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

Lease 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 lease applications and communicate credit decisions, including what would make an applicant more likely to be approved. Four basic principles underscore all credit decisions on new leases: (i) all business owners must personally guarantee the lease and must therefore submit their personal credit information for consideration; (ii) all scheduled lease payments must be paid through direct debit; (iii) all leases must be on Pawnee's standard proprietary lease documentation; and (iv) all leases assigned to Pawnee must be approved by Pawnee in accordance with the same criteria used in originating its own leases.

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

Collections

The ability to efficiently service and collect on leases is critical in achieving appropriate profit margins and stable cash flows. Management of Pawnee recognizes the importance of the ability to collect on leases 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 whenever possible, mitigate losses and collect post-default recovery dollars.

Pawnee's collections activities begin when a lease 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 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 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 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 leased 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 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 – 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.

KEY PERFORMANCE INDICATORS – CASE FUNDING

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

NON-GAAP & NON-IFRS MEASURES ("NON-GAAP MEASURES")

The Company provides non-GAAP measures as supplementary information. Management believes EBITDA and Adjusted EBITDA (as defined below) are useful measures in evaluating the performance of the Company and in determining whether to invest in the Common Shares. EBITDA and Adjusted EBITDA are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures presented by other issuers. Investors are cautioned that EBITDA and Adjusted EBITDA should not be construed as an alternative to net income (loss) determined in accordance with GAAP as indicators of performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

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

Definitions of EBITDA and Adjusted EBITDA

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

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

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

Adjusted EBITDA	2010 (IFRS BASIS)				2011			
For the quarter-ended *($ thousands)*	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net income (loss)	$(2,342)	$ 862	$ (450)	$ (720)	$1,705	$1,077	$1,098	$2,629
Interest expense	872	850	983	882	807	749	708	735
Income tax expense	1,353	1,163	887	2,138	1,900	1,321	1,345	1,516
Amortization	186	184	185	255	177	181	183	187
EBITDA	**$ 69**	**$3,059**	**$1,605**	**$2,555**	**$4,589**	**$3,328**	**$3,334**	**$5,067**
Interest expense	(872)	(850)	(983)	(882)	(807)	(749)	(708)	(735)
Share-based compensation expense	456	457	712	992	500	429	342	373
Foreign exchange loss (gain)	(9)	4	77	46	78	15	(18)	(120)
Fair value adjustments – interest rate swaps	259	841	558	(763)	(335)	321	283	(238)
Fair value adjustments – other liabilities	2,009	(369)	1,330	1,553	—	—	—	—
Distributions to shareholders	971	323	n/a	n/a	n/a	n/a	n/a	n/a
Adjusted EBITDA (1)	**$ 2,883**	**$3,465**	**$3,299**	**$3,501**	**$4,025**	**$3,344**	**$3,233**	**$4,347**

(1) EBITDA and Adjusted EBITDA are non-GAAP measures. See "Non-GAAP Measures" for their definitions.
(2) The amounts reflected for 2010 have been restated for the adoption of IFRS.
(3) Pawnee's dividends paid to the Fund (and now Chesswood) are subject to compliance with all bank covenants and may not exceed 95% of Pawnee's consolidated net income, as determined in accordance with U.S. GAAP, excluding mark-to-market adjustments for interest rate swaps. Under the new loan agreement entered into on September 24, 2010, Pawnee's permitted dividends issued up to the Fund (and now Chesswood) would be reduced to 90% of consolidated net income, as determined in accordance with U.S. GAAP, excluding mark-to-market adjustments for interest rate swaps, should Pawnee's leverage rise to a specified level.

SELECTED QUARTERLY FINANCIAL INFORMATION

As at and for the quarter-ended *($ thousands except per unit/share figures)*	2010 (IFRS BASIS)				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	$ 18,587	$ 20,627	$ 20,196	$ 20,314	$ 17,748	$ 18,894	$ 18,932	$ 21,590
Gross margin before expenses	6,555	6,848	6,739	7,030	7,208	7,185	7,402	8,501
Income before tax, and gain (loss) on interest rate swaps and other liabilities	2,250	2,820	2,325	2,208	3,270	2,719	2,726	3,907
Income (loss) before tax	(989)	2,025	437	1,418	3,605	2,398	2,443	4,145
Income tax provision	1,353	1,163	887	2,138	1,900	1,321	1,345	1,516
Net income (loss)	(2,342)	862	(450)	(720)	1,705	1,077	1,098	2,629
Basic earnings per unit/share (3)	$ 0.10	$ 0.12	$ 0.10	$ 0.09	$ 0.16	$ 0.10	$ 0.09	$ 0.24
Diluted earnings per unit/share (3)	$ 0.10	$ 0.09	$ 0.10	$ 0.08	$ 0.15	$ 0.09	$ 0.09	$ 0.23
Total assets	137,396	143,825	144,559	140,792	134,880	136,329	145,161	148,873
Long-term financial liabilities (5)	113,634	86,449	86,320	85,342	67,278	71,463	77,113	79,525
Other Data								
Adjusted EBITDA (1)	$ 2,883	$ 3,465	$ 3,299	$ 3,501	$ 4,025	$ 3,344	$ 3,233	$ 4,347
Dividends/distributions declared (4)	971	976	1,293	1,464	1,632	1,662	1,688	1,691
Dividends/Distributions declared per unit/share (1)(2)	$ 0.105	$ 0.105	$ 0.12	$ 0.135	$ 0.15	$ 0.15	$ 0.15	$ 0.15

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

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

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

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

(5) In 2010, per IFRS Fund Units, Exchangeable Securities and share-based compensation reserve were classified as liabilities; please see notes to the interim consolidated financial statements. In 2011, per IFRS these items are classified as equity items.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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 year. U.S. dollar results for the year ended December 31, 2010 were converted at approximately 1.0299, which was the average exchange rate for 2010.

Financial Highlights

For the year ended December 31, 2011, the Company reported consolidated net income of $6.5 million compared to a net loss of $2.7 million in the year ended December 31, 2010, an increase of $9.2 million year-over-year.

The $9.2 million increase in net income year-over-year was the result of:

- Pawnee's net income increased by $2.5 million, predominantly from a $1.3 million increase in finance income, a $1.8 million reduction in provision for credit losses and an $864,000 reduction in the mark-to market loss interest rate swaps from the prior year, offset by a $1.6 million increase in income tax expense.
- Case Funding's results for the year generated a net expense of $595,000. Chesswood acquired Case Funding on June 10, 2011, however we did not acquire their existing litigation finance portfolio, thus the finance income Case Funding generates is from the portfolio that is gradually building up from June 10, 2011. The net expense of $595,000 includes $346,000 in non-cash expenses on behalf of a contingent bonus that may be payable up to 42 months from the acquisition date ($208,000), and share-based compensation expense of $138,000.
- Automotive operations net income increased $24,000 year-over-year, which includes an increase from Sherway of $148,000 and a decrease from Lease-Win of $124,000. The increase in net income from Sherway is impressive given the lack of new car inventory throughout the year due to the earthquake and tsunami in Japan and the flooding in Thailand. The decrease in Lease-Win's net income is consistent with management's September 2008 decision to gradually wind-down Lease-Win.
- Corporate overhead decreased $7.2 million predominantly from the $6.5 million reduction in IFRS adjustments required in the 2010 comparatives as a result of being an income fund in 2010. The $6.5 million in 2010 IFRS adjustments include a $4.5 million loss in fair value on other liabilities due to IFRS treatment of certain Fund Equity items as liabilities, $1.3 million in distributions to Unitholders that were expensed under IFRS in 2010, and $729,000 higher income tax expense in 2010 as the Fund was required to apply the Unitholders' marginal tax rate to undistributed income. Share-based compensation expense was also higher in 2010 as the share-based compensation payable for both options and restricted share units had to be adjusted to fair market value at each reporting date under IFRS as Chesswood was an income fund; the $812,000 year-over-year decrease in share-based compensation year-over-year at the Chesswood level also helped with the improved results for 2011.

Interest revenue on finance leases and loans totalled $26.8 million in the year-ended December 31, 2011; an increase of approximately $701,000 compared to the prior year. Pawnee's interest revenue in Canadian dollars increased $1.3 million year-over-year. However, the change in the foreign exchange rates resulted in a decrease of approximately $1.1 million in interest revenue. In U.S. dollars, Pawnee's interest revenue totalled $26.3 million in the year ended December 31, 2011 compared to U.S.$24.0 million in the same period in the prior year, an increase of approximately U.S.$2.3 million due to growth in the portfolio during the period. Interest revenue from Lease-Win decreased $750,000 year-over-year as a result of the decline in the number of leases outstanding year-over-year. The $750,000 decrease at Lease-Win represented a 57.4% decrease in its interest revenue year-over-year reflecting the continued wind-down of its leasing portfolio which started in September 2008. Under IFRS, interest revenue on Lease-Win's securitized leases is classified on a gross basis (instead of net of interest expense and gain on sale basis that was grouped with automotive revenue under historical Canadian GAAP).

Interest expense on lease financing credit facilities totaled approximately $2.8 million in the year ended December 31, 2011 compared to $3.4 million in the prior year, a decrease of $547,000 year-over-year. Lease-Win's interest expense decreased by $373,000 year-over-year due to the decrease in securitization and lease financing debt outstanding. Pawnee's interest expense decreased by approximately $174,000 in Canadian dollars (U.S.$63,500).

Ancillary lease and other fee income totaled $4.2 million in the year ended December 31, 2011, relatively unchanged from the same period in the prior year. In U.S. dollars, Pawnee's ancillary lease and other income increased approximately $123,500 compared to the prior year due to more leases outstanding.

Revenue from automotive operations totaled $46.1 million in the year ended December 31, 2011 compared to $49.4 million in the prior year, a decrease of $3.2 million or 6.5% year-over-year. A decrease in new vehicle sales year-over-year at Acura Sherway was the predominant reason for the decrease in automotive revenue. The earthquake and tsunami in Japan limited the supply of new vehicles to Acura Sherway between April 2011 and September 2011.

Even though there was a $3.2 million decrease in automotive revenue year-over-year, the automotive operations gross profit only decreased by $5,000 or 0.08% year-over-year.

During year-ended December 31, 2011, the provision for credit losses totaled $4.2 million compared to $6.0 million in the prior year, a decrease of $1.9 million year-over-year. The $1.9 million year-over-year decrease is comprised of a decrease of $1.6 million in Pawnee's provision for credit losses, a decrease of $171,000 due to the change in foreign exchange rates, and a decrease of $124,000 in Lease-Win's provision for credit losses. In 2011, Pawnee's actual net charge-offs decreased by U.S.$2.9 million year-over-year. Pawnee's non-cash decrease in allowance for doubtful accounts totaled U.S.$605,000 in the year ended December 31, 2011 compared to a non-cash decrease of U.S.$1.9 million in the allowance for doubtful accounts in 2010, which led to an increase in the provision for credit losses of U.S.$1.3 million.

	For the three-months ended December 31,		For the year ended December 31,	
IFRS – Provision for credit losses	**2011**	**2010**	**2011**	**2010**
		($ thousands)		
Pawnee's net charge-offs – U.S.$	**$1,146**	$1,620	**$4,799**	$ 7,654
Increase (decrease) in allowance for doubtful accounts – U.S.$	**167**	(288)	**(605)**	(1,915)
Pawnee's provision for credit losses – IFRS U.S.$	**$1,313**	$1,332	**$4,194**	$ 5,739
Pawnee's provision for credit losses – IFRS CDN$	**$1,004**	$1,347	**$4,149**	$ 5,911
Lease-Win's provision (recovery of) for credit losses	**(4)**	3	**8**	132
Consolidated provision for credit losses	**$1,000**	$1,350	**$4,157**	$ 6,043

For comparison purposes, we include the calculation of Pawnee's provision for credit losses under the previous method.

	For the three-months ended December 31,		For the year ended December 31,	
	2011	**2010**	**2011**	**2010**
		($ thousands)		
Pawnee's net charge-offs – U.S.$	**$1,146**	$ 1,620	**$ 4,799**	$ 7,655
Decrease in allowance for doubtful accounts – U.S.$	**(487)**	(1,175)	**(2,856)**	(4,021)
Pawnee's provision for credit losses (previous method) U.S.$	**$ 659**	$ 445	**$ 1,943**	$ 3,634

Personnel expenses totaled $9.7 million for the year ended December 31, 2011 compared to $9.8 million in the prior year, a decrease of $89,000. The addition of $801,000 in personnel expenses (of which $144,000 relates to the accrual of a potential bonus payable in 2014) from Case Funding, was offset by the decrease in personnel expenses from Lease-Win and a $973,000 decrease in non-cash share-based compensation expense.

Other general and administrative expenses totaled $7.2 million for the year ended December 31, 2011 compared to $7.0 million in the same period in the prior year, an increase of $276,000. Other general and administrative expenses for 2011 include $425,000 in acquisition costs relating to the purchase of Case Funding and 2010 other general and administrative expenses include $350,000 in costs relating to the conversion of the Fund to the Company. Withholding tax expense at Chesswood increased by $101,000 year-over-year due to an increase in accrued dividend income from Pawnee.

Income before gains and losses on interest rate swaps and other liabilities totaled $12.6 million for the year ended December 31, 2011 compared to $9.6 million in the prior year, an increase of $3.0 million. The $3.0 million increase in income is predominantly the result of the $3.3 million increase in Pawnee's income which was driven primarily by the decrease in provision for credit losses; a $643,000 decrease in Chesswood overhead expenses, $990,000 net deficiency at Case Funding, and a $61,000 increase in income from the Canadian automotive operations.

The following table shows the net losses from fair value adjustments on liabilities that IFRS deemed were held for trading.

	For the three-months ended December 31,		For the year ended December 31,	
	2011	**2010**	**2011**	**2010**
		($ thousands)		
Held for trading gains and (losses) on:				
Interest rate swaps	**$238**	$ 763	**$ (31)**	$ (895)
Fund Units	**—**	—	**—**	(1,983)
Exchangeable Securities	**—**	(1,553)	**—**	(2,943)
Conversion option on convertible debentures	**—**	—	**—**	403
Net gain (loss)	**$238**	$ (790)	**$ (31)**	$(5,418)

The fair value adjustments to revalue the interest rate swaps at Pawnee created a non-cash loss of $31,000 in the year ended December 31, 2011 compared to a loss of $895,000 in the prior year, an increase of $864,000 in income before taxes year-over-year. The fair value adjustments on Fund Units, Exchangeable Securities, and conversion option on convertible debentures resulted from IFRS impact on certain Fund elements in 2010. If the Fund had been a corporation in 2010 these adjustments would not have been required.

The provision for income taxes for the year ended December 31, 2011 totaled $6.1 million compared to $5.5 million in the prior year, an increase of $541,000. Increased taxable earnings at Pawnee led to an increase in taxes of $1.6 million offset by deferred tax recovery from Case Funding of $395,000 and a reduction of $729,000 tax expense due to non-cash non-payable taxes that were required to be booked under IFRS in 2010. The $6.1 million provision for income taxes for the year ended December 31, 2011 is comprised of $1.9 million in current tax expense and $4.3 million in future tax expense offset by a $162,000 increase in deferred tax assets.

RESULTS OF OPERATIONS FOR THE THREE-MONTHS ENDED DECEMBER 31, 2011 AND 2010

	For the three months-ended December 31, 2011 ($ thousands)				
	Equipment leasing – U.S.	Litigation Financing – U.S.	Automotive operations – Canada	Corporate overhead – Canada	Total
Interest revenue on leases and loans	$ 7,041	$ 132	$ 101	$ —	$ 7,274
Ancillary lease and other fee income	1,113	45	—	—	1,158
Interest expense	(676)	—	(21)	—	(697)
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 (1)	—	—	(11,392)	—	(11,392)
Gross margin	**6,474**	**177**	**1,850**	**—**	**8,501**
Personnel expenses	944	209	722	445	2,320
Share-based compensation expense	98	62	24	189	373
Other expenses	724	152	614	181	1,671
Contingent consideration and bonus (2)	—	43	—	—	43
Amortization	149	—	35	3	187
Income before other items	**4,559**	**(289)**	**455**	**(818)**	**3,907**
Unrealized gain on interest rate swaps	238	—	—		238
Income before income taxes	**4,797**	**(289)**	**455**	**(818)**	**4,145**
Provision of income taxes	(1,881)	395	(27)	(3)	(1,516)
Net income	**$ 2,916**	**$ 106**	**$ 428**	**$(821)**	**$ 2,629**

	For the three months-ended December 31, 2010 ($ thousands)				
	Equipment leasing – U.S.	Litigation Financing – U.S.	Automotive operations – Canada	Corporate overhead – Canada	Total
Interest revenue on leases and loans	$ 6,178		$ 256	$ —	$ 6,434
Ancillary lease and other fee income	1,026		—	—	1,026
Interest expense	(734)		(94)	—	(828)
Provision for credit losses	(1,347)		(3)	—	(1,350)
Finance margin	**5,123**		**159**		**5,282**
Revenue – automotive operations	—		12,854	—	12,854
Cost of sales – automotive operations (1)	—		(11,106)	—	(11,106)
Gross margin	**5,123**		**1,907**	**—**	**7,030**
Personnel expenses	881		794	279	1,954
Share-based compensation expense	189		145	658	992
Other expenses	629		612	380	1,621
Amortization	218		35	2	255
Income before other items	**3,206**		**321**	**(1,319)**	**2,208**
Fair market value adj – other liabilities	—		—	(1,553)	(1,553)
Unrealized loss on interest rate swaps	763		—	—	763
Income before income taxes	**3,969**		**321**	**(2,872)**	**1,418**
Provision of income taxes	(1,784)		(111)	(243)	(2,138)
Net income	**$ 2,185**		**$ 210**	**$(3,115)**	**$ (720)**

(1) Includes interest expense of $53,000 in 2011 and $54,000 in 2010.

(2) Non-cash contingent consideration accretion of $33,000 was expensed in other expenses and $10,000 in non-cash contingent bonus was included in personnel expenses on statement of income (loss).

Pawnee's 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 three-month period. The U.S. dollar results for the three-months ended December 31, 2010 were converted at approximately 1.0128, which was the average exchange rate for the corresponding period.

For the three-months ended December 31, 2011, the Company reported consolidated net income of $2.6 million compared to a net loss of $720,000 in the same period in the prior year, an increase of $3.3 million year-over-year.

The $3.3 million increase in net income for the three-month period year-over-year was the result of:

- Pawnee's net income increased by $731,000 in the three-month period compared to the prior year, predominantly from $863,000 increase in finance income, a $343,000 reduction in provision for credit losses, offset by a $525,000 reduction in the mark-to market unrealized gain on interest rate swaps compared to the prior year.
- Case Funding's income for the three-month period totalled $106,000; which was comprised of a future tax recovery of $395,000 and net loss before taxes of $289,000. The loss before taxes for

the three-month period of $289,000 includes $105,000 of non-cash expenses on behalf of a contingent bonus that may be payable up to 42 months from the acquisition date ($43,000), and share-based compensation expense of $62,000.

- Automotive operations net income increased $218,000 year-over-year which includes an increase in net income from Sherway of $195,000 and a $61,000 decrease in Lease-Win's income before tax and a reduction in tax expense of $84,000 at Lease-Win year-over-year. The decrease in Lease-Win's income before taxes is consistent with management's September 2008 decision to gradually wind-down Lease-Win.
- Corporate overhead decreased $2.3 million predominantly from the $1.7 million reduction in IFRS adjustments required in the 2010 comparatives as a result of being an Income Fund in 2010. The $1.7 million in 2010 IFRS adjustments include a $1.6 million loss in fair value on other liabilities due to IFRS treatment of certain Fund Equity items as liabilities, and $134,000 higher income tax expense in 2010 as the Fund was required to apply the Unitholders' marginal tax rate to undistributed income. Share-based compensation expense was also higher in 2010 as the share-based compensation payable for both options and restricted share units had to be adjusted to fair market value at each reporting date under IFRS as the Fund was an income fund; the $469,000 year-over-year decrease in share-based compensation year-over-year at the Chesswood level also helped with the improved results for 2011.

Interest revenue on finance leases and loans totalled $7.3 million in the three-months ended December 31, 2011; an increase of approximately $840,000 from the same period in the prior year, predominantly due to an increase of $864,000 at Pawnee and $132,000 from Case Funding offset by a $155,000 decrease at Lease-Win as a result of the decline in the number of leases outstanding year-over-year. The $155,000 decrease at Lease-Win represented a 60.5% decrease year-over-year reflecting the continued wind-down of its leasing portfolio which started in September 2008. In U.S. dollars, Pawnee's interest revenue totalled $6.9 million in the three-months ended December 31, 2011 compared to U.S.$6.1 million in the same period in the prior year, an increase of approximately U.S.$816,000 in the three-month period due to growth in the portfolio during the period.

Interest expense on lease financing credit facilities totaled approximately $697,000 in the three-months ended December 31, 2011 compared to $828,000 in the same period in the prior year, a decrease of $131,000 year-over-year. Lease-Win's interest expense decreased by $73,000 year-over-year in the three-month period due to the decrease in securitization and lease financing debt outstanding. Pawnee's interest expense decreased by approximately $58,000 in Canadian dollars (U.S.$63,000). Chesswood deploys some of its cash surplus at Pawnee, in order to reduce Pawnee's interest expense.

Ancillary lease and other fee income totaled $1.1 million in the three-months ended December 31, 2011, relatively unchanged from the same period in the prior year. In U.S. dollars, Pawnee's ancillary lease and other income increased approximately $77,300 in the three-month period compared to the same period in the prior year.

Revenue from automotive operations totaled $13.2 million in the three-months ended December 31, 2011 compared to $12.9 million for the same period in the prior year, an increase of $304,000 or 2.4% year-over-year. A $423,000 increase in vehicle sales in the three-month period year-over-year at Lease-Win was the predominant reason for the increase in automotive revenue.

Even though there was a $324,000 increase in automotive revenue in the three-month period year-over-year, the automotive operations gross profit decreased by $55,000 year-over-year; which includes an increase in gross profit from Sherway of $142,000 and a $197,000 decrease in Lease-Win's gross profit year-over-year in the three-month period. The decrease in Lease-Win's gross profit is consistent with the gradual wind-down of Lease-Win.

During the three-month period ended December 31, 2011, the provision for credit losses totaled $1.0 million compared to $1.4 million in the same period in the prior year, a decrease of $350,000 year-over-year. The $350,000 year-over-year decrease is comprised of a decrease of $343,000 in Pawnee's provision for credit losses and a decrease of $7,000 in Lease-Win's provision for credit losses. In the three-month period, Pawnee's actual net charge-offs decreased by U.S.$474,000 year-over-year. Pawnee's non-cash increase in allowance for doubtful accounts totaled U.S.$167,000 compared to a non-cash decrease of U.S.$288,000 in the allowance for doubtful accounts in the same period in 2010, which led to a U.S.$455,000 increase in the provision for credit losses year-over-year.

Personnel expenses totaled $2.7 million for the three-months ended December 31, 2011 compared to $2.9 million in the same period in the prior year, a decrease of $243,000. The predominant reasons for the $243,000 decrease in personnel expenses was the addition of $281,000 in personnel expenses (of which $10,000 relates to the accrual of a potential bonus payable in 2014) at Case Funding, our newly acquired company, and an $166,000 increase in salaries, bonus accruals and director fees at Chesswood which were offset by the decrease of $619,000 in non-cash share-based compensation.

Other general and administrative expenses totaled $1.7 million for the three-months ended December 31, 2011 compared to $1.6 million in the same period in the prior year, an increase of $83,000, predominantly as a result of $185,000 in expenses generated from our new company Case Funding.

In total, Case Funding's results for the three-month period, generated a net expense to Chesswood of $289,000, $105,000 of which are non-cash expenses on behalf of a contingent bonus that may be payable up to 42 months from the closing of June 2011 ($43,000), and non-cash compensation charges for share based compensation expense.

Income before gains and losses on interest rate swaps and other liabilities totaled $3.9 million for the three-months ended December 31, 2011 compared to $2.2 million in the same period of the prior year, an increase of $1.7 million. The $1.7 million increase in income is the result of a decrease in Chesswood overhead of $496,000 predominantly as a result of the decrease in non-cash share based compensation expense, $289,000 net loss from Case Funding operations in the three months (including the accrual of $43,000 of contingent future expense and $62,000 of non-cash share-based compensation expense), an increase of $134,000 from Canadian automotive operations and a $1.3 million increase in Pawnee's income which was driven primarily by the increase in interest revenue and other lease and fee income.

The provision for income taxes for the three-months ended December 31, 2011 totaled $1.5 million compared to $2.1 million in the same period of the prior year, a decrease of $622,000. A deferred tax recovery from Case Funding of $395,000; a reduction of $134,000 in tax expense due to non-cash non-payable taxes that were required to be booked under IFRS in 2010 and an $84,000 decrease in tax expense at Lease-Win accounted for the majority of the $622,000 decrease in income tax expense in the three-month period compared to the same period in the prior year. The $1.5 million provision for income taxes for the three-months ended December 31, 2011 is comprised of $674,000 in current tax expense and $1.26 million in deferred tax expense offset by a $417,000 increase in the deferred tax asset.

STATEMENT OF FINANCIAL POSITION

Total consolidated assets of the Company at December 31, 2011 were $148.9 million, an increase of $8.1 million from December 31, 2010. The exchange rate on December 31, 2011 was 1.017 compared to 0.9946 at December 31, 2010 and 1.0466 at January 1, 2010. The change in the foreign exchange rates increased assets by $2.8 million, thus total assets excluding the foreign exchange impact increased by $5.3 million from December 31, 2010.

Cash totaled $7.3 million at December 31, 2011 compared to $12.9 million at December 31, 2010, a decrease of approximately $5.6 million. The decrease in cash is the result of deploying excess cash at Pawnee, to fund portfolio growth, instead of using the credit facility. Prior to September 2010, Pawnee's banking agreement required Pawnee to send the permitted monthly dividends to Chesswood each month or lose the ability to pay out the permitted dividend. The banking agreement entered into in September 2010 allows the permitted monthly dividends of any one fiscal year to remain at Pawnee until the earlier of April of the following year or such time as Chesswood chooses to receive the permitted dividends. Thus, at December 31, 2011, approximately U.S.$8.8 million that would have been sent up to Chesswood under the previous agreement was still at Pawnee, being utilized to fund portfolio growth and lower interest costs.

As Lease-Win continues its wind down, it is accumulating cash balances, a large portion of which will be used to satisfy its tax obligations. During the year ended December 31, 2011, Lease-Win paid $217,000 in income taxes relating to 2010 and $1.2 million in taxes relating to 2011. At December 31, 2011, $500,000 (December 31, 2010 – $1.5 million) of Chesswood's consolidated cash balance represented funds on hand at Lease-Win.

Accounts receivable totaled $1.2 million at December 31, 2011 compared to $766,000 at December 31, 2010. 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 $6.1 million at December 31, 2011 compared to $6.8 million at December 31, 2010, a decrease of $0.7 million. Vehicle inventory balances at dealerships fluctuate throughout the year based on seasonality, sales volumes and market conditions.

Prepaid expenses and other assets totaled $630,000 at December 31, 2011 compared to $6.6 million at December 31, 2010, a decrease of $6.0 million. The majority of the decrease is the result of the receipt of a U.S.$5.3 million in income tax installments paid in 2010 which were refunded in 2011.

Lease-Win's securitized net investment in lease receivables totaled $814,000 compared to $5.5 million at December 31, 2010, relating to $837,000 in gross lease receivables (December 31, 2010 – $5.9 million). At December 31, 2011, 23.3% of Lease-Win's gross lease receivable was securitized compared to 57.6% at December 31, 2010, which reflects Lease-Win's decision to self-finance shorter-term leases. Lease-Win had used securitization for funding its leasing activities since July 1997. As of September 1, 2008, Lease-Win ceased originating new leases other than extensions with existing customers.

As at December 31, 2011, net investment in leases totaled $108.1 million compared to $86.2 million at December 31, 2010, an increase of $21.9 million or 25%; the increase was comprised of:

	($ thousands)
Decrease in allowance for doubtful accounts	$ 809
Increase of 822 leases since December 31, 2010 at Pawnee	10,725
Increase of U.S.$1,308 per lease in the average book value of net investment in leases	9,888
Increase in net investment in leases from change in foreign exchange	1,853
Net decrease in net investment in non-securitized leases at Lease-Win	(1,366)
Total increase in net investment in leases	$21,909

The gross lease receivable of leases under administration as at December 31, 2011 was approximately $136.4 million, compared to $117.1 million at December 31, 2010. Pawnee's gross lease receivable represented $132.8 million (U.S.$130.6 million) of the total gross lease receivable outstanding at December 31, 2011, compared to $106.9 million (U.S.$107.5 million) at December 31, 2010 and $109.0 million (U.S.$104.2 million) at January 1, 2010.

Lease-Win's gross lease receivable under administration totaled $3.6 million at December 31, 2011 compared to $10.2 million at December 31, 2010, a decrease of $6.6 million. As of September 1, 2008, Lease-Win ceased originating new leases other than extensions with existing customers.

The $108.1 million in net investment in leases is net of $2.4 million in allowance for doubtful accounts compared to $3.2 million in allowance for doubtful accounts at December 31, 2010. Under IFRS, an allowance can only be set up if there is objective evidence that the impairment has already occurred; potential losses expected as a result of future events, no matter how likely based on past historical evidence, are not allowed to be recognized. Pawnee charges-off leases when they become 154 days contractually past due, unless information indicates that an earlier charge-off is warranted. A high percentage of the charge-offs are made before the subject leases reach 154 days contractually past due. As only a small percentage of the total lease receivable portfolio have monthly lease payments that are past due at any one reporting date, the portion of the lease receivables that shows observable objective evidence of impairment at any one reporting date is quite small, despite long-term historical experience that indicates that future charge-offs with respect to the current lease receivable will typically exceed the level of observable impairment, in a matter of months. See "IFRS impact on Pawnee's allowance for doubtful accounts" above in regards to the change in the allowance for doubtful accounts.

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

During the first quarter of 2011, Pawnee acquired and installed a new phone system at a cost of U.S.$145,152.

Intangible assets totaled $7.4 million at December 31, 2011, substantially unchanged from December 31, 2010. The $15,000 increase in intangible assets is comprised of a $147,000 increase as the result of the change in foreign exchange rates, an increase by the addition of trade name intangible asset of $361,000 recognized on the acquisition of Case Funding offset by $495,000 in amortization of broker relationships. The significant intangible assets of broker relationships and customer relationships do not require any outlay of cash to be maintained, as the creation of lease receivables does not require an outlay of cash, other than commissions, which are separately expensed.

Goodwill totaled $14.1 million at December 31, 2011, compared to $13.2 million at December 31, 2010. Goodwill of $638,000 was recognized on acquisition of Case Funding. The movement in foreign exchange rates resulted in an increase of $267,000 in goodwill during the year ended December 31, 2011. Goodwill is typically tested annually for impairment unless certain circumstances arise that would require an assessment prior to an annual review.

Vehicle inventory is financed through vehicle financing credit facilities, of which $4.9 million was outstanding at December 31, 2011 compared to $5.5 million at December 31, 2010, leaving $1.2 million of inventory that was self-financed as at December 31, 2011, relatively unchanged from the amount of inventory self-financed at December 31, 2010. 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, 2011, the mark-to-market adjustment is a loss of approximately $2.6 million compared to a loss of approximately $2.5 million at December 31, 2010 and is shown as a liability on the statements of financial position.

The following interest rate swaps were outstanding at December 31, 2011:

Effective Date	Notional Amount U.S.$	Annual Fixed Rate	Maturity date	Bank Call Date
July 2008	15,000,000	4.80%	March 2012	March 2010
March 2011	15,000,000	3.12%	March 2014	n/a
March 2012	15,000,000	4.00%	March 2015	n/a

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

Pawnee's lease financing line totaled $41.0 million (U.S.$40.6 million) at December 31, 2011 compared to $38.2 million (U.S.$38.9 million) at December 31, 2010. Pawnee's lease financing line increased by U.S.$1.7 million from December 31, 2010 even though the net investment in leases, net of security deposits, rose by U.S.$18.9 million from December 31, 2010, a difference of U.S.$17.2 million. Of the U.S.$17.2 million, U.S.$5.3 million came from the receipt of income tax installments paid in 2010 and refunded in 2011, and approximately U.S.$8.8 million that would have been sent up to Chesswood as dividends relating to the January through November period but were retained at Pawnee due to new flexibility in Pawnee's credit facility.

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

The majority of the $11.5 million (December 31, 2010 – $9.9 million) in customer security deposits relates to security deposits held by Pawnee. Pawnee's primary lease contract requires that the lessee provide two payments as security deposit (not advance payments), which are held for the full term of the lease and then returned or applied to the purchase option of the equipment at the lessee's request, unless the lessee has previously defaulted (in which case the deposit is applied against the lease receivable). Historically, a very high percentage of lessees' deposits are either applied to the purchase option of the leased equipment at the end of the lease term or used to offset charge-offs. The approximate $1.6 million increase in the security deposit balance from December 31, 2010 is due to a $1.3 million increase in security deposits at Pawnee, $221,000 increase as a result of fluctuation in the foreign exchange rates and $44,600 decrease in security deposits at Lease-Win.

Deferred income tax liability at December 31, 2011 totaled $23.2 million compared to $18.3 million at December 31, 2010, an increase of $4.9 million. The increase in deferred income tax liability is the result of a deferred income tax provision of approximately $4.35 million and $522,000 increase as a result of the change in foreign exchange rates.

Income taxes at Pawnee and Lease-Win are provided for using the asset and liability method of accounting. This method recognizes future tax assets and liabilities that arise from differences between the accounting basis of the subsidiaries' assets and liabilities and their corresponding tax basis.

At December 31, 2011, there were 9,811,234 Common Shares outstanding (excluding the shares issuable upon exchange of the Exchangeable Securities) with a book value of $43.8 million. Through the transition to IFRS there was a $41.4 million reduction in the book value of the Fund Units at December 31, 2010, due to $32.2 million of fair value adjustments of the Fund Units or items convertible or settled with Fund Units (as a result of the Fund Units becoming classified under IFRS as held-for-trading liabilities in 2010) and $9.2 million reclassified to non-controlling interest. The $32.2 million of fair value adjustments as a result of the transition to IFRS increased retained earnings. 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 Fund 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 $26,988, including legal and other costs. After the conversion to a corporation, there have been no further fair value adjustments, under IFRS, on shareholder equity items.

In August 2011, Chesswood's board of directors approved the repurchase and cancellation of up to 655,072 of the outstanding Common Shares for the period commencing August 25, 2011 and ending on August 24, 2012. During the period ended December 31, 2011, no Common Shares were repurchased under the normal course issuer bid.

Non-controlling interest is comprised of the Exchangeable Securities, being the 1,274,601 Class B common shares and 203,936 Class C common shares of U.S. Acquisitionco outstanding. The Class B and C common shares of U.S. Acquisitionco were issued as partial consideration for the acquisition of Pawnee and are fully exchangeable at any time for Common Shares, on a one-for-one basis, through a series of steps. In 2010, per IFRS, the value was classified as a liability and grouped with Other Liabilities. 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 but rather 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).

Reserves represent the accumulated share-based compensation expensed over the vesting term for options and restricted share units unexercised at December 31, 2011. In 2010, per IFRS, the value was classified as a liability and grouped with Other Liabilities.

Accumulated other comprehensive gain/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, 2011 of self-sustaining foreign operations net assets.

At December 31, 2011, retained earnings totaled $4.4 million. 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 the 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.

LIQUIDITY AND CAPITAL RESOURCES OVERVIEW

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

The Company's subsidiaries' objective is to maintain low cash balances, investing any free cash in their operations as needed and using any excess to pay down debt on the primary financing facilities. The subsidiaries fund working capital needs, lease originations and growth using advances under credit facilities available when operating cash flow is not sufficient. At December 31, 2011, the Company's operating units had $15.6 million in additional borrowings available under various credit facilities to fund business operations.

The Company itself does not have any credit facility. Each of its operating subsidiaries has a credit facility. These 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 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 to the Company to the net income of the subject subsidiary).

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

($ thousands)	2012	2013	2014	2015	2016	2017+	Total
Accounts payable and other current liabilities	$ 5,287	$ 24	$ 172	$ 24	$ 24	$ 12	$ 5,543
Vehicle financing	4,925	—	—	—	—	—	4,925
Interest rate swaps	172	—	886	1,493	—	—	2,551
Securitization debt *(i)*	685	22	—	—	—	—	707
Contingent consideration	—	—	590	—	—	—	590
Lease financing *(ii)*	—	40,983	—	—	—	—	40,983
Customer security deposits *(i)*	3,113	3,440	2,808	1,321	816	—	11,498
	$14,182	$44,469	$4,456	$2,838	$840	$ 12	$66,797

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

ii. Pawnee's lease financing credit facility is a line-of-credit; as such the balance can fluctuate. The interest rate is also floating, thus the interest payments are dependent on the balance of the line-of-credit and interest rate at any point of time.

Cash Sources and Uses

The statement of cash flows, which is compiled using the indirect method, shows cash flows from operating, investing, and financing activities, and the Company's cash and cash equivalents at the beginning and end of the year. Cash flows in foreign currencies have been translated at the average rate for the period. Cash flow from operating activities comprises net income (loss) adjusted for non-cash items, changes in working capital and operational net assets. Receipts and payments with respect to income tax are included in cash from operating activities. The Company considers net investment in leases, net investment in leases – pledged, litigation finance receivables, vehicle financing, lease financing, securitization debt and customer security deposits as operational assets and liabilities as they directly relate to our core business. The changes in these operational assets and liabilities are shown in cash flows from operating activities and the associated interest revenue and interest expenses are included in operating activities and not investing or financing activities. Cash flow from investing activities comprises payments relating to the acquisition of companies and property and equipment. Cash flow from financing activities comprises payment of dividends, proceeds from stock issues, and the purchase and sale of treasury stock.

For the year ended December 31, 2011

The Company's operations generated cash flow from operations before the changes in operating assets and liabilities of $21.9 million during the year ended December 31, 2011 compared to $22.1 million in the year ended December 31, 2010, a decrease of $188,000 or 0.8% compared to the prior year.

The changes in net operating assets during the year ended December 31, 2011 reflected the use of $23.8 million in funds to increase operational assets (including net investment in leases) and working capital, compared to $10.2 million in the year ended December 31, 2010, an increase in cash utilization of $13.6 million compared to the prior year. During the year ended December 31, 2011, investment in net leases (net of security deposits, securitization debt payments and lease financing) totalled $22.3 million (2010 – $10.4 million); an increase in cash utilization of $11.9 million year-over-year. At December 31, 2011 approximately U.S.$8.8 million that could have otherwise been sent up to Chesswood, relating to January through November dividends, was still at Pawnee being utilized to temporarily fund portfolio growth. The increase in cash utilized of $13.6 million year-over-year includes $1.6 million used to finance litigation finance receivables at Case Funding in 2011.

Chesswood had a net receipt of $3.2 million in income taxes in the year ended December 31, 2011 compared to payment of taxes of $7.1 million in the year ended December 31, 2010, a net increase of $10.3 million in cash flow year-over-year.

Thus, cash flow from operations was $1.4 million in the year ended December 31, 2011 compared to $4.8 million in the prior year, a decrease of $3.4 million compared to the prior year. This $3.4 million decrease in cash flow is due predominantly to an increase in cash utilization of $13.6 million compared to the prior year to fund increased growth in net operational assets, offset by a net increase of $10.3 million in cash flow year-over-year from tax receipts and payments.

Capital expenditures totaled $223,000 (2010 – $120,000) during the year-ended December 31, 2011 predominantly relating to the purchase of a new telephone system at Pawnee.

The Company paid dividends to shareholders in the amount of $6.6 million during the year-ended December 31, 2011 compared to $4.5 million of distributions paid by the Fund in the prior year; an increase of $2.1 million due to higher number of shares outstanding and higher dividend per share amounts year-over-year.

The prior year's cash flow includes $5.1 million in cash raised from the issuance of Fund Units under a rights offering; the net proceeds were used to support the growth of Pawnee and for general corporate purposes.

In total, in the year ended December 31, 2011, there was a decrease in cash of $5.6 million compared to an increase of $5.3 million in the prior year, a decrease of $10.9 million, predominantly from utilizing operating cash flow, to temporarily fund growth in Pawnee's portfolio.

For the three-months ended December 31, 2011

The Company's operations generated cash flow from operations before the changes in operating assets and liabilities of $6.1 million during the three-months ended December 31, 2011 compared to $5.4 million in the three-months ended December 31, 2010, an increase of $664,000 compared to the same period in the prior year.

The changes in net operating assets during the three-months ended December 31, 2011 reflects utilization of $4.2 million in funds compared to $2.6 million in the three-months ended December 31, 2010, an increase in cash utilization of $1.6 million compared to the prior year. The increase in cash utilized year-over-year includes $804,000 which was used to finance litigation finance receivables at Case Funding in 2011. The difference in the net change in accounts payable and other current liabilities for the three-month period led to a $1.4 million decrease in cash flow for the period year-over-year due to normal fluctuations in operating payables. During the three-months ended December 31, 2011, investment in net direct financing leases (net of security deposits and lease financing) totalled $3.0 million (2010 – $3.7 million); a decrease of $0.7 million to fund leases year-over-year in the three-month period.

Chesswood had a net tax payment of $389,000 in the three-months ended December 31, 2011 compared to payment of taxes of $840,000 in the same period of the prior year, a net increase of $451,000 in cash flow year-over-year.

Capital expenditures totaled $26,000 (2010 – $11,000) during the three-months ended December 31, 2011.

The Company paid dividends to shareholders in the amount of $1.7 million during the three-months ended December 31, 2011 compared to $1.4 million of distributions paid by the Fund in the same period in the prior year; an increase of $286,000 due to higher number of shares outstanding and higher dividend per share amounts year-over-year.

In total, in the three-months ended December 31, 2011, there was a decrease in cash of $167,000 compared to an increase of $594,000 in the same period in the prior year; a decrease of $761,000.

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

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

Financial Covenants, Restrictions and Events of Default

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

Pawnee funds its business primarily through variable rate borrowings and has a revolving credit facility for up to U.S.$55 million which can, subject to certain conditions, be extended to U.S.$85 million. As of December 31, 2011, Pawnee had used approximately U.S.$40.6 million of its available borrowing under this facility (U.S.$38.9 as of December 31, 2010). Pawnee's ability to access funding at competitive rates through various economic cycles enables it to maintain the liquidity necessary to manage its business, and its ability to continue to access funding is an important condition to its future success. Pawnee is required to purchase fixed interest rate hedges for at least 50% of the outstanding commitment under its credit facility, and as of December 31, 2011 Pawnee had hedged U.S.$30.0 million, representing approximately 73.9% of the U.S.$40.6 million outstanding under the credit facility as at such date.

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, 2011, U.S.$40.6 million was outstanding under the facility and Pawnee had capacity to draw up to and in excess of the U.S.$55.0 million commitment and remain within the borrowing base under the facility.

Pawnee is restricted in its ability to merge, acquire companies or be acquired, or incur additional debt without lender approval. Furthermore, dividends are limited to compliance with all bank covenants and may not exceed 95% of Pawnee's consolidated net income, as determined in accordance with U.S. GAAP, with a few adjustments, including mark-to-market adjustments for interest rate swaps. Under the new loan agreement entered into on September 24, 2010, Pawnee's permitted dividends issued up to Chesswood would be reduced to 90% of consolidated net income, as determined in accordance with U.S. GAAP, excluding mark-to-market adjustments for interest rate swaps, should Pawnee's leverage rise to a specified level.

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

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

Dividends to Shareholders

The Company declared cash dividends during the year ended December 31, 2011 as follows:

Shareholder Record Date	Per Share
January 31, 2011	$0.05
February 28, 2011	$0.05
March 31, 2011	$0.05
April 30, 2011	$0.05
May 31, 2011	$0.05
June 30, 2011	$0.05
July 31, 2011	$0.05
August 31, 2011	$0.05
September 30, 2011	$0.05
October 31, 2011	$0.05
November 30, 2011	$0.05
December 31, 2011	$0.05
	$0.60

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).

Following the Fund's conversion into the Company on January 1, 2011, the amount of any dividends payable by Chesswood are at the discretion of its board of directors, are evaluated on an ongoing basis, and may be revised subject to business circumstances and expected capital requirements depending on, among other things, Chesswood's earnings, financial requirements for its operating entities, growth opportunities, the satisfaction of applicable solvency tests for the declaration and payment of dividends and other conditions existing from time to time.

OUTLOOK

We are hopeful that the worst of the economic crisis is behind us and that North America will continue to improve, even if that improvement is gradual, as many predict.

We hope to see continued growth in our portfolio at Pawnee in 2012 while underlying credit information suggests that we should expect portfolio performance to remain stable.

Our Acura dealership will receive two newly designed models in 2012 after almost five full years without a new product. Our hope is that these two new models, which are just the start of a series of introductions of new models for the Acura line of products, will see the resurgence of the brand in terms of its market share in Canada.

Lastly, our litigation finance business continues to refine and develop its product offerings as we seek to bring the business to its breakeven point in 2012.

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

Dependence on Key Personnel

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

Relationships with Brokers and Other Origination Sources

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

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

Risk of Future Legal Proceedings

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

Interest Rate Fluctuations

Our operating companies (and, in particular, Pawnee and Lease-Win) are exposed to fluctuations in interest rates under their borrowings. Increases in interest rates (to the extent not mitigated by interest hedging arrangements) may have a material adverse impact on our businesses, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

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

Portfolio Delinquencies; Inability to Underwrite Lease Applications

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

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

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

Our operating companies' results may be negatively impacted by various economic factors and business conditions, including the level of economic activity in the markets in which they operate. To the extent that economic activity or business conditions deteriorate, delinquencies and credit losses may increase. Delinquencies and credit losses generally increase during economic slowdowns or recessions such as that currently being experienced in the United States. As Pawnee extends credit primarily to small businesses, many of Pawnee's customers may be particularly susceptible to economic slowdowns or recessions, and may be unable to make scheduled lease payments during these periods. Unfavourable economic conditions may also make it more difficult for Pawnee to maintain new lease origination volumes and the credit quality of new leases at levels previously attained. Unfavourable economic conditions could also increase funding costs or operating cost structures, limit access to credit facilities, securitizations and other capital markets or result in a decision by lenders not to extend further credit. Sherway LP, as the operator of a premium brand, new car dealership, could also be negatively affected by deteriorating economic conditions which result in reduced new car sales.

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

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

Losses from Leases

Losses from leases in excess of Pawnee's or Lease-Win's expectations would have a material adverse impact on our businesses, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

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

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

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

If judicial or other governmental rulings or actions or interpretations of laws adverse to the leasing business in general or to business practices engaged in by Pawnee, or adverse economic conditions or the occurrence of other significant events such as natural disasters and terrorist attacks, were to occur in a geographic region with a high concentration of leases or equipment leased from Pawnee, there could be a material adverse impact on our business, financial condition and results of operation, and the amount of cash available for dividends to our shareholders.

External Financing

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

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

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

"Characterization" Risks

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

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

Defenses to Enforcement of a Significant Number of Leases

Certain defenses and recovery impediments are more common in micro and small-ticket equipment finance transactions than with respect to equipment finance providers in other segments of the equipment finance industry. Management believes that certain of these risks are sufficiently addressed in Pawnee's existing lease documentation and related business practices. However, there are other risks that Pawnee has not addressed for various reasons, including that certain of these risks are not susceptible to being addressed either at all, or without incurring cost inefficiencies or taking other measures deemed unacceptable by Pawnee's management based on a risk-reward assessment. Pawnee has never experienced any material occurrence of these risks nor have these risks historically had a material adverse impact on Pawnee. However, there is no assurance that these risks will not have a material adverse impact on Pawnee's business, financial condition and results of operations in the future.

Origination, Funding and Administration of Transactions

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

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

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

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

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

A change in laws applicable to tort claims may reduce the availability of appropriate cases for Case Funding to underwrite. In addition, the litigation funding industry is relatively new and there is currently little applicable government regulation. New regulation or new licensing or other requirements may ultimately be introduced if determined to be warranted which could impact upon the manner or costs of conducting this business.

State Licensing Requirements

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

Fees, Rates and Charges

Pawnee's lease documents require payment of late payment fees, late charge interest, and other charges either relating to the non-payment, or enforcement of its leases. Case Funding's attorney loans also include similar provisions. It could be determined that these fees and/or the interest rates charged exceed applicable statutory or other legal limits. If the charges are deemed to be punitive and not compensatory, or to have other attributes that are inconsistent with, or in violation of, applicable laws, they could be difficult to enforce. A number of charges payable with respect to lease transactions in the micro and small-ticket equipment finance market have been the subject of litigation by customers against financing parties over the past few years. Although Pawnee is not currently the subject of any such litigation, there can be no assurance that a lessee or a group of lessees will not attempt to bring a lawsuit against Pawnee in relation to fees and charges, which Pawnee may or may not be successful in defending.

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

Possible Acquisitions

The growth strategy for the Company includes seeking out acquisitions in the financial services industries. Acquisitions, if they occur, may increase the size of the operations as well as increase the amount of indebtedness that may have to be serviced by Chesswood and its subsidiaries. There is no assurance that such acquisitions can be made on satisfactory terms, or at all. The successful integration and management of acquired businesses involve numerous risks that could adversely affect the growth and profitability of Chesswood and its subsidiaries. There is no assurance that such acquisitions (including Case Funding) will be successfully integrated.

Insurance

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

Lessor Liability

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

Liability for Misuse of Leased Equipment

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

Estimates Relating to Value of Leases

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

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

Competition From Alternative Sources of Financing

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

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

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

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

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

Fraud by Lessees, Vendors or Brokers

While Pawnee makes every effort to verify the accuracy of information provided to it when making a decision whether to underwrite a lease and has implemented systems and controls to protect itself against fraud, in a small number of cases in the past Pawnee has been a victim of fraud by lessees, vendors and brokers. In cases of fraud, it is difficult and often unlikely that Pawnee will be able to collect amounts owing under a lease or repossess the related equipment. Increased rates of fraud could have a material adverse impact on our business, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

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

Protection of Intellectual Property

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

Case Funding faces similar risks with respect to its brand.

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 the legal liability of the defendant, the level of actual or perceived damages assessed by a judge or a jury, the ability of the defendant, or the defendant's insurance company, to pay a settlement or judgment, the abilities of plaintiff's counsel, the assessment of fault and causation, the legal nature of the claim, and the amount of monetary damages ultimately awarded. It is also possible that a claimant may die or abandon his or her case, that the lawyer may abandon the plaintiff's case, or that the defendant, the law firm, or the defendant's insurance carrier may declare bankruptcy. Case Funding is also reliant on the capabilities of the attorneys handling the cases in which it provides funding to effectively litigate claims with due skill and care. If an attorney fails to perform his or her duties effectively, the outcome of the case could be negatively impacted, which could have a material adverse effect on Case Funding's level of returns. Any negative event, including but not limited to those described above, may prevent Case Funding from realizing expected returns. While Case Funding undertakes to review the capabilities, experience and track records of the attorneys litigating cases it is considering for its loans, there is no guarantee that the actual outcome of a case will be in line with the expected outcome of that case, and Case Funding will not have any right to control, influence or manage the litigation or settlement of a case. Although Case Funding will seek to weigh such uncertainties in the due diligence conducted before making a funding decision, and intends to reduce risk by funding in a broad array of cases, there can be no assurance that the outcome of any given litigated claim or basket of claims can be predicted, whether or not the probabilities were correctly assessed by Case Funding.

Uncertainty in the timing of litigation settlements and awards

The nature of litigation recoveries, including the timing and amounts recovered, are outside the control of Case Funding. Individual claims may be resolved over drastically varying times: for example, as short as one month, or longer than three years. Case Funding will be required to wait for an indeterminate period of time after an advance/loan is made to fully collect money from judgment recoveries. Once an advance/loan is made, the collection cycle is out of Case Funding's control. Therefore, there is no assurance as to collection times, and collections will likely be irregular. Also, there is no guarantee that Case Funding will be able to achieve results that will permit it to generate any particular rates of return in any given period. Case Funding may experience significant fluctuations in its operating results and cash flows from period to period due to a number of factors, including the changes in value of the advances/loans that it makes, and the collection and recognition of recoveries of its loans and returns. This may affect the amount of funds available each quarter for dividend payments.

Case Funding may have difficulty collecting on its investments

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

Limited underwriting experience of, or underwriting errors by Case Funding

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

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

Case Funding may be unable to obtain key information about cases

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

Ethics and legal restrictions vary by state

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

Funding's loans and/or advances may be open to challenge, a reduction in value, or even cancellation, which would adversely impact financial results and the cash flow.

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

Evaluation and disclosure of cases and case performance

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

Concentration risk

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

Failure of Computer and Data Processing Systems

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

Competition in the Automobile Retailing Industry

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

Manufacturers' Control Over Dealerships and the Acura Framework Agreement

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

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

Security Risks

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

Cyclicality and Seasonality

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

Imported Products

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

Environmental Matters

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

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

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

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

Risks Related to our Structure and Exchange Rate Fluctuations

The dividends expected to be paid to our shareholders will be denominated in Canadian dollars, however, a significant percentage of our revenues are expected to be derived from the revenues of Pawnee (and Case Funding), which are in U.S. dollars. Changes in the value of the U.S. dollar could have a negative impact on the amount in Canadian dollars available for dividends to our shareholders.

Unpredictability and Volatility of Share Price

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

Leverage, Restrictive Covenants

Pawnee, Lease-Win and Sherway LP have third party debt service obligations under their respective credit facilities. The degree to which our subsidiaries are leveraged could have important consequences to our shareholders, including: (i) the ability of such subsidiaries to obtain additional financing for working capital in the future may be limited; (ii) a portion of the cash flow from the assets of such subsidiaries may be dedicated to the payment of the principal of and interest on their respective indebtedness, thereby reducing funds available for distribution to the Company; and (iii) certain of the respective borrowings of such subsidiaries will be at variable rates of interest, which will expose them to the risk of increased interest rates. The ability of such subsidiaries to make scheduled payments of the principal of or interest on, or to refinance, their indebtedness will depend on their future cash flow, which is subject to their respective assets, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond their control.

Restrictions on Potential Growth

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

Canadian Income Tax Matters

The income of the Company and its related entities must be computed in accordance with Canadian and foreign tax laws, as applicable, and the Company is subject to Canadian tax laws, all of which may be changed in a manner that could adversely affect the amount of distributable cash.

United States Income Tax Matters

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

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

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

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

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

RELATED PARTY TRANSACTIONS

1) Debentures in the principal amount of $2.8 million (out of the aggregate $3.5 million principal amount of the Debentures) were held by directors of the Company were converted to Fund Units in January 2010.

2) Pawnee leases a 10,800 square foot office facility. The lessor is a related party because of common ownership between itself and the holders of the Class B and C common shares of U.S. Acquisitionco (the subsidiary through which the Company holds its interest in Pawnee). Minimum lease payments are U.S. $202,261 per annum, triple net. The original lease expired on April 30, 2011, and Pawnee exercised the first of two additional five year renewal option terms. The expense is included in general and administrative expense and is translated at the average exchange rate for the period. At December 31, 2011 and 2010 there was no amount payable in respect of the lease.

CONTROLS & PROCEDURES

Chesswood's Chief Executive Officer and Director of Finance evaluated, or caused an evaluation under their supervision, of the design and operating effectiveness of the Company's disclosure controls and procedures (as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2011 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, 2011 using the Committee of Sponsoring Organizations Internal Control – Integrated Framework. Based on that assessment, it was determined that the Company's ICFR was designed appropriately and was effective with the below noted exceptions.

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

Weakness of Controls

Based on management's evaluation of controls, it was concluded that the Company's disclosure controls and procedures and its ICFR had some weaknesses. A material weakness is defined as a deficiency, or a combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The weaknesses in disclosure controls and procedures and ICFR, and the additional processes undertaken to address such weaknesses, can be summarized as follows:

1) Segregation of Duties

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

2) Information Technology Controls

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

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

3) Anti-fraud controls

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

No changes were made to the design of the Company's ICFR during the quarter ended December 31, 2011 that would have materially affected or would be reasonably likely to materially affect the Company's ICFR.

The transition to IFRS from the previous Canadian GAAP had essentially no impact on our existing ICFR and DC&P, and there was no need to establish new or modify our existing ICFR and DC&P in relating to the IFRS transition process to provide reasonable assurances regarding the preparation of the opening IFRS statement of financial position and ongoing IFRS financial statements, the reliability of financial reporting and the accuracy and completeness of information required to be disclosed in our filings.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of undetected errors; and (iii) controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override.

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

MARKET FOR SECURITIES

The Common Shares are traded on the Toronto Stock Exchange under the symbol CHW. The following table summarizes the high and low sales prices of the Common Shares and the average daily trading volume for each month in the year ended December 31, 2011, as reported by the Toronto Stock Exchange.

2011	High	Low	Average Daily Volume
January	$8.18	$6.25	36,477
February	$8.20	$7.94	11,628
March	$8.14	$4.85	8,091
April	$8.36	$7.41	11,080
May	$8.20	$7.78	4,484
June	$7.85	$6.86	9,079
July	$7.79	$6.86	4,838
August	$7.43	$5.80	5,531
September	$7.25	$6.50	3,412
October	$6.74	$5.90	5,825
November	$7.25	$5.78	4,224
December	$6.40	$5.93	5,468
	$8.36	$4.85	9,058

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 (formerly Chesswood Income Fund) 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) implemented additional review and monitoring controls at head office on a monthly basis and (ii) performed additional analysis and other post-closing procedures. No material exceptions were noted based on the additional 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 7, 2012

Independent Auditor's Report

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, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of income (loss), changes in equity, comprehensive income (loss) and cash flows for the years ended December 31, 2011 and December 31, 2010 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the 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 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 at December 31, 2011, December 31, 2010 and January 1, 2010, and its results of operations and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

March 7, 2012
Toronto, Ontario

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

	Note	**December 31, 2011**	December 31, 2010	January 1, 2010
ASSETS				
Cash and cash equivalents	*6*	**$ 7,338**	$ 12,863	$ 7,585
Accounts receivable	*7*	**1,207**	766	930
Inventories	*8*	**6,079**	6,754	7,222
Prepaid expenses and other assets	*9*	**630**	6,648	1,276
Litigation finance receivables	*10*	**1,616**	—	—
Net investment in leases – pledged	*11*	**814**	5,543	13,258
Net investment in leases	*12*	**108,091**	86,182	84,256
Deferred tax assets	*13*	**732**	570	1,556
Property and equipment	*14*	**809**	829	809
Intangible assets	*15*	**7,435**	7,420	8,385
Goodwill	*16*	**14,122**	13,217	13,776
TOTAL ASSETS		**$148,873**	$140,792	$139,053
LIABILITIES				
Accounts payable and other current liabilities	*17*	**$ 5,543**	$ 5,598	$ 5,225
Vehicle financing	*18*	**4,925**	5,544	6,127
Interest rate swaps	*19*	**2,551**	2,464	1,683
Securitization debt	*20*	**707**	5,076	12,387
Contingent consideration	*37*	**590**	—	—
Lease financing	*21*	**40,983**	38,244	37,131
Customer security deposits	*22*	**11,498**	9,884	9,784
Deferred tax liabilities	*24*	**23,196**	18,325	15,692
Other liabilities	*25*	**—**	11,349	40,389
		89,993	96,484	128,418
SHAREHOLDERS' EQUITY				
Common shares	*26*	**43,845**	41,594	—
Non-controlling interest		**9,269**	—	—
Reserve – share-based compensation	*27*	**2,269**	—	—
Accumulated other comprehensive loss		**(950)**	(1,861)	—
Retained earnings		**4,447**	4,575	10,635
		58,880	44,308	10,635
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$148,873**	$140,792	$139,053

Please see notes to the audited consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31
(in thousands of dollars, except per share amounts)

	Note	**2011**	**2010**
Finance revenue			
Interest revenue on finance leases and loans		**$26,776**	$26,075
Ancillary lease and other fee income		**4,272**	4,277
		31,048	30,352
Finance expenses			
Interest expense		**2,821**	3,368
Provision for credit losses	*12*	**4,157**	6,043
		6,978	9,411
Finance margin		**24,070**	20,941
Revenue – automotive operations		**46,116**	49,372
Cost of sales – automotive operations			
Changes in inventory		**675**	468
Automobiles, parts, and other costs		**39,037**	42,454
Interest expense		**178**	219
		39,890	43,141
Automotive gross margin		**6,226**	6,231
Gross margin before expenses		**30,296**	27,172
Expenses			
Personnel expenses		**9,720**	9,809
Other expenses		**7,226**	6,950
Amortization – property and equipment	*14*	**233**	200
Amortization – intangible assets	*15*	**495**	610
		17,674	17,569
Income before undernoted items		**12,622**	9,603
Fair value adjustments on held for trading liabilities	*32*	**(31)**	(5,418)
Distributions to unitholders		**—**	(1,294)
Income before income taxes		**12,591**	2,891
Provision for income taxes	*24*	**(6,082)**	(5,541)
Net Income (Loss)		**$ 6,509**	$ (2,650)
Attributable to:			
Common shareholders		**$ 5,657**	n/a
Non-controlling interest		**$ 852**	n/a
Basic earnings per share	*29*	**$ 0.59**	n/a
Diluted earnings per share	*29*	**$ 0.56**	n/a

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31
(in thousands of dollars)

	2011	**2010**
Net income (loss)	**$6,509**	$(2,650)
Other comprehensive income (loss):		
Unrealized (loss) gain on translation of foreign operations	**1,048**	(1,861)
Comprehensive income (loss) for the period	**$7,557**	$(4,511)
Attributable to:		
Common shareholders	**$6,567**	n/a
Non-controlling interest	**$ 990**	n/a

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31
(in thousands of dollars)

	Note	**2011**	2010
Common shares			
Balance, beginning of period	*26*	**$41,594**	$ —
Reclassify from other liabilities after change in Declaration of Trust	*25*	**—**	34,952
Shares eliminated on consolidation		**(27)**	—
Shares issued for business acquisition	*37*	**448**	—
Restricted share units exercised	*27(b)*	**1,085**	764
Options exercised	*27(a)*	**745**	757
Units issued under rights offering		**—**	5,121
Balance, end of period	*26*	**$43,845**	$41,594
Non-controlling interest			
Balance, beginning of period		**$ —**	$ —
Reclassify from other liabilities on conversion to a corporation	*25*	**9,167**	—
Net income attributable to non-controlling interest		**852**	—
Unrealized gain on translation of foreign operations		**137**	—
Dividends to non-controlling interest		**(887)**	—
Balance, end of period		**$ 9,269**	$ —
Reserve – share-based compensation			
Balance, beginning of period		**$ —**	$ —
Reclassify from other liabilities on conversion to a corporation	*25*	**2,182**	—
Share-based compensation expense		**1,644**	—
Restricted share units exercised	*27(b)*	**(1,085)**	—
Unit options exercised	*27(a)*	**(472)**	—
Balance, end of period		**$ 2,269**	$ —
Accumulated other comprehensive loss			
Balance, beginning of period		**$ (1,861)**	$ —
Other comprehensive income (loss) for the period		**911**	(1,861)
Balance, end of period		**$ (950)**	$ (1,861)
Retained earnings			
Retained earnings, balance at beginning of period		**$ 4,575**	$10,635
Net income (loss) attributable to common shareholders		**5,657**	(2,650)
Dividends to shareholders		**(5,785)**	(3,410)
Retained earnings, balance at end of period		**$ 4,447**	$ 4,575

Please see notes to the audited consolidated financial statements.

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

	Note	2011	2010
OPERATING ACTIVITIES			
Net income (loss)		**$ 6,509**	$ (2,650)
Adjustments for:			
Costs associated with investing or financing activities included in net income (loss)		**425**	350
Non-cash items included in net income (loss)			
Amortization		**728**	810
Distributions to unitholders		**—**	1,294
Fair value adjustments – other liabilities		**—**	4,523
Gain on sale of leased vehicles		**(149)**	(140)
Unrealized loss on interest rate swaps		**31**	895
Provision for credit losses		**6,501**	8,764
Share-based compensation expense		**1,644**	2,617
Provision for income taxes		**6,082**	5,541
Accretion in contingent consideration and bonus payable		**208**	—
Net (gain) loss on foreign exchange		**(45)**	118
		15,000	24,422
Cash from operating activities before change in net operating assets		**21,934**	22,122
Changes in operating assets			
Accounts receivable		**(441)**	164
Inventories		**675**	468
Net investment in leases – pledged		**4,729**	7,716
Net investment in leases		**(25,821)**	(14,730)
Litigation finance receivables		**(1,571)**	—
Prepaid expenses and other assets		**724**	(492)
		(21,705)	(6,874)
Change in operating liabilities			
Accounts payable and other current liabilities		**(248)**	639
Vehicle financing		**(620)**	(582)
Lease financing payments – net		**1,826**	3,352
Securitization debt payments		**(4,369)**	(7,310)
Customer security deposits		**1,353**	603
		(2,058)	(3,298)
Cash from operating activities before tax refunds and payments		**(1,829)**	11,950
Income tax refund received		**5,222**	703
Income taxes paid		**(2,003)**	(7,807)
Cash from operating activities		**1,390**	4,846
INVESTING ACTIVITIES			
Acquisition costs of subsidiary	37	**(425)**	—
Purchase of property and equipment	14	**(223)**	(120)
Cash used in investing activities		**(648)**	(120)
FINANCING ACTIVITIES			
Issuance of units under rights offering	26(e)	**—**	5,121
Costs associated with conversion to a corporation	26(c)		(350)
Proceeds from exercise of options	27(a)	**263**	294
Fund Unit consolidation	26(b)	**(27)**	—
Distributions paid to unitholders	28	**—**	(4,461)
Cash dividends paid	28	**(6,597)**	—
Cash from (used in) financing activities		**(6,361)**	604
Unrealized foreign exchange gain (loss) on cash		**94**	(52)
Net increase (decrease) in cash and cash equivalents		**(5,525)**	5,278
Cash and cash equivalents, beginning of period	6	**12,863**	7,585
Cash and cash equivalents, end of period	6	**$ 7,338**	$ 12,863

Supplemental disclosures of cash flow information (see Note 31)

Please see notes to the audited consolidated financial statements.

1. NATURE OF BUSINESS AND BASIS OF PREPARATION

Chesswood Group Limited (the "Company"), the successor to Chesswood Income Fund, is incorporated under the laws of the Province of Ontario. The Company's head office is located at 4077 Chesswood Drive, Toronto, Ontario, M3J 2R8.

The Company holds all of the limited partnership units of Chesswood Holding LP (the "Holding LP"). The Holding LP holds a 100% interest in Chesswood Holdings Ltd. and substantially all of the limited partnership units of Sherway LP ("Sherway"). Chesswood Holdings Ltd. owns 100% of the shares of the operating company Lease-Win Limited ("Lease-Win") as well as 100% of the shares of Chesswood U.S. Acquisition Co Ltd. ("U.S. Acquisitionco"), a corporation which owns 100% of the shares of the operating company Pawnee Leasing Corporation ("Pawnee"), incorporated in Colorado, United States. The Company owns all shares of Case Funding Inc., which operates within the litigation financing business in the United States.

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

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

Our litigation financing business has three principal products – attorney financings, plaintiff advances and medical liens. Attorney financings are collateralized loans to contingency fee-based law firms based on a combination of its 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 not made) 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 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.

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, a dividend paying 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 these 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.

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 2011 are also applied.

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

The reporting currency is the Canadian dollar. The functional currency of the Company, Holding LP, Chesswood Holdings Ltd., Sherway LP, and Lease-Win is the Canadian dollar. The functional currency of U.S. Acquisitionco, Pawnee, and Case Funding is the United States dollar. The statements of income and cash flows of the subsidiaries located in the United States have been translated using the average rate for the years ended December 31, 2011 and 2010. The statements of financial position have been translated using the rate on the date of the statements of financial position.

The financial statements and note disclosure are presented in thousands of Canadian dollars except for share prices and other per share amounts.

The Company's Financial Statements were authorized for issue on March 7, 2012 by the Board of Directors. The shareholders do not have the authority to change the Company's Financial Statements.

2. CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries as noted above. Subsidiaries are consolidated using the purchase method from the date of acquisition, being the date on which the Company obtains control and continue to be consolidated as long as control is held, in accordance with IFRS 3, *Business Combinations*.

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

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

3. TRANSITION TO IFRS AND STATEMENT OF COMPLIANCE

Until December 31, 2010 the Company prepared its interim and annual consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The Company has applied IFRS in preparing these consolidated financial statements.

The Company applied IFRS 1, *First Time Adoption of IFRS,* in preparing its opening statement of financial position at January 1, 2010. Certain of the IFRS accounting policies adopted by the Company for this opening statement of financial position differed from the Canadian GAAP accounting policies previously applied. The resulting adjustments arose from events and transactions that occurred before the date of transition to IFRS. Therefore, as required by IFRS 1, those adjustments were recognized directly through retained earnings as at January 1, 2010.

The general principle of IFRS 1 is to apply IFRS retrospectively, subject to exceptions required and exemptions permitted. The Company's first time adoption decisions regarding these exemptions are detailed below. Other options available under IFRS 1 that are not discussed in the following, are not material to the Company's financial statements:

Business Combinations	The Company elected not to apply IFRS 3, Business Combinations, retrospectively to business combinations prior to January 1, 2010.
Cumulative translation difference	At transition, the Company elected to reset the cumulative foreign currency translation difference arising from the translation of foreign operations to zero.
Derecognition of financial assets and financial liabilities	The Company has applied the derecognition provisions of IAS 39, *Financial Instruments: Recognition and Measurement*, prospectively for transactions occurring on or after the date of transition.

Reconciliations and descriptions of the differences between the Company's historical Canadian GAAP and IFRS accounting policies are presented in Note 38.

4. 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 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 changes in estimates made in the interim periods that have been adjusted in the final quarter.

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.

Litigation finance receivables

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

Plaintiff advances are deemed to be a financial asset as they are a contractual right to receive cash from another entity and are considered to be available-for-sale financial assets for accounting purposes, based on an evaluation of all the terms and conditions of the contracts. The terms of the plaintiff advances are on a non-recourse basis, and payment depends on the success and potential claim size. Thus, the terms may limit the expected cash flows and other than for credit deterioration, they 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.

Transfer of net investment in finance leases

With respect to leases transferred to the securitization trust, management has determined that substantially all the risks and rewards of legal ownership have not been transferred to the trust. Therefore the net investment in finance leases pledged have not been derecognized and the related liability for the financing received has been recognized. See Note 11 – Net investment in leases-pledged and Note 20—Securitization debt.

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.

Income tax

Determining the value of deferred income 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. No material adverse U.S. tax consequences would arise provided that either:

(a) Pawnee does not sell or license any of its assets as part of its acquisition by the Company, or license 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 be satisfied.

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.

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 securitizes 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 are beneficiaries. The transfers do not result in substantially all the risks and rewards of legal ownership being transferred to the securitization trust. Therefore, the transferred lease receivables are presented separately on the Company's consolidated statement of financial position and the proceeds received are 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.

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

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.

Income taxes

Income taxes in the Company's leasing subsidiaries 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 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 more likely than not.

The Company adopted SIC 25, *Income Taxes – Changes in the Tax Status of an Entity or its Shareholders* on January 1, 2011, the date of conversion to a dividend-paying corporation.

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 following intangible assets are considered to have finite lives and are amortized on a scheduled straight-line basis over their estimated useful lives as follows:

Broker relationships	7 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 share 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.

Revenue recognition

The Company's leasing operations use standard lease contracts which are non-cancelable direct financing leases and provide for monthly lease payments for periods of one to five years. Leases are accounted for as direct financing 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 recorded 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 recorded 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 can be assumed. 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 can be assured.

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 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.

Share-based payment transactions

From time to time, the Company pays 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 are calculated based on 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 payment 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.

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 shares ("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 share, first to reduce the carrying amount of the share's goodwill and then to the other assets of the share allocated pro-rata on the basis of the carrying amount of each asset.

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

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 unit may be impaired.

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 and are disclosed separately.

Foreign currency transactions

The consolidated 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 foreign subsidiaries are translated in the Company's 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 of shareholders' equity are recognized in the accumulated other comprehensive income.

Foreign currency payables and receivables in the statement of financial position of individual entities in the Company are recorded at the transaction date at cost. Exchange gains and losses at the end of the reporting period are recognized as income or expense.

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

Closing Rate As At			Average Rate For The Years Ended	
December 31, 2011	December 31, 2010	January 1, 2010	**December 31, 2011**	December 31, 2010
1.0170	0.9946	1.0466	**0.9891**	1.0299

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 consolidated statement of income (loss) when the loans or receivables are derecognized or impaired.

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.

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. The impairment loss is based on recent counterparty default rates specific to each group. See Allowance for doubtful accounts.

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.

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.

The Company had no financial instruments in this category at December 31, 2011, December 31, 2010 and January 1, 2010.

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.

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.

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. The Company has not designated any financial instruments as hedges.

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 income tax are included in cash from operating activities. The Company considers net investment in leases, net investment in leases – pledged, litigation finance receivables, vehicle financing, lease financing, securitization debt and customer security deposits as operational assets and liabilities as they directly relate to our core business. The changes in these operational assets and liabilities are shown in cash flows from operating activities and the associated interest revenue and interest expenses are included in operating activities and not investing or financing activities.

Cash flow from investing activities comprises payments relating to the acquisition of companies and property and equipment.

Cash flow from financing activities comprises payment of dividends, proceeds from stock issues, and the purchase and sale of treasury stock.

5. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Financial Instruments (Classification and Measurement)

The IASB has issued IFRS 9 – *Financial Instruments (Classification and Measurement)*, which is mandatory for accounting periods beginning January 1, 2013. IFRS 9 provides new requirements for how an entity should classify and measure financial assets and liabilities that are in the scope of IAS 39.

Consolidated Financial Statements

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

Disclosure of interests in other entities

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

Fair value measurement

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

Other Comprehensive Income

In June 2011, the IASB issued amendments to IAS 1, Presentation of Financial Statements ("IAS 1"). The amendments require companies preparing financial statements in accordance with IFRS to group together items within Other Comprehensive Income (OCI) that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. These amendments are effective for annual periods beginning on or after July 1, 2012.

Deferred Tax: Recovery of underlying assets

In December 2010, the IASB issued amendments to IAS 12, Income Taxes ("IAS 12") as Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12. 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. These amendments are effective for annual period beginning on or after January 1, 2012.

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

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	December 31, 2011	December 31, 2010	January 1, 2010
		($ thousands)	
Cash	**$7,338**	$ 9,363	$7,585
Cashable guaranteed investment certificate	**—**	3,500	—
	$7,338	$12,863	$7,585

The guaranteed investment certificate was a one year cashable GIC that earned interest at a fixed rate of 1.5% per annum and matured on November 21, 2011. The GIC was cashable after 30 days of the start of the investment without interest penalty.

Operating line of credit

At December 31, 2011, December 31, 2010 and January 1, 2010, Sherway had an authorized line of credit of $1.5 million. The line of credit was not utilized at December 31, 2011 and December 31, 2010. 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 18 and 21 for additional credit facilities available to Sherway and Pawnee.

7. ACCOUNTS RECEIVABLE

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.

The aging of the accounts receivable is as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
		($ thousands)	
Current	**$1,108**	$643	$881
31 – 60 days	**38**	83	34
61 – 90 days	**19**	19	24
More than 90 days	**42**	21	9
	$1,207	$766	$948
Allowance for doubtful accounts	**—**	—	(18)
	$1,207	$766	$930

Accounts receivable that are impaired at December 31, 2011, December 31, 2010 and January 1, 2010 are nominal and therefore additional disclosure is not required.

8. INVENTORIES

	December 31, 2011	December 31, 2010	January 1, 2010
		($ thousands)	
New and demonstrator vehicles	**$4,431**	$5,034	$5,672
Used vehicles	**1,491**	1,552	1,385
Parts and other	**157**	168	165
	$6,079	$6,754	$7,222

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, 2011 and 2010.

During the year-ended December 31, 2011, demonstrator vehicles were written down by $89 (2010 – $87) based on the utilization of the vehicles. This cost is included in general and administrative expenses. Used vehicles were written down by $9 (2010 – $17) during the year, which is included in cost of sales. There was no reversal of any write-downs of inventory during the year or prior year. The provisions for valuation and usage included in inventory total $90 (2010 – $100).

9. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets comprise:

	December 31, 2011	December 31, 2010	January 1, 2010
		($ thousands)	
Property taxes receivable	**$310**	$1,078	$1,080
Prepaid expenses and other current assets	**277**	314	191
Deposits – premises	**43**	5	5
Income tax receivable	**—**	5,251	—
	$630	$6,648	$1,276

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

10. LITIGATION FINANCE RECEIVABLES

The following table sets forth a summary of changes in the carrying value of the litigation finance receivables for the period-ended December 31, 2011.

($ thousands)	Balance at June 10, 2011	Additions	Financing costs capitalized, net	Fair value movement due to effective interest rate (a)	Fair value movement due to changes in estimated cash flows	Collections	Foreign exchange impact (b)	Balance at December 31, 2011
Plaintiff advances	$—	$ 886	$—	$ 94	$—	$ (91)	$26	$ 915
Attorney loans	—	777	(8)	57	—	(331)	20	515
Medical liens	—	121	51	9	—	—	5	186
Total	$—	$1,784	$ 43	$160	$—	$(422)	$51	$1,616

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

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

It was determined that there is no objective evidence that any of the litigation finance receivables are individually impaired at December 31, 2011, thus an allowance for doubtful accounts was not provided for.

11. 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 20 – Securitization debt.

Net investment in leases – pledged includes the following:

	December 31, 2011	December 31, 2010	January 1, 2010
		($ thousands)	
Total minimum lease payments for securitized leases	**$ 181**	$1,859	$ 6,042
Residual values of leased vehicles	**656**	4,017	8,509
	$ 837	$5,876	$14,551
Unearned income	**(23)**	(333)	(1,293)
Net investment in leases – pledged	**$ 814**	$5,543	$13,258
Current portion	**789**	4,531	7,343
Net investment in leases – pledged – long-term portion	**$ 25**	$1,012	$ 5,915
Weighted average effective interest rate earned	**11.46%**	11.12%	10.93%

At Lease-Win, management reviews each outstanding receivable by lessee, on an individual basis, for collectability and for reserve requirements, if any. As lessees may have securitized and non-securitized leases, the allowance and impairment analysis is done for both and shown under Note 12.

12. NET INVESTMENT IN LEASES

Net investment in leases includes the following:

	December 31, 2011	December 31, 2010	January 1, 2010
		($ thousands)	
Total minimum lease payments for non-securitized leases	**$134,161**	$108,979	$111,920
Residual values of leased equipment	**18,215**	16,010	16,498
	152,376	124,989	128,418
Initial direct costs of lease acquisition	**8,057**	6,350	6,556
Unearned income	**(49,918)**	(41,960)	(45,030)
Net investment in leases before allowance for doubtful accounts	**$110,515**	$ 89,379	$ 89,944
Allowance for doubtful accounts	**(2,424)**	(3,197)	(5,688)
Net investment in leases	**$108,091**	$ 86,182	$ 84,256
Current portion	**40,438**	36,035	35,039
Net investment in leases – long-term portion	**$ 67,653**	$ 50,147	$ 49,217

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

	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**

	For the year-ended December 31, 2010		
	Pawnee Equipment leases	Canadian Automotive leases (*)	Total
		($ thousands)	
Balance, beginning of year	$ 5,457	$ 231	$ 5,688
Provision for credit losses	5,911	132	6,043
Impact of change in foreign exchange rates over year	(193)	—	(193)
Charge-offs	(10,908)	(154)	(11,062)
Recoveries	2,710	11	2,721
Balance, end of year	$ 2,977	$ 220	$ 3,197

(*) Includes allowance for leases pledged (Note 11)

Scheduled collections of minimum lease payments receivable at December 31, 2011 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, 2011 shown in the table below are not to be regarded as a forecast of future cash collections.

	Pawnee U.S. Equipment leases	Canadian Automotive leases (*)	Total
		($ thousands)	
2012	$ 58,609	$2,278	$ 60,887
2013	40,921	627	41,548
2014	21,593	4	21,597
2015	9,557	14	9,571
2016	2,141	—	2,141
2017 and thereafter	—	—	—
Total minimum lease payments for non-securitized leases	$132,821	$2,923	$135,744
Residual values of leased equipment (*)	16,632	— (*)	16,632

	Pawnee U.S. Equipment leases	Canadian Automotive leases (*)	Total
		($ thousands)	
Sub-total	$149,453	$2,923	$152,376
Unearned income, net of initial direct costs of lease origination	(41,698)	(163)	(41,861)
Net investment in leases before allowance for doubtful accounts.	$107,755	$2,760	$110,515
Finance lease income as a percent of average net investment in leases before allowance	27.39%	12.51%	

(*) guaranteed residual payments on non-securitized Canadian automotive leases included in scheduled lease payments.

New leases entered into during the year-ended December 31, 2011 at Pawnee resulted in an increase in the minimum lease payments recognized of $96.0 million (2010 – $70.5 million); the associated residual receivable for these new leases totaled $7.2 million (2010—$5.7 million); and the unearned income totaled $42.7 million (2010—$34.6 million). At Lease-Win, during the year-ended December 31, 2011, $2.1 million (2010 – $2.5 million) in gross lease receivable (minimum lease payments and residuals) were written to existing customers who wished to refinance their lease residual; the amount of unearned income included in the $2.1 million in new gross lease receivable totaled $206 (2010—$254).

Lease Receivables Past Due

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

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

The following aging of net investment in leases before allowance for doubtful accounts represents the full carrying value of the leases not just the lease payments that are past due. The net investment in leases presented excludes the $11.5 million (December 31, 2010—$9.9 million) in security deposits from lessees, potential proceeds from repossessed collateral in vehicles and equipment, and potential recoveries from personal guarantees that would offset any charge-offs. An estimate of the fair value for the collateral cannot reasonably be determined.

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

($ thousands)	Current	1-30 days	31 - 60 days	As at December 31, 2010 61 - 90 days	Over 90 days
Equipment leases (Pawnee)	$79,854	$2,401	$1,422	$434	$1,039
Vehicle leases (Lease-Win)	3,212	496	310	65	75
	$83,066	$2,897	$1,732	$499	$1,114
Impaired	72	150	295	131	1,110
Past due but not impaired	$ —	$2,747	$1,437	$368	$ 4

($ thousands)	Current	1-30 days	31 - 60 days	As at January 1, 2010 61 - 90 days	Over 90 days
Equipment leases (Pawnee)	$75,196	$3,941	$2,337	$1,063	$1,857
Vehicle leases (Lease-Win)	3,929	850	493	37	121
	$79,125	$4,791	$2,830	$1,100	$1,978
Impaired	172	134	574	513	1,978
Past due but not impaired	$ —	$4,657	$2,256	$ 587	$ —

The net investment in leases at Pawnee that have been modified (in 2011 or prior) and are current at December 31, 2011 is $2.6 million (December 31, 2010 – $3.8 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, 2011 had a total net investment in lease balance at the time of modification of $4.4 million (2010 – $8.8 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.

Collateral

Pawnee and Lease-Win are entitled to repossess leased equipment and vehicles if the lessees default on their lease contracts. At Pawnee, when a lease is charged-off, the related equipment no longer has a carrying value on the financial statements. If any amounts are recovered from the sale of equipment after a charge-off, the recovered amount is credited to the allowance for doubtful accounts when received; in the year-ended December 31, 2011, the proceeds from the disposal of repossessed equipment that was charged-off totaled $512 (2010 – $1.1 million). Repossessed equipment is held at various warehouses throughout the U.S. owned by a company contracted to repossess and remarket the equipment. As Pawnee leases a wide range of small equipment with a cost that does not typically exceed U.S.$50 at the start of the lease, it is not possible to estimate the fair value of the repossessed 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 $73 (2010 – $83) during the year. The collateral vehicles taken back and included in inventory at December 31, 2011 had a value of $nil (2010 – $nil). Vehicles in inventory are valued at the lower of cost and net realizable value.

13. DEFERRED TAX ASSETS

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

	December 31, 2011	December 31, 2010	January 1, 2010
		($ thousands)	
Goodwill and intangible assets	**$314**	$571	$ 668
Amount related to tax losses carried forward	**407**	—	—
Property and equipment	**11**	(1)	47
Unit issuance costs	**—**	—	841
	$732	$570	$1,556

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, 2011, the company had $391 in deductible temporary differences for which it did not recognize deferred tax assets.

The tax losses will expire in 2031.

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

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 income 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.

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.

14. PROPERTY AND EQUIPMENT

	Leasehold improvements	Service equipment and vehicles	Furniture and equipment	Computer hardware	Total
			($ thousands)		
Cost:					
December 31, 2009	$518	$204	$384	$461	$1,567
Additions (*)	201	—	12	7	220
Translation	—	—	(72)	11	(61)
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

	Leasehold improvements	Service equipment and vehicles	Furniture and equipment	Computer hardware	Total
			($ thousands)		
Accumulated amortization:					
December 31, 2009	$311	$ 85	$235	$127	$ 758
Amortization – current year	96	22	24	58	200
Translation	—	—	(89)	28	(61)
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

	Leasehold improvements	Service equipment and vehicles	Furniture and equipment	Computer hardware	Total
			($ thousands)		
Carrying amount:					
December 31, 2009	$207	$119	$149	$334	$809
December 31, 2010	$312	$ 97	$154	$266	$829
December 31, 2011	$200	$ 85	$304	$220	$809

(*) *In September 2010, Sherway extended its lease for premises until June 30, 2017 with an option to extend for a further five years. As part of this lease extension, approximately $201 in total leasehold improvements were completed, of which the landlord paid for half. The $100 lease incentive paid by the landlord is included in accounts payable and will be amortized against rent expense over the lease term.*

15. INTANGIBLE ASSETS

	Indefinite useful life		Finite useful life		
	Trade names	Framework agreement	Broker relationships	Back-end systems software	Total
			($ thousands)		
Cost:					
December 31, 2009	$5,652	$889	$3,663	$ 210	$10,414
Disposals	—	—	—	(199)	(199)
Translation	(281)	—	(182)	(11)	(474)
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

	Trade names	Framework agreement	Broker relationships	Back-end systems software	Total
			($ thousands)		
Accumulated amortization:					
December 31, 2009	$—	$—	$1,919	$ 110	$2,029
Amortization – current year	—	—	515	95	610
Disposals	—	—	—	(199)	(199)
Translation	—	—	(113)	(6)	(119)
December 31, 2010	$—	$—	$2,321	$ —	$2,321
Amortization – current year	—	—	495	—	495
Translation	—	—	66	—	66
December 31, 2011	$—	$—	$2,882	$ —	$2,882

	Trade names	Framework agreement	Broker relationships	Back-end systems software	Total
			($ thousands)		
Carrying amount:					
December 31, 2009	$5,652	$889	$1,744	$100	$8,385
December 31, 2010	$5,371	$889	$1,160	$—	$7,420
December 31, 2011	$5,868	$889	$ 678	$—	$7,435

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 Acura 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 1 year and four months.

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

	December 31, 2011	December 31, 2010	January 1, 2010
		($ thousands)	
Pawnee	**$5,492**	$5,371	$5,652
Case Funding	**376**	—	—
Sherway	**889**	889	889
Total indefinite-lived intangible assets	**$6,757**	$6,260	$6,541

16. GOODWILL

The majority of the goodwill was recognized upon the acquisition by the Fund 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, 2009	$37,960	$—	$3,923	$2,703	$44,586
Translation	(1,886)	—	—	—	(1,886)
December 31, 2010	$36,074	$—	$3,923	$2,703	$42,700
Acquisition *(Note 37)*	—	638	—	—	638
Translation	813	26	—	—	839
December 31, 2011	$36,887	$664	$3,923	$2,703	$44,177

	Pawnee	Case Funding	Sherway	Lease-Win	Total
			($ thousands)		
Accumulated impairment:					
December 31, 2009	$26,704	$—	$1,403	$2,703	$30,810
Impairment – current year	—	—	—	—	—
Translation	(1,327)	—	—	—	(1,327)
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

	Pawnee	Case Funding	Sherway	Lease-Win	Total
			($ thousands)		
Carrying amount:					
December 31, 2009	$11,256	$—	$2,520	$—	$13,776
December 31, 2010	$10,697	$—	$2,520	$—	$13,217
December 31, 2011	$10,938	$664	$2,520	$—	$14,122

The Company completed its annual goodwill impairment test as at December 31, 2011 and 2010 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:

- 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.
- 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, 2009	3.0%	— %	2.0%
December 31, 2010	3.0%	— %	2.0%
December 31, 2011	3.0%	3.0%	2.0%

- 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, 2009	33.51%	— %	28.46%
December 31, 2010	32.39%	— %	25.36%
December 31, 2011	30.05%	24.71%	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.

17. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

Accounts payable and other current liabilities comprise:

	December 31, 2011	December 31, 2010	January 1, 2010
		($ thousands)	
Dividend (distributions) payable *(Note 28)*	**$ 564**	$ 490	$ 248
Accounts payable	**924**	449	490
Sales tax payable	**793**	490	676
Customer deposits and prepayments	**127**	213	201
Unfunded leases	**923**	930	460
Income taxes payable	**46**	271	801
Payroll related payables and accruals	**866**	703	514
Accrued liabilities	**780**	1,067	924
Property taxes payable on equipment leases	**238**	833	851
Contingent bonus payable	**148**	—	—
Deferred lease incentive	**134**	152	60
	$5,543	$5,598	$5,225

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

18. VEHICLE FINANCING

Sherway has an $8.5 million floor plan facility available, bearing interest at the bank's prime rate plus 0.625% (2010 – 1.375%) or the Canadian Dollar Offering Rate ("CDOR") plus 2.125% (2010 – 2.475%), 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 3.51% (2010 – 3.11%).

19. INTEREST RATE SWAPS

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

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

The estimated fair value of the outstanding interest rate swaps at the following dates is:

	December 31, 2011	December 31, 2010	January 1, 2010
		($ thousands)	
Interest rate swaps – fair value	**$2,551**	$2,464	$1,683

The following swap agreements were outstanding at December 31, 2011:

Effective Date	**Notional Amount U.S.$**	**Annual Fixed Rate**	**Maturity date**	**Bank Call Date**
July 2008	$15 million	4.80%	March 2012	March 2010
March 2011	$15 million	3.12%	March 2014	n/a
March 2012	$15 million	4.00%	March 2015	n/a

20. SECURITIZATION DEBT

	December 31, 2011	December 31, 2010	January 1, 2010
		($ thousands)	
Securitization Debt – Lease-Win	**$ 707**	$5,076	$12,387
Current portion	**685**	4,165	6,796
Long-term portion	**$ 22**	$ 911	$ 5,591
Weighted average effective interest rate	**6.21%**	5.95%	5.81%

The securitization trust receives the return for which they have contracted in the securitization agreement. The loan is secured by the associated pledged investment in leases, as described in Note 11, Net investment in leases – pledged. The securitization trust has no recourse to Lease-Win's other assets in the event that lessees fail to make payments when due.

21. LEASE FINANCING

Pawnee's credit facility allows borrowings of up to U.S.$55.0 million (January 1, 2010 – U.S.$52.5 million) subject to, among other things, certain percentages of eligible gross lease receivables, of which U.S.$40.6 million was utilized at December 31, 2011 (December 31, 2010 – U.S.$38.9 million; January 1, 2010 – U.S.$34.6 million). The facility can be extended, subject to certain conditions, to U.S.$85.0 million (January 1, 2010 – U.S.$65.0 million). This credit facility is secured by substantially all of Pawnee's assets, contains negative covenants including maintaining leverage and interest coverage ratios, requires Pawnee to mitigate its interest rate risk by entering interest rate swaps for a notional amount not less than 50% of the outstanding commitment, and matures on September 24, 2013. See Note 19 for information relating to interest rate swaps affiliated with this credit facility.

	For the year-ended		
	December 31, 2011	December 31, 2010	December 31, 2009
Interest expense as a percent of average monthly debt levels (ii):			
Pawnee credit facility (i)	**6.67%**	7.05%	7.51%
Lease-Win credit facility	**—**	4.37%	4.66%

(i) based on U.S.$ monthly debt levels to exclude foreign exchange fluctuations.
(ii) based on monthly debt level as debt levels fluctuate throughout the year.

At December 31, 2011, December 31, 2010 and January 1, 2010, Pawnee was in compliance with all covenants.

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, 2011	December 31, 2010	January 1, 2010
		($ thousands)	
Security deposits that will be utilized within one year	**$ 3,113**	$2,471	$1,855
Security deposits that will be utilized in future years	**8,385**	7,413	7,929
	$11,498	$9,884	$9,784

23. MINIMUM PAYMENTS

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

($ thousands)	2012	2013	2014	2015	2016	2017+	Total
Accounts payable and other current liabilities	$ 5,287	$ 24	$ 172	$ 24	$ 24	$ 12	$ 5,543
Vehicle financing	4,925	—	—	—	—	—	4,925
Interest rate swaps	172	—	886	1,493	—	—	2,551
Securitization debt *(i)*	685	22	—	—	—	—	707
Contingent consideration	—	—	590	—	—	—	590
Lease financing *(ii)*	—	40,983	—	—	—	—	40,983
Customer security deposits *(i)*	3,113	3,440	2,808	1,321	816	—	11,498
	$14,182	$44,469	$4,456	$2,838	$840	$ 12	$66,797

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

ii. *Pawnee's lease financing credit facility is a line-of-credit; as such the balance can fluctuate.*

Please see Note 30 for commitments.

24. INCOME TAXES

Income tax expense consists of the following:

	For the year-ended **December 31, 2011**	December 31, 2010
	($ thousands)	
Income tax expense	**$1,884**	$1,163
Deferred income tax expense	**4,198**	4,378
Total income tax expense	**$6,082**	$5,541

The table below shows the reconciliation between income tax expense reported in the Statement of Income and the income tax expense that would have resulted from applying the combined Canadian Federal and Ontario tax rate of 28.25% (2010 – 31.0%) 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, 2011**	December 31, 2010
	($ thousands)	
Income before income taxes	**$12,591**	$ 2,891
Less: Income of the Fund taxable to the recipient	**—**	(4,321)
Income before income taxes	**12,591**	(1,430)
Canadian income tax rate	**28.25%**	31.00%
Expected income tax expense (recovery)	**3,557**	(443)
Dividend income in recipient income above on which taxes were paid	**—**	1,722
Tax cost of non-deductible items		
Unrealized foreign exchange loss (gain)	**(13)**	37
Amortization and impairment of intangible assets	**140**	160
U.S. withholding taxes paid	**134**	116
Unit based compensation	**466**	811
Business acquisition transaction costs	**86**	—
Fair value adjustments on held for trading liabilities		1,402
Distributions declared to unitholders		401
Tax benefit of deductible items		

	For the year-ended December 31, 2011	December 31, 2010
	($ thousands)	
IPO costs	**—**	(499)
Cumulative eligible capital deduction	**(60)**	—
Other timing differences	**63**	(149)
Higher effective income tax rates of unitholders on undistributed income	**—**	878
Higher effective income tax rates in foreign jurisdictions	**1,709**	1,105
Provision for income taxes	**$6,082**	$5,541

The tax effects of the significant components of temporary differences giving rise to the Company's net deferred income taxes are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
		($ thousands)	
Deferred tax assets			
Leased assets	**$ 8,265**	$11,922	$15,550
Allowance for doubtful accounts	**863**	1,131	2,053
Amount related to tax losses carried forward	**6,230**	865	1,837
Difference in goodwill and intangible asset base	**65**	73	82
Accrued liabilities	**1,609**	1,376	833
	$17,032	$15,367	$20,355
Deferred tax liabilities			
Direct financing lease receivables	**$40,228**	$33,692	$36,047
	$40,228	$33,692	$36,047
Deferred income taxes payable	**$23,196**	$18,325	$15,692
Deferred income taxes payable to be realized in the next 12 months	**$ 749**	$ 1,523	$ 1,323

The company has determined that it is probable that all recognized deferred income tax assets will be realized through a combination of future reversals of temporary differences and taxable income. The unused tax losses of $447 expire in 2030 and $5.7 million expire in 2031.

Deferred income tax balances within the consolidated statements of financial position were comprised of the following:

	December 31, 2011	December 31, 2010	January 1, 2010
		($ thousands)	
Deferred tax assets *(Note 13)*	**$ 732**	$ 570	$ 1,556
Deferred income taxes payable	**(23,196)**	(18,325)	(15,692)
Net deferred income taxes payable	**$(22,464)**	$(17,755)	$(14,136)

Reconciliation of net deferred income tax payable	**2011**	2010
	($ thousands)	
Balance, beginning of period	**$(17,755)**	$(14,136)
Deferred income tax expense in the statements of income (loss)	**(4,198)**	(4,378)
Translation difference recognized in OCI	**(511)**	759
Deferred income tax recognized in equity	**—**	—
Net change in net deferred income tax payable during the year	**(4,709)**	(3,619)
Balance, end of period	**$(22,464)**	$(17,755)

25. OTHER LIABILITIES

Other liabilities comprise:

	December 31, 2011	December 31, 2010	January 1, 2010
Fund Units *(a) (Note 38(e))*	**$—**	$ —	$28,468
Exchangeable securities *(Note 38(f))*	**—**	9,167	6,225
Convertible debentures *(b)*	**—**	—	3,465
Conversion option on convertible debentures *(Note 38(g))*	**—**	—	1,418
Share-based compensation reserve – restricted share units *(Note 38(h))*	**—**	868	384
Share-based compensation reserve – unit options *(Note 38(i))*	**—**	1,314	429
	$—	$11,349	$40,389

a) Fund Units outstanding and the movements during the period were as follows:

	Number of Fund Units (#) *(thousands)*	Fund Units *($ thousands)*
Balance at December 31, 2009 *(Note 38(e))*	6,762	$28,468
Issued on conversion of debentures *(Note 38(g))*	1,000	4,480
Issued on exercise of restricted share units	5	21
Fair value adjustment	—	1,983
Balance at May 13, 2010 *(Note 38(e))(transfer from Other Liabilities to Fund Units in Equity Section)*	7,767	$34,952

b) Convertible debentures – In January 2010, the holders of the convertible debentures elected to exercise their conversion rights and were issued an aggregate of 999,997 Fund Units, in accordance with the conversion price of $3.50 per unit provided by the convertible debentures, and as described in Note 38(g). See also Note 34 – Related party transactions.

26. COMMON SHARES

a) Description of Fund Units

Prior to January 1, 2011, the Fund had an unlimited number of trust units, with no par value, pursuant to its Declaration of Trust. Each unit was transferable and represented an equal, undivided beneficial interest in any distributions from the Fund and in the net assets of the Fund in the event of a termination or winding up. All Fund Units were of the same class with equal rights and privileges and were not subject to future calls or assessments. Each Fund Unit entitled the holder to one vote at all meetings of Unitholders.

b) 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. 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.

c) Conversion to a corporation

The Fund completed its reorganization from an income trust structure into a corporation, named Chesswood Group Limited, by way of a court-approved plan of arrangement (the “Arrangement”) under the Business Corporations Act (Ontario) with an effective date of January 1, 2011. The Arrangement involved the exchange, on a one-for-one basis, of all outstanding Fund Units for Common Shares of the Company.

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

	Number of shares (#) *(thousands)*	Common shares *($ thousands)*
Balance at May 13, 2010 *(Note 38(e))(transfer from Other Liabilities to Fund Units in Equity Section)*	7,767	$34,952
Issued under rights offering	1,321	5,121
Issued on exercise of restricted share units	170	764
Issued on exercise of options	142	757
Balance at December 31, 2010 *(Note 38(e))*	9,400	$41,594
Issued on exercise of restricted share units	175	1,085
Issued on exercise of options	122	745
Issued for business acquisition	116	448
Consolidation of Fund Units	(2)	(27)
Balance at December 31, 2011	**9,811**	**$43,845**

d) Normal course issuer bid

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

e) Rights offering

On July 2, 2010, the Fund successfully completed a rights offering raising gross proceeds of $5.28 million through the issuance of 1,320,799 units at $4.00 per unit. Issue costs totaled $162. The net proceeds from the offering were used to support the growth of Pawnee and for general corporate purposes.

27. COMPENSATION PLANS

a) Equity Unit Options

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

	For the years ended December 31,	
	2011	2010
Balance, beginning of period	**712,500**	630,000
Granted	**637,500**	225,000
Exercised	**(122,250)**	(142,500)
Balance, end of period	**1,227,750**	712,500

During the year-ended December 31, 2011, 637,500 (2010 – 225,000) options were granted, of which 150,000 were granted to the management of Case Funding Inc. subsequent to its acquisition (Note 37). 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. The options expire on the 10th anniversary of the grant date.

During the year-ended December 31, 2011, salaries and commission expense and reserve – share-based compensation included $1.1 million (2010 – $1.4 million) relating to option expense. As of December 31, 2011, unrecognized non-cash compensation expense related to the outstanding options was $1.5 million (2010 – $787), which is expected to be recognized over the remaining vesting period.

These values were determined using the Black-Scholes option pricing model with the following assumptions:

	2011	2010 (**)
Expected volatility (*)	68% - 71%	30% - 104%
Expected life [years]	5 - 7	0.2 - 6
Expected dividend yield	6% - 7%	10% - 11%
Risk-free interest rate	1.31% - 2.68%	0.3% – 3.0%

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

(**) *Under IFRS, because these Unit Options in 2010 were to be settled with Fund Units, which gave the holder the right to put the instrument (Fund Units) back to the issuer for cash, the Unit Options are a liability in the 2010 comparative consolidated financial statements measured at fair value at each reporting period using the Black-Scholes option-pricing model. The non-cash mark-to-market adjustment will flow through the income statement as compensation expense. The Fund's unit price at each reporting date was input into the Black-Scholes option-pricing model in 2010. Those prices are shown in part b) of this note.*

In the year-ended December 31, 2011, 122,250 options were exercised (2010 – 142,500) for total cash consideration of $263 (2010 – $294). On exercise, the fair value of options that had been expensed to date during the vesting period of $472 (2010 – $464) was transferred from Reserve to Common Shares. For the options exercised in 2011, the weighted average share price at the date of exercise was $6.97 (2010 – $5.32).

The Company's share price at each reporting date is as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Share price at reporting date	**$6.30**	$6.20	$4.21

An analysis of the options outstanding at December 31, 2011 is as follows:

Grant date	Number of options	Vested	Expiry date	Exercise price
May 10, 2006	100,000	100,000	May 9, 2016	$10.00
June 23, 2009	269,750	84,250	June 22, 2019	$ 2.06
April 13, 2010	220,500	63,000	April 13, 2020	$ 4.49
April 25, 2011	287,500	—	April 24, 2021	$ 7.79
June 10, 2011	150,000	—	June 9, 2021	$ 7.73
December 6, 2011	200,000	—	December 6, 2021	$ 6.14
	1,227,750	247,250		

At December 31, 2011, the weighted average exercise price is $5.84 (December 31, 2010 – $3.94) and the weighted average remaining contractual life for all options outstanding is 8.44 years (December 31, 2010 – 8.29 years). The options exercisable at December 31, 2011 have a weighted average exercise price of $5.89 (2010 – 116,500 options at $8.88).

b) Restricted Share Units

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

	For the years ended December 31, **2011**	2010
Balance, beginning of period	**195,000**	175,000
Granted	**37,000**	195,000
Exercised	**(175,000)**	(175,000)
Balance, end of period	**57,000**	195,000

On April 25, 2011, an aggregate of 37,000 restricted share units ("RSUs") were granted to directors and expire in ten years. The grantees of such RSUs are not entitled to the distributions paid before the RSUs are exercised. Such RSUs vest one year from the date of issue and are to be settled by the issue of Shares. RSUs granted are in respect of future services and are expensed over the vesting period. Compensation cost is measured based on the market price of the Shares on the date of the grant of the RSUs, which was $7.79.

At December 31, 2011, salaries and commission expense and reserve – share-based compensation included $539 relating to restricted share units (December 31, 2010 – $1.3 million). Under IFRS, because these RSUs were to be settled with Fund Units, which give the holder the right to put the instrument (Fund Units) back to the issuer for cash, the RSUs are a liability in the 2010 comparative consolidated financial statements measured at fair value at each reporting period. As the RSUs were settled by the issue of Fund Units, the trading price of the Fund Units on the Toronto Stock Exchange represents the best method for valuing the RSUs. The non-cash mark-to-market adjustment flows through the income statement as compensation expense.

The Fund's unit price at each reporting date for which the RSUs were revalued in 2010 is as follows:

	Number of RSUs outstanding at reporting date	Unit price at reporting date
January 1, 2010	175,000	$4.21
March 31, 2010	170,000	$4.50
June 30, 2010	235,000	$4.25
September 30, 2010	215,000	$5.15
December 31, 2010	195,000	$6.20

On exercise during 2011, the value of the restricted share units of $1.1 million (2010 – $361) that had been expensed during the vesting period was transferred from reserve – share-based compensation to Common Share capital.

As of December 31, 2011, unrecognized non-cash compensation expense related to non-vested restricted share units related to such restricted share units was $92 (2010 – $341), which is expected to be recognized over the next four months.

For the 175,000 RSUs exercised in 2011, the weighted average share price at the date of exercise was $7.77 (2010 – $4.48).

Grant date	Number of options	Vested	Expiry date	Grant price
April 13, 2010	20,000	20,000	April 12, 2020	$4.49
April 25, 2011	37,000	—	April 24, 2021	$7.79

See also Note 30 (b)(ii) Other financial commitments.

28. DIVIDENDS

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

The following dividends were declared before the financial statements were authorized for issue but not recognized during the year-ended December 31, 2011:

Record date	Payment date	Cash dividend per share ($)	Total dividend amount ($thousands)
January 31, 2012	February 15, 2012	$0.05	$ 564
February 29, 2012	March 15, 2012	$0.05	564
			$1,128

The following distributions were paid to Fund Unitholders and Exchangeable Securities holders during the year-ended December 31, 2010:

Record date	Payment date	Cash distributions per unit ($)	Total distribution amount ($thousands)
December 31, 2009	January 15, 2010	$0.300	$ 247
January 31, 2010	February 16, 2010	$0.035	322
February 28, 2010	March 15, 2010	$0.035	324
March 31, 2010	April 15, 2010	$0.035	324
April 30, 2010	May 17, 2010	$0.035	324
May 31, 2010	June 15, 2010	$0.035	324
June 30, 2010	July 15, 2010	$0.035	329
July 31, 2010	August 16, 2010	$0.040	430
August 31, 2010	September 15, 2010	$0.040	431
September 30, 2010	October 15, 2010	$0.040	431
October 31, 2010	November 15, 2010	$0.045	485
November 30, 2010	December 15, 2010	$0.045	490
Paid during the year-ended December 31, 2010			$4,461

The following distributions were declared but not paid to Fund Unitholders and Exchangeable Securities holders during the year-ended December 31, 2010:

Record date	Payment date	Cash distribution per share ($)	Total distribution amount ($thousands)
December 31, 2010	January 17, 2011	$0.045	$490

29. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net earnings for the period by the weighted average number of shares outstanding during the period. For 2010, per IFRS, the Fund did not have ordinary equity holders for the full year and thus a loss per unit is not presented.

	For the years ended	
	December 31, 2011	December 31, 2010
Weighted average number of shares outstanding	**9,623,475**	n/a
Dilutive effect of options	**354,230**	n/a
Dilutive effect of RSUs	**105,740**	n/a
Weighted average shares outstanding for diluted earnings per share	**10,083,445**	n/a

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

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, 2011 and December 31, 2010 were not material, additional disclosure is not required. No provision has been recognized.

b) Other financial commitments

(i)The Company is committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, expiring in 2013 and 2017, as follows:

	As at December 31, 2011
	($ thousands)
2012	$ 656
2013	629
2014	590
2015	590
2016	453
2017	192
Thereafter	—
Other financial commitments	**$3,110**

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

On February 23, 2012, subsequent to year-end, Case Funding signed a new 5 year lease and is committed to future minimum rental payments under the lease, excluding occupancy costs and property tax, as follows

	($ thousands)
2012	$ 45
2013	69
2014	71
2015	73
2016	75
2017	25
Thereafter	—
Other financial commitments	**$358**

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

(iii) 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 first and second anniversaries of the agreement date, or earlier, in the case of a change of control.

(iv) 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, 2011 and 2010, Pawnee's matching contributions to the Plan totaled U.S.$47 and U.S.$35, respectively.

31. SUPPLEMENTARY CASH FLOW INFORMATION

	For the years ended December 31,	
	2011	2010
	($ thousands)	
Non-cash transactions		
Common shares issued for business acquisition	**$ 448**	—
Common shares issued on exercise of restricted units	**$1,085**	$ 784
Convertible debentures converted to Fund Units	**—**	$3,465
Conversion option on convertible debentures exercised	**—**	$1,015

32. FINANCIAL INSTRUMENTS

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

At December 31, 2011	**Cash funds**	**Available for sale**		**Loans and receivables**		**Other liabilities**		**Held for trading**
($ thousands)	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Carrying amount**
ASSETS								
Cash *(c)*	$7,338							
Accounts receivable *(c)*				$1,207	$1,207			
Litigation finance receivables		$915	$915	*(a)*	$ 701			
LIABILITIES								
Accounts payable *(c)*						$ 5,543	$ 5,543	
Vehicle financing *(b)*						$ 4,925	$ 4,925	
Interest rate swaps								$2,551
Securitization debt *(b)*						$ 707	$ 707	
Lease financing *(b)*						$40,983	$40,983	
Customer security deposits						$11,498	$11,498	

At December 31, 2010	Cash funds	Loans and receivables		Other liabilities		Held for trading
($ thousands)	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Carrying amount
ASSETS						
Cash *(c)*	$12,863					
Accounts receivable *(c)*		$766	$766			
LIABILITIES						
Accounts payable *(c)*				$ 5,598	$ 5,598	
Vehicle financing *(b)*				$ 5,544	$ 5,544	
Interest rate swaps						$2,464
Securitization debt *(b)*				$ 5,076	$ 5,076	
Lease financing *(b)*				$38,244	$38,244	
Customer security deposits				$ 9,884	$ 9,884	
Exchangeable securities						$9,167
Share-based compensation reserve						$2,182

At January 1, 2010	Cash funds	Loans and receivables		Other liabilities		Held for trading
($ thousands)	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Carrying amount
ASSETS						
Cash *(c)*	$7,585					
Accounts receivable *(c)*		$930	$930			
LIABILITIES						
Accounts payable *(c)*				$ 5,225	$ 5,225	
Vehicle financing *(b)*				$ 6,127	$ 6,127	
Interest rate swaps						$ 1,683
Securitization debt *(b)*				$12,387	$12,387	
Lease financing *(b)*				$37,131	$37,131	
Customer security deposits				$ 9,784	$ 9,784	
Fund Units						$28,468
Exchangeable securities						$ 6,225
Convertible debentures				$ 3,465	$ 3,465	
Conversion option on convertible debentures						$ 1,418
Share-based compensation reserve						$ 813

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

(b) The stated value of the vehicle financing, securitization debt, and lease financing 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.

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

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

	December 31, 2011		
	Level 1	**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**

	December 31, 2010		
	Level 1	**Level 2**	**Level 3**
		($ thousands)	
LIABILITIES			
Held for trading			
Interest rate swaps		$2,464	
Exchangeable securities	$ 9,167		
Share-based compensation reserve		2,182	
Total	$ 9,167	$4,646	

	January 1, 2010		
	Level 1	**Level 2**	**Level 3**
		($ thousands)	
LIABILITIES			
Held for trading			
Interest rate swaps		$1,683	
Fund Units	$28,468		
Exchangeable securities	6,225		
Conversion option on convertible debentures		1,417	
Share-based compensation reserve		813	
Total	$34,693	$3,913	

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, 2011	2010
	($ thousands)	
Loans and receivables		
Provision for credit losses	**$(4,157)**	$ (6,043)
Held for trading gains and (losses) on:		
Interest rate swaps	**(31)**	(895)
Fund Units	**—**	(1,983)
Exchangeable securities	**—**	(2,943)
Conversion option on convertible debentures	**—**	403
	(31)	(5,418)
Net gain (loss)	**$(4,188)**	$(11,461)

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.

a) 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, net investments in direct finance leases and litigation financing 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 Acura Sherway dealership. Of the total, 60.7% (December 31, 1010 – 68%) 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.

Of the net investment in finance lease receivables at December 31, 2011 of $110.5 million (December 31, 2010 - $86.2 million), 97.5% (2010 – 95%) were originated by Pawnee and are with smaller, often owner-operated, businesses that have limited access to traditional financing. The typical lessee 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 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.$50, obtaining at least one personal guarantee for each lease, 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.

Lease-Win's net investment in pledged finance lease receivables are also exposed to credit risk due to delinquencies, by virtue of the fact that substantially all of the risks of ownership of these leases have not been transferred to the securitization trust. This credit risk is mitigated by liens placed against each leased vehicle, personal guarantees, and the ability to repossess vehicles for non-payment.

Pawnee and Lease-Win are entitled to repossess leased equipment and vehicles 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. The credit risk associated with Lease-Win's lease receivables is also mitigated by liens placed against the vehicles, personal guarantees, and the ability to repossess vehicles for non-payment.

Pawnee's lease receivables consist of a large number of homogenous leases, with relatively small balances, and as such, the evaluation of the allowance for credit losses is performed collectively for the lease 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 12 – Net investment in leases.

b) 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, 2011, the Company has $15.6 million (December 31, 2010 – $17.0 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. $55.0 million subject to certain percentages of eligible gross lease receivables, of which U.S. $40.6 million was utilized at December 31, 2011 (December 31, 2010 U.S. $38.9 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. Under the loan agreement entered into on September 24, 2010, Pawnee's permitted dividends payable to Chesswood would be reduced to 90% of consolidated net income, as determined in accordance with U.S. GAAP, excluding mark-to-market adjustments for interest rate swaps, should Pawnee's leverage rise to a specified level.

The maturity structure for undiscounted contractual cash flows is presented in Note 23, minimum payments.

c) 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.

Interest rate risk

Pawnee's and Lease-Win's leases are written at fixed effective interest rates. To the extent that Pawnee and Lease-Win finance 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. See Notes 11 and 12 for the effective interest rates earned on leases written, and Notes 20 and 21 for the effective interest rates on securitization debt and lease financing.

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 19 for more information relating to interest rate swaps.

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

Lease-Win leases financed through securitization were financed at fixed and floating rates. As at December 31, 2011, approximately $130, out of Lease-Win's $837 securitized gross lease receivables were funded on a floating rate basis (December 31, 2010 – $416 of $5.9 million).

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, 2011 and 2010:

	For the year-ended December 31, 2011		2010	
	+100 bps	-100 bps	+100 bps	-100 bps
	($ thousands)			
Increase (decrease) in interest expense	$124	$(124)	$ 144	$(144)
Increase (decrease) in net income and equity	(96)	96	(117)	117

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, 2011 dividends totaled $6.6 million (2010 distributions — $4.5 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, 2011 and 2010:

U.S. Denominated Balances	**December 31, 2011**	December 31, 2010
Foreign exchange risk to statement of financial position	($ thousands)	
Year-end exchange rate	**1.0170**	0.9946
U.S. denominated net assets in U.S.$	**$46,585**	$37,961
U.S. denominated net assets in CDN$	**$47,377**	$37,756
Effect of a 10% increase or decrease in the Cdn/U.S. dollar on U.S. denominated net assets	**$ 4,738**	$ 3,776
Foreign exchange risk to income statement		
Net income from U.S. in U.S.$ for the years ended	**$ 9,219**	$ 6,966
Average exchange rate	**0.9891**	1.0299
Net income from US in Cdn$	**9,119**	7,175
Effect of a 10% increase or decrease in the Cdn/U.S. dollar on U.S. denominated net income	**$ 912**	$ 717

33. CAPITAL MANAGEMENT

The Company's capital is comprised of shareholders' equity which at December 31, 2011 comprised $58.9 million (December 31, 2010 — $44.3 million). The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in the long-term and to provide adequate returns for shareholders.

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

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

The Company is not subject to externally imposed regulatory capital requirements. However, each of the Company's operating subsidiaries is subject to bank and/or manufacturer covenants relative to leverage and/or working capital. These bank covenants safeguard the capital in each of its operating subsidiaries. Pawnee is restricted in its ability to further merge, acquire companies or be acquired, or incur additional debt without lender approval. Furthermore, dividends from Pawnee are limited to compliance with all bank covenants and may not exceed 95% of Pawnee's consolidated net income, as determined in accordance with U.S. GAAP, excluding mark-to-market adjustments for interest rate swaps. Under the loan agreement entered into on September 24, 2010, Pawnee's permitted dividends payable to Chesswood would be reduced to 90% of consolidated net income, as determined in accordance with U.S. GAAP, excluding mark-to-market adjustments for interest rate swaps, should Pawnee's leverage rise to a specified level.

The Company's subsidiaries' objective is to maintain low cash balances, investing any free cash in leases as needed and using any excess to pay down debt on the primary financing facilities. The subsidiaries fund working capital needs, lease originations and growth using advances under credit facilities available when operating cash flow is not sufficient. At December 31, 2011, the Company's operating units had $15.6 million in additional borrowings available under various credit facilities to fund business operations.

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

Under Pawnee's debt to equity covenant calculation, customer security deposits are treated as an offset to net investment in leases and are not considered debt. Below is the Company's consolidated debt to equity analysis per IFRS. There are no bank covenants relating to the consolidated debt to equity calculation. In managing capital, management considers items classified as Other liabilities as at January 1, 2010 and December 31, 2010 per IFRS as capital (these items were classified as equity under Canadian GAAP and for IFRS are presented as equity after the conversion to a corporation).

	December 31, 2011	December 31, 2010	January 1, 2010
		($ thousands)	
Debt	$78,495	$87,027	$118,772
Equity	$58,880	$44,308	$ 10,635
Debt/Equity	1.33	1.96	11.17

34. RELATED PARTY TRANSACTIONS

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

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

a) Pawnee, a U.S. subsidiary of the Company, leases a 10,800 square foot office facility from an entity that is controlled by the holders of the Class B and Class C shares of U.S. Acquisition Co Ltd, a non-operating subsidiary of the Company. Minimum lease payments are U.S.$202 per annum, triple net. The original lease expired on April 30, 2011, and Pawnee exercised the first of two additional five year renewal option terms. The expense is included in general and administrative expense and is translated at the average exchange rate for the period. At December 31, 2011 and 2010 there was no amount payable in respect of the lease.

b) In January 2010, debentures with a principal amount of $2.8 million (out of the $3.5 million convertible debentures) which were held by directors of Chesswood GP Limited, which is a wholly-owned subsidiary of the Fund, were converted to 787,141 Fund Units.

c) Compensation of key management

The Company's key management consists of the President & Chief Executive Officer, Chief Financial Officer and the directors.

Compensation expense relating to key management is as follows:

	For the years ended December 31	
	2011	2010
	($ thousands)	
Salaries, fees and other short-term employee benefits	$1,026	$ 774
Share-based compensation	931	1,743
Compensation expense of key management and directors	$1,957	$2,517

35. 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 distorts the Company's interim period effective tax rate.

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, Litigation Financing, and Automotive Operations.

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

Segment information is prepared in conformity with the accounting policies adopted for the Company's financial statements. There were no changes in accounting policies compared to previous periods, other than the changes on adoption of IFRS described in Notes 3 and 38.

The role of the "chief operating decision maker" with respect to resource allocation and performance assessment is embodied in the position of Chief Executive Officer. The performance of the Equipment Leasing, Litigation Financing, and Automotive Operations segments is measured on the basis of net income or loss before tax. Net assets, which are defined as total segment assets less total segment liabilities, are used as the basis of assessing the allocation of resources.

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

When compared with the last annual financial statements, there are no differences in the basis of segmentation or in the basis of measuring segment results, except for the acquisition of a new subsidiary in a new industry.

Selected information by segment and geographically is as follows:

	For the year-ended December 31, 2011 ($ thousands)				
	Equipment leasing – U.S.	**Litigation Financing – U.S.(2)**	**Automotive operations - Canada**	**Corporate overhead - Canada**	**Total**
Interest revenue on leases and loans	$ 26,059	$ 160	$ 557	$ —	$ 26,776
Ancillary lease and other fee income	4,227	45	—	—	4,272
Interest expense	(2,638)	—	(183)	—	(2,821)
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 *(1)*	—	—	(39,890)	—	(39,890)
Gross margin	**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
Contingent consideration and bonus *(3)*	—	208	—	—	208
Amortization	572	—	143	13	728
Other expenses	3,010	329	2,295	1,528	7,162
Income before other items	**15,954**	**(990)**	**1,092**	**(3,434)**	**12,622**
Unrealized loss on interest rate swaps	(31)	—	—		(31)
Income before income taxes	**15,923**	**(990)**	**1,092**	**(3,434)**	**12,591**
Provision of income taxes	(6,209)	395	(10)	(258)	(6,082)
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	125,003	3,532	15,525	4,813	148,873
Total Liabilities	80,301	815	7,553	1,324	89,993
Net investment in leases and pledged	105,520		3,385	—	108,905
Goodwill	10,938	664	2,520	—	14,122
Intangible assets	6,170	376	889	—	7,435
Property and equipment expenditures	209		14	—	223

	For the year-ended December 31, 2010 ($ thousands)				
	Equipment leasing – U.S.	Litigation Financing – U.S.	Automotive operations - Canada	Corporate overhead - Canada	Total
Interest revenue on leases and loans	$ 24,768		$ 1,307	$ —	$ 26,075
Ancillary lease and other fee income	4,277		—	—	4,277
Interest expense	(2,812)		(556)	—	(3,368)
Provision for credit losses	(5,911)		(132)	—	(6,043)
Finance margin	**20,322**		**619**		**20,941**
Revenue - automotive operations	—		49,372	—	49,372
Cost of sales – automotive operations *(1)*	—		(43,141)	—	(43,141)
Gross margin	**20,322**		**6,850**	**—**	**27,172**
Personnel expenses	3,448		3,030	714	7,192
Share-based compensation expense	487		387	1,743	2,617
Amortization	675		126	9	810
Other expenses	3,063		2,276	1,611	6,950
Income before other items	**12,649**		**1,031**	**(4,077)**	**9,603**
Fair market value adj – other liabilities	—		—	(4,523)	(4,523)
Distributions	—		—	(1,294)	(1,294)
Unrealized loss on interest rate swaps	(895)		—	—	(895)
Income before income taxes	**11,754**		**1,031**	**(9,894)**	**2,891**
Provision of income taxes	(4,581)		27	(987)	(5,541)
Net income	**$ 7,173**		**$ 1,058**	**$(10,881)**	**$ (2,650)**
Net cash from (used in) operating activities	1,855	—	210	2,781	4,846
Net cash from (used in) investing activities	(19)	—	(101)	—	(120)
Net cash from (used in) financing activities	—	—	—	604	604
Total Assets	107,719	—	23,124	9,949	140,792
Total Liabilities *(4)*	69,964	—	14,106	12,414	96,484
Net investment in leases and pledged	82,244	—	9,481	—	91,725
Goodwill	10,697	—	2,520	—	13,217
Intangible assets	6,531	—	889	—	7,420
Property and equipment expenditures	19	—	101	—	120

(1) Includes interest expense of $164 in 2011 and $219 in 2010.

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

(3) Non-cash contingent consideration accretion of $64 was expensed in other expenses and $144 in non-cash contingent bonus was included in personnel expenses on statement of income (loss).

(4) Contains $11.3 million in other liabilities that moves to the Equity section on January 1, 2011 on conversion to a corporation.

37. BUSINESS ACQUISITION

On June 10, 2011 (the "Acquisition Date"), the Company acquired (the "Acquisition") 100% of the outstanding common shares of Case Funding Inc. ("Case Funding"), a newly incorporated and organized corporation which acquired the tangible and intangible assets required to carry on the going forward business of Quick Cash Inc. ("Quick Cash"), a provider of litigation financing to plaintiffs and attorneys throughout the United States. The Company did not acquire any interest in the advances previously extended by Quick Cash Inc. and therefore the shares of Quick Cash Inc. itself were not acquired as part of the business acquisition (as discussed below).

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

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

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

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

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

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

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

The 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. Each reporting period, Chesswood will have to assess the fair value of the contingent payable and any change will flow through the income statement.

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

Subsequent to the Acquisition, equity options issued and restricted share units became issuable to certain senior management of Case Funding, as described in Note 27 Compensation plans.

As part of the Acquisition, Case Funding assumed a lease for premises with lease payments of U.S.$11 a month expiring in November 2011. See Note 30 for terms of new premise lease signed in February 2012.

Transaction costs relating to this Acquisition of $425 have been expensed in 2011 and are included in general and administrative expenses.

As Case Funding is a newly incorporated and organized corporation which owns the tangible and intangible assets required to carry on the going forward business of Quick Cash, Case Funding does not have any comparative revenue and expense data. The revenue and expenses of Case Funding since Acquisition Date are disclosed in Note 36.

38. RECONCILIATION OF IFRS COMPARABLES FROM PREVIOUS GAAP

The Company prepared its consolidated financial statements in accordance with Canadian GAAP until December 31, 2010. The following tables present reconciliations from Canadian GAAP to IFRS for the consolidated statement of net income and comprehensive income for the year ended December 31, 2010 and the consolidated statements of financial position and components of shareholders' equity at January 1, and December 31, 2010.

The Company performed an impairment test in accordance with IAS 36, *Impairment of Assets*, as at January 1, 2010 and determined that no impairment had occurred.

Conversion to IFRS did not result in any material adjustments to the cash flows arising from the operating, investing or financing activities of the Company that were previously reported under Canadian GAAP. The conversion process did not identify any material errors in the application of Canadian GAAP.

Consolidated Statement of Financial Position
Canadian GAAP – IFRS Reconciliation at January 1, 2010

($ thousands)	Canadian GAAP	IFRS Adjustments	Reference	IFRS
Cash	$ 7,585			$ 7,585
Accounts receivable	930			930
Inventories	7,222			7,222
Prepaid expenses and other assets	1,414	(138)	*k*	1,276
Net investment in leases-pledged		13,258	*b*	13,258
Net investment in leases	78,237	6,019	*b, c*	84,256
Deferred tax assets	433	1,123	*d*	1,556
Property and equipment	809			809
Intangible assets	8,385			8,385
Goodwill	13,776			13,776
Total assets	$118,791	$ 20,262		$139,053
Distributions payable	$ 248	$ (248)	*e*	$ —
Accounts payable and other current liabilities	5,176	49	*e, b*	5,225
Vehicle financing	6,127			6,127
Interest rate swaps	1,683			1,683
Securitization debt	—	12,387	*b*	12,387
Lease financing	37,269	(138)	*k*	37,131
Customer security deposits	9,784			9,784
Convertible debentures	3,465	(3,465)	*g*	—
Deferred taxes payable	12,920	2,772	*b, c*	15,692
Other liabilities	—	40,389	*e, f, g, h, i*	40,389
Total liabilities	76,672	51,746		128,418
Fund units	73,621	(73,621)	*e, f,*	—
Contributed surplus	2,076	(2,076)	*h, i*	—
Conversion option	80	(80)	*g*	—
Retained earnings (deficit)	(30,267)	40,902	*a, b, c, d, e, f, g, h, i*	10,635
Accumulated other comprehensive loss	(3,391)	3,391	*a*	—
Total unitholders' equity	42,119	(31,484)		10,635
Total liabilities and equity	$118,791	$ 20,262		$139,053

Consolidated Statement of Financial Position
Canadian GAAP – IFRS Reconciliation at December 31, 2010

($ thousands)	Canadian GAAP	IFRS Adjustments	Reference	IFRS
Cash	$ 12,863			$ 12,863
Accounts receivable	766			766
Inventories	6,754			6,754
Prepaid expenses and other assets	7,075	(427)	*k*	6,648
Net investment in leases-pledged	—	5,543	*b*	5,543
Net investment in leases	81,938	4,244	*b, c*	86,182
Deferred tax assets	319	251	*d*	570
Property and equipment	829			829
Intangible assets	7,420			7,420
Goodwill	13,217			13,217
Total assets	$131,181	$ 9,611		$140,792
Distributions payable	$ 490	$ (490)	e	$ —
Accounts payable and other current liabilities	5,187	411	*b, e*	5,598
Vehicle financing	5,544			5,544
Interest rate swaps	2,464			2,464
Securitization loan	—	5,076	*b*	5,076
Lease financing	38,671	(427)	*k*	38,244
Customer security deposits	9,884			9,884
Deferred taxes payable	16,450	1,875	*b, c*	18,325
Other liabilities	—	11,349	*f, h, i*	11,349
Total liabilities	78,690	17,794		96,484
Fund units	83,006	(41,412)	*e, f,*	41,594
Contributed surplus	2,564	(2,564)	*h, i*	—
Retained earnings (deficit)	(27,994)	32,569	*a, b, c, d, e, f, g, h, i*	4,575
Accumulated other comprehensive loss	(5,085)	3,224	*a*	(1,861)
Total unitholders' equity	52,491	(8,183)		44,308
Total liabilities and equity	$131,181	$ 9,611		$140,792

Consolidated Statement of Comprehensive Income
Canadian GAAP – IFRS Reconciliation for the year-ended December 31, 2010

($ thousands)	Canadian GAAP	IFRS Adjustments	References	IFRS
Interest revenue on finance leases and loans	$ 24,987	$ 1,088	*b,j*	$ 26,075
Ancillary lease and other fee income	4,277	—		4,277
	29,264	1,088		30,352
Interest expense	(2,843)	(525)	*b*	(3,368)
Provision for credit losses	(3,875)	(2,168)	*c,j*	(6,043)
	6,718	(2,693)		9,411
Finance margin	22,546	(1,605)		20,941
Revenue – automotive operations	49,821	(449)	*b*	49,372
Costs of sales – automotive operations	(43,141)			(43,141)
Automotive gross margin	6,680	(449)		6,231
Gross margin before expenses	29,226	(2,054)		27,172
Expenses				
Personnel expenses	8,139	1,670	*b,h,i*	9,809
Other expenses	6,832	118		6,950
Amortization – property and equipment	200	—		200
Amortization – intangible assets	610	—		610
	15,781	1,788		17,569
Income before undernoted	13,445	(3,842)		9,603
Unrealized loss on interest rate swaps	(895)	—		(895)
Unrealized loss on foreign exchange	(118)	118		—
Fair value adjustments on held for trading liabilities	—	(4,523)	*e,f,g*	(4,523)
Distributions to unitholders	—	(1,294)	*e*	(1,294)
	(1,013)	(5,699)		(6,712)
Income before taxes	12,432	(9,541)		2,891
Provision for income taxes	(5,455)	(86)	*b,c,d*	(5,541)
Net income (loss)	$ 6,977	$(9,627)		$ (2,650)
Unrealized loss on translation of self-sustaining foreign operations	(1,694)	(167)		(1,861)
Comprehensive income (loss)	$ 5,283	$(9,794)		$ (4,511)

The following is a summary of transition adjustments to the Company's retained earnings from Canadian GAAP to IFRS:

		December 31, 2010	January 1, 2010
Deficit – Canadian GAAP		**$(27,994)**	**$(30,267)**
Translation difference at January 1, 2010	*a*	(3,391)	(3,391)
Securitization – reversal of gain accounting	*b*	24	25
Prepaid commission on securitized leases	*b*	61	184
Income tax expense – prepaid commissions	*b*	(17)	(55)
Reduction in allowance for doubtful accounts ("ADA")	*c*	4,982	6,880
Income tax expense – ADA adjustment	*c*	(1,968)	(2,717)
Future tax asset	*d*	252	1,123
Fair value adjustments – Fund Units	*e*	29,340	31,323
Fair value adjustment – issuer bid excess book value over purchase prices	*e*	1,776	1,776
Fair value adjustments – Exchangeable Securities	*f*	4,663	7,605
Fair value adjustments – Conversion option	*g*	(935)	(1,338)
Share-based compensation – restricted units	*h*	(664)	(196)
Share-based compensation – options	*i*	(1,554)	(317)
IFRS transition adjustments (cumulative impact to retained earnings)		32,569	40,902
Retained earnings – IFRS		**$ 4,575**	**$ 10,635**

The following narratives explain the significant differences between the previous historical Canadian GAAP and the current IFRS applied by the Company.

a) IFRS 1 – Cumulative translation difference

IAS 21, The *Effects of Changes in Foreign Exchange Rates,* requires an entity to determine the translation differences in accordance with IFRS from the date on which a subsidiary was formed or acquired. IFRS 1 allows cumulative translation differences for all foreign operations to be deemed to be zero at the date of transition to IFRS. At December 31, 2009 the accumulated foreign translation unrealized loss was $3.4 million. Management adopted this exemption and the accumulated foreign translation unrealized loss at December 31, 2009 was reallocated to retained earnings.

IFRS 1 allows for certain other optional exemptions; however, no other exemptions were applicable.

b) Securitization

On adopting IFRS, IAS 39 uses a risk and rewards model to determine whether an asset has been sold and therefore derecognition is appropriate. Using the substance over form concept, IFRS does not require that there be a legal transfer to a third party but instead requires that substantially all of the risks and rewards of ownership transfer. As a result, on transition at January 1, 2010, leases that were previously transferred in securitization transactions were brought back onto the statement of financial position with separate recognition of the associated securitization debt. Lease-Win will also eliminate its retained interest in the securitized lease receivables and the servicing liability recognized under Canadian GAAP on transition to IFRS.

The accretion of the retained interest and amortization of the servicing liability under Canadian GAAP on the 2010 income statement was eliminated. Under IFRS, as the securitization debt is not offset against the securitized lease receivables, the interest paid to the securitization company cannot be offset against the direct finance lease income earned on the securitized leases. Thus, the direct finance lease income on the automotive leases will increase as will the interest expense.

There are no bank covenants relating to the consolidated debt to equity calculation, thus the additional debt as a result of recognized leases does not affect any bank or debt covenants. Lease-Win's existing covenants accommodate the anticipated additional debt levels in 2011.

	December 31, 2010	January 1, 2010
	($ thousands)	
Impact on Consolidated Statements of Financial Position		
Decrease in net investment in leases	$ (462)	$ (861)
Net investment in leases pledged	5,543	13,258
Servicing liability reversed *(accounts payable and other current liabilities)*	80	199
Securitization debt	(5,076)	(12,387)
Deferred taxes payable	(17)	(55)
Retained earnings impact (increase)	$ (68)	$ (154)

	For the year-ended December 31, 2010
	($ thousands)
Cumulative impact to net income	
Increase to direct finance lease income	$ 818
Increase to interest expense	(525)
Decrease to other income – automotive operations	(449)
Reclassification of commission amortization	33
Income tax recovery	38
Net loss effect	$ (85)

c) Allowance for doubtful accounts

Both existing Canadian GAAP and IFRS calculate loan losses using the incurred loss model, although IFRS is more specific as to what qualifies as an "incurred event." Pawnee's policy is to maintain an allowance for doubtful accounts, as a percentage of its net investment in leases, equal to the last twelve-month rolling net charge-off percentage level.

Under IFRS, incurred losses require objective evidence of impairment that is supported by currently observable data. IAS 39 states that an allowance can be set up, if and only 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 under IFRS. IAS 39 does not permit loan loss models that produce unallocated general allowances and does not permit establishment of an allowance on the day a loan is originated. No deviation from these strict provisions is possible, despite the very wide variations that exist in underlying loan quality, structure and relevant historical experience, from one company to another and from one sector of the finance industry to another.

Pawnee's lease receivables are composed of a large number (7,436 at December 31, 2010) of homogenous leases, with relatively small balances (U.S.$12 average at December 31, 2010), made to inherently risky lessees. As a small percentage of the total lease receivable portfolio have monthly lease payments that are past due at any one reporting date, the portion of the lease receivables that shows observable objective evidence of impairment at any one reporting date is quite small, despite long-term historical experience that indicates that future charge-offs with respect to the current lease receivable will typically exceed the level of observable impairment, in a matter of months.

For the consolidated financial statements under IFRS, the Company will maintain an allowance for doubtful accounts for Pawnee to cover leases in their portfolio that show observable signs of impairment at the statement of financial position date. 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 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).

Thus, on transition to IFRS, there was a reduction of the allowance for doubtful accounts on the statement of financial position and an offsetting increase in retained earnings on the consolidated financial statements. For the year-ended December 31, 2010, the provision for credit losses on the income statement under IFRS would be higher than under the prior method. These adjustments will increase future taxes payable as at January 1, 2010 and December 31, 2010 and lower future tax expense for 2010.

	December 31, 2010	January 1, 2010
	($ thousands)	
Impact on Consolidated Statements of Financial Position		
Increase in net investment in leases	$ 4,706	$ 6,880
Increase in deferred taxes payable	(1,858)	(2,717)
Net foreign currency translation difference	166	—
Net retained earnings impact	$ 3,014	$ 4,163

	For the year-ended December 31, 2010
	($ thousands)
Cumulative impact to net income	
(Increase) decrease to provision for credit losses	$(1,898)
Income tax recovery (expense)	749
Net income (loss) effect	$(1,149)

In response to financial reporting issues emerging from the global financial crisis, the IASB plans to make revisions to or to replace existing IFRS standards. On November 5, 2010, the IASB issued an exposure draft on the measurement and impairment of amortized cost financial instruments and on January 31, 2011 issued a supplemental document to that exposure draft *Financial Instrument: Impairment*. Financial instruments recorded at amortized cost include net investment in leases. Based on the Exposure Draft issued by the IASB, significant changes to the existing IFRS standard are anticipated; however, the IASB indicated that the new standard is unlikely to require adoption until at least 2014. At this time the Company cannot reasonably determine the impact on the financial statements of the anticipated changes.

d) Deferred tax assets

Canadian GAAP required the Fund to recognize future income tax assets and liabilities based on estimated temporary differences, 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. Under Canadian GAAP income taxes were not provided for by the Fund, as the policy of the Fund was to distribute all taxable income to Unitholders. 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.

	December 31, 2010	January 1, 2010
	($ thousands)	
Future tax assets – Canadian GAAP	$319	$ 433
Higher tax rate used under IFRS	251	376
Undistributed items at higher tax rate	—	747
Sub-total of IFRS future tax asset adjustments (cumulative impact to retained earnings)	251	1,123
Deferred tax assets – IFRS	$570	$1,556

e) Presentation of Fund Units

A Fund Unit is a financial instrument for both Canadian GAAP and IFRS. Under IFRS, a liability arises where a financial instrument contains a contractual obligation to deliver cash or another financial asset to another entity. A mandatory requirement in the Fund's Declaration of Trust to distribute taxable income may be interpreted as a contractual obligation to deliver cash. On May 13, 2010, management sought and obtained Unitholder approval for an amendment to the Declaration of Trust to permit greater discretion in making future distributions to allow Fund Units to be treated as equity. At the 2010 annual and special meeting of the Fund's Unitholders approval was also obtained to convert the Fund to a dividend paying corporation. The conversion took effect on January 1, 2011.

Since this approval was obtained on May 13, 2010, the Fund Units appear as debt in the comparative IFRS statements of financial position presented prior to that date (namely as at January 1, 2010 and December 31, 2010). The Fund Units per IFRS are "financial assets and liabilities held for trading" and as such, are accounted for at fair value with the change in fair value recognized in earnings.

When the Fund Units were reclassified to liabilities at the transition date to IFRS (January 1, 2010), they were adjusted to their fair value. The best measure of the fair value of the Fund Units was the trading price on the Toronto Stock Exchange at the transition date to IFRS and at each quarter-end until the Fund Declaration was changed in May 2010.

	Number of Fund Units (000's)	Canadian GAAP	IFRS Adjustments ($000's)	IFRS
At December 31, 2009 – Canadian GAAP	6,762	$59,791	—	$ 59,791
Fair value adjustment on conversion to IFRS booked to retained earnings	—	—	(31,323)	(31,323)
At January 1, 2010	6,762	$59,791	$(31,323)	$ 28,468
Fund Units issued on conversion of debentures (Note 38(g))	1,000	3,545	935	4,480
Fund Units issued on exercise of restricted units	5	10	11	21
Fair value adjustment	—	—	1,983	1,983
Transfer from Other liabilities to Equity Section - May 13, 2010	7,767	$63,346	$(28,394)	$ 34,952
Units issued on exercise of restricted units	170	351	414	765
Units issued on exercise of options	142	358	398	756
Units issued under rights offering	1,321	5,121	—	5,121
Balance at December 31, 2010	9,400	$69,176	$(27,582)	$ 41,594

Included in contributed surplus at December 31, 2009 was $1.8 million relating to Fund Units acquired under issuer bids where the book value of purchased Fund Units was greater than the purchase prices. If the Fund Units had always been valued at fair value under IFRS, this amount would have been booked through the income statement and therefore on transition to IFRS was moved from reserves (contributed surplus) to retained earnings.

f) Presentation of Exchangeable Securities

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 Fund subsidiary (U.S. Acquisitionco) were issued ("Exchangeable Securities"). The Exchangeable Securities are non-voting shares of U.S. Acquisitionco and were fully exchangeable for Fund Units, on a one-for-one basis, for no additional consideration, through a series of steps and entitle the holders to receive the same distributions as the Fund Units. Attached to the Exchangeable Securities were Special Voting Units of the Fund which provide the holders of the Exchangeable securities voting equivalency to Fund Unitholders. Under Canadian GAAP, the Exchangeable Securities were classified as Fund Units in the Unitholder Equity section of the balance sheet and the value was determined on the date of issue and was never changed.

Under IFRS, the basic Fund Units can be presented in the Equity section after May 13, 2010 as discussed in (e) above. However, items convertible/exchangeable into Fund Units or settled by issuing Fund Units cannot be shown in the Equity section under IFRS. These items must be shown as liabilities under IFRS as the Fund Units give the holders the right to put the instrument (Fund Units) back to the issuer for cash. Therefore, even though the Exchangeable Securities were fully exchangeable for Fund Units, on a one-for-one basis, for no additional consideration; were entitled to receive the same distributions as the Fund Units; and had the same voting equivalency to Fund Unitholders for IFRS they have to be classified as a liability and must be measured at fair value at each reporting period end. As the Exchangeable Securities have the same features as Fund Units the trading price of the Fund Units on the Toronto Stock Exchange represent the best method for valuing the Exchangeable Securities. The non-cash mark-to-market adjustment flows through the income statement.

After conversion to a corporation on January 1, 2011, the Exchangeable securities remain exchangeable for shares of Chesswood Group Limited ("CGL") on a one-for-one basis, for no additional consideration, through a series of steps. The Exchangeable Securities are entitled to receive the same dividends as CGL common shares. The holders of the Exchangeable Securities still hold the Special Voting Shares of CGL and have the same voting privileges as the common shareholders of CGL. 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). On conversion to a corporation on January 1, 2011, the Exchangeable Securities were moved from liabilities to non-controlling interest at the market price of CGL shares at December 31, 2010. The value of the non-controlling interest will fluctuate each reporting period with their portion of the net income and dividends.

	Number of Class B & C US Acquisition Co Ltd. shares	Canadian GAAP	IFRS Adjustments	IFRS
	(000's)		*($ thousands)*	
At December 31, 2009 – Canadian GAAP	1,479	$13,830		$13,830
Fair value adjustment on conversion to IFRS booked to retained earnings	—	—	(7,605)	(7,605)
At January 1, 2010	1,479	$13,830	$(7,605)	$ 6,225
Fair value adjustment	—	—	2,942	2,942
At December 31, 2010 (transferred to Non-controlling interest in the Equity Section on January 1, 2011 on conversion to a corporation)	**1,479**	**$13,830**	**$(4,663)**	**$ 9,167**

g) Conversion option on convertible debentures

On August 10, 2008, the $3.5 million of convertible debentures were amended so as to provide for an extension of the maturity date to January 31, 2011 and the terms of conversion were amended as well. The debentures were changed to be convertible into Fund Units (at the holders' option) at a conversion price of $3.50 per Fund Unit (the conversion price was previously $15.58 per Fund Unit). The Fund had the option to convert the debentures into Fund Units (at the conversion price of $3.50 per Fund Unit) in the event that the 20-day average price for the Fund Units is at least $4.40 per Fund Unit.

Under Canadian GAAP, the conversion option feature of the convertible debentures was valued using the Black-Scholes option-pricing model on August 10, 2008 and presented as equity on the balance sheet.

Under IFRS because the conversion option on the convertible debenture was settled with Fund Units, the conversion option is a liability measured at fair value at each reporting period using an option-pricing model.

On conversion of the convertible debentures to Fund Units, the fair value of the conversion option of the convertible debentures was transferred to the Fund Units classified in Other liabilities. The difference in the fair value of the conversion option from January 1, 2010 to the date of conversion was recorded in the fair value adjustments on the income statement in the 2010 comparative financial statements. Thus, on the day of conversion to Fund Units, the total of the fair value of the conversion options and the principal portion of the convertible debentures equaled the fair value of the Fund Units (based on the trading price on the TSX) that were issued.

	Canadian GAAP	IFRS Adjustments	IFRS
		($thousands)	
At December 31, 2009 – Canadian GAAP	$ 80	$ —	$ 80
Fair value adjustment on conversion to IFRS (moved from equity section to other liabilities) booked to retained earnings	—	1,338	1,338
At January 1, 2010	**$ 80**	**$1,338**	**$ 1,418**
Fair value adjustment prior conversion (January 2010)	—	(403)	(403)
Conversion of debentures to Fund Units (January 2010)	(80)	(935)	(1,015)
At December 31, 2010	**$—**	**$ —**	**$ —**

h) Restricted share units

The Fund's Incentive Plan provided for the granting of awards of Restricted Share Units ("RSUs") to trustees, directors and employees. The holders of such RSUs were not entitled to the distributions paid in respect of such Units before the RSUs were exercised. Such RSUs vested one year from the date of issue and were to be settled by the issue of Fund Units. RSUs granted are considered to be in respect of future services and under Canadian GAAP were recognized as an expense over the vesting period and credited to Contributed Surplus in Unitholders' Equity. Compensation cost was measured based on the market price of the Fund Units' on the date of the grant of the RSUs.

Under IFRS, because these RSUs were to be settled with Fund Units, which give the holder the right to put the instrument (Fund Units) back to the issuer for cash, the RSUs are a liability in the 2010 comparative consolidated financial statements measured at fair value at each reporting period. As the RSUs were settled by the issue of Fund Units, the trading price of the Fund Units on the Toronto Stock Exchange represents the best method for valuing the RSUs. The non-cash mark-to-market adjustment flows through the income statement as compensation expense. There is no tax impact because the non-cash mark-to-market adjustment is not tax deductible.

	Canadian GAAP	IFRS Adjustments	IFRS
		($thousands)	
At December 31, 2009 – Canadian GAAP	$ 188	$ —	$ 188
Fair value adjustment on conversion to IFRS (moved from contributed surplus to other liabilities) booked to retained earnings	—	196	196
At January 1, 2010	**188**	**196**	**384**
Compensation expense	802	468	1,270
Exercise of RSUs	(361)	(425)	(786)
At December 31, 2010	**$ 629**	**$ 239**	**$ 868**

On conversion to a corporation on January 1, 2011, the RSUs are now settled with Common Shares of the Company and thus the share-based compensation "payable" is reclassified back to Equity as a reserve (contributed surplus). For 2011, the remaining unrecognized non-cash compensation expense related to non-vested RSUs will be recognized as compensation expense based on the share price at December 31, 2010 and will not be re-measured.

As of December 31, 2010, unrecognized non-cash compensation expense related to non-vested RSUs was $341 (Canadian GAAP — $247), which is expected to be recognized over the next three and a half months. The unrecognized expense under IFRS is based on the share price of $6.20 at December 31, 2010 when the RSUs "payable" was reclassified from liabilities to Equity compared to a share price of $4.49 when the RSUs were granted.

i) Unit options

The Fund has issued Unit Options to employees under the Fund's Incentive Plan. Under Canadian GAAP, the Unit Options' value was determined on date of grant and was expensed over the vesting period to Compensation expense and to Contributed Surplus in Unitholders' Equity.

Under IFRS, because these Unit Options in 2010 were to be settled with Fund Units, which gave the holder the right to put the instrument (Fund Units) back to the issuer for cash, the Unit Options are a liability in the 2010 comparative consolidated financial statements measured at fair value at each reporting period using an option-pricing model. The non-cash mark-to-market adjustment will flow through the income statement as compensation expense. There is no tax impact to this change because the non-cash mark-to-market adjustment is not tax deductible.

In addition, under Canadian GAAP, the Unit Options' value was determined on the full grant and expensed straight line over the vesting period. Under IFRS, each vesting allotment is valued and expensed separately.

	Canadian GAAP	IFRS Adjustments	IFRS
		($thousands)	
At December 31, 2009 – Canadian GAAP	$112	$ —	$ 112
Fair value adjustment on conversion to IFRS booked to retained earnings – forfeited options		(22)	(22)
Fair value adjustment on conversion to IFRS (moved from contributed surplus to other liabilities) booked to retained earnings	—	339	339
At January 1, 2010	**112**	**317**	**429**
Compensation expense	113	1,236	1,349
Exercise of options	(66)	(398)	(464)
At December 31, 2010	**$159**	**$1,155**	**$1,314**

j) Direct finance lease income on impaired leases

Pawnee ceases to accrue direct finance lease income on leases after they become 94 days contractually past due unless information indicates that an earlier cessation of income is warranted. IFRS requires that direct finance lease income continue to be recognized on leases after they are identified as being impaired, until they are charged-off. Thus, the Company has to recognize direct finance lease income on impaired leases under IFRS. Since these leases were eventually charged-off no more than 60 days later, the increase in revenue recognized under IFRS would also need to be charged-off, so there is no net income or retained earnings impact.

	December 31, 2010	January 1, 2010
	($ thousands)	
Impact on Consolidated Statement of Financial Position		
Increase in net investment in leases – decrease in unearned income	$ 71	$ 119
Decrease in net investment in leases – increased allowance for doubtful accounts	(71)	(119)
Retained earnings impact	$ —	$ —

Cumulative impact to net income	For the year-ended December 31, 2010
	($ thousands)
Increase to direct finance lease income	$ 270
Increase to provision for credit losses	(270)
Net income (loss) effect	$ —

k) Deferred financing costs

Under Canadian GAAP, per EIC-101, a line-of-credit or revolving-debt arrangement is an agreement that provides the borrower with the option to make multiple borrowings up to a specified maximum amount, to repay portions of previous borrowings, and to then re-borrow under the same contract. Line-of-credit and revolving-debt arrangements may include both amounts drawn by the debtor (a debt instrument) and a commitment by the creditor to make additional amounts available to the debtor under predefined terms (a loan commitment). In most situations, a debtor incurs costs to establish line-of-credit or revolving-debt arrangements, and some or all of the costs are recognized as an asset and amortized over the term of the arrangement. These costs were grouped in prepaid expenses and other assets.

Under IFRS, these costs to modify the line-of-credit agreement are netted against the debt and are amortized over the remaining term of the modified liability.

	December 31, 2010	January 1, 2010
	($ thousands)	
Impact on Consolidated Statement of Financial Position		
Decrease in prepaid expenses and other assets	$(427)	$(138)
Decrease in lease financing	(427)	(138)
Retained earnings impact	$ —	$ —

Chesswood Group Limited

Directors and Officers

Directors and Officers

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Chairman of Chesswood Group Limited
President & C.E.O.,
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Chairman, Toronto Hydro Corporation

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