



FOR THE YEAR ENDED DECEMBER 31, 2012

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

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

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

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

A handwritten signature in black ink, appearing to read "Barry Shafran", is written over a light blue horizontal line.

Barry Shafran  
President & CEO  
March 5, 2013

**To the Shareholders of  
Chesswood Group Limited**

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

**Management's Responsibility for the Consolidated Financial Statements**

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

**Auditor's Responsibility**

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

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

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

**Opinion**

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

*BDO Canada LLP*

Chartered Accountants, Licensed Public Accountants

March 5, 2013  
Toronto, Ontario

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

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

Approved by the board of Directors



Fred Steiner, Chairman



Clare R Copeland

*Please see notes to the consolidated financial statements.*

**CHESSWOOD GROUP LIMITED**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**  
(in thousands of dollars, except per share amounts)

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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

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

*Please see notes to the consolidated financial statements.*

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

	Note	Common Shares (# '000s)	Common Shares	Non- controlling interest	Share-based compensation Reserve	Accumulated other comprehensive loss	Retained earnings	Total
<b>Shareholders' equity – January 1, 2012</b>		<b>9,811</b>	<b>\$43,845</b>	<b>\$9,269</b>	<b>\$ 2,269</b>	<b>\$ (950)</b>	<b>\$ 4,447</b>	<b>\$58,880</b>
Net income		—	—	1,174	—	—	7,815	8,989
Dividends declared	27	—	—	(946)	—	—	(6,293)	(7,239)
Share-based compensation		—	—	—	1,436	—	—	1,436
Exercise of restricted share units	26(b)	40	306	—	(306)	—	—	—
Exercise of options	26(a)	72	423	—	(239)	—	—	184
Repurchase of common shares under issuer bid	25(b)	(80)	(359)	—	—	—	(263)	(622)
Unrealized loss on translation of foreign operations		—	—	(140)	—	(933)	—	(1,073)
<b>Shareholders' equity – December 31, 2012</b>		<b>9,843</b>	<b>\$44,215</b>	<b>\$9,357</b>	<b>\$ 3,160</b>	<b>\$ (1,883)</b>	<b>\$ 5,706</b>	<b>\$60,555</b>
	Note	Common Shares (# '000s)	Common Shares	Non- controlling interest	Share-based compensation Reserve	Accumulated other comprehensive loss	Retained earnings	Total
Shareholders' equity – January 1, 2011		9,400	\$41,594	\$ —	\$ —	\$(1,861)	\$ 4,575	\$44,308
Shares eliminated on consolidation	25(a)	(2)	(27)	—	—	—	—	(27)
Reclassify from other liabilities on conversion to a corporation		—	—	9,167	2,182	—	—	11,349
Shares issued for business acquisition	17(a)	116	448	—	—	—	—	448
Net income		—	—	852	—	—	5,657	6,509
Dividends declared	27	—	—	(887)	—	—	(5,785)	(6,672)
Share-based compensation		—	—	—	1,644	—	—	1,644
Exercise of restricted share units	26(b)	175	1,085	—	(1,085)	—	—	—
Exercise of options	26(a)	122	745	—	(472)	—	—	273
Unrealized loss on translation of foreign operations		—	—	137	—	911	—	1,048
Shareholders' equity – December 31, 2011		9,811	\$43,845	\$9,269	\$ 2,269	\$ (950)	\$ 4,447	\$58,880

*Please see notes to the consolidated financial statements.*

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

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

*Supplemental disclosures of cash flow information (see note 29)*

*Please see notes to the consolidated financial statements.*



Notes to the Consolidated Financial Statements  
For the year ended December 31, 2012 and 2011

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Notes to the Consolidated Financial Statements  
For the year ended December 31, 2012 and 2011

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## 1. NATURE OF BUSINESS AND BASIS OF PREPARATION

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

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

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

Through its interest in Pawnee, the Company is involved in the business of micro and small-ticket equipment financing to small businesses in the start-up and “B” credit market in the lower 48 states of the United States. Through its interest in Sherway LP, the Company is involved in selling, servicing and leasing Acura automobiles in the Province of Ontario. Through its interest in Lease-Win, the Company had a portfolio of automobile leases under administration the remainder of which were sold or were paid out by the lessees during the year.

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

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





Notes to the Consolidated Financial Statements  
For the year ended December 31, 2012 and 2011

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The reporting currency is the Canadian dollar. The financial statements are presented in thousands of Canadian dollars except per share amounts. The functional currency of the Company, Holding LP, Chesswood Holdings Ltd., Sherway LP, and Lease-Win is the Canadian dollar. The functional currency of U.S. Acquisitionco, Pawnee, and Case Funding is the United States dollar. The statements of income and cash flows of the subsidiaries located in the United States have been translated using the average rate for the years ended December 31, 2012 and 2011. The statements of financial position have been translated using the rate on the date of the statements of financial position and the exchange difference is included in other comprehensive income.

The Company's consolidated financial statements were authorized for issue on March 5, 2013 by the Board of Directors.

## 2. CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries as noted above. Subsidiaries are consolidated using the purchase method from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated as long as control is held. The financial statements of all subsidiaries are prepared for the same reporting period as the Company, using uniform accounting policies in accordance with IAS 27, *Consolidated and Separate Financial Statements*. All intra-group balances and items of income and expense resulting from intra-group transactions are eliminated in full.

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

### **Exercise of judgment and use of accounting estimates and assumptions**

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

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

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



Notes to the Consolidated Financial Statements  
For the year ended December 31, 2012 and 2011

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

*Investment in leases*

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

*Legal finance receivables*

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

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

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

*Impairment of non-financial assets*

The Company's impairment test of non-financial assets is based on the value-in-use which is estimated using a discounted cash flow model. The cash flows are derived from budgets for the next five years, excluding restructuring activities and future investments. Other than the cash flow estimates, the value-in-use is most sensitive to the discount rate used and the growth rate applied beyond the five year estimate.

*Impairment of financial asset receivables*

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



Notes to the Consolidated Financial Statements  
For the year ended December 31, 2012 and 2011

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#### *Fair values*

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

#### *Contingent consideration and bonus*

Contingent consideration and bonus relates to the Incentive Payment Amount on the acquisition of Case Funding. This amount represented the fair value of the contingent consideration payable at December 31. The consideration is payable in the event that Case Funding's normalized net income ("NNI") for the 25th through 36th months following the Acquisition Date (June 10, 2011) achieves the targeted amount of approximately U.S.\$4.7 million (the "Targeted Amount"), whereby an amount of U.S.\$1.4 million (the "Incentive Payment Amount") (or an identical percentage adjusted portion of the Incentive Payment Amount if NNI is less than, but at least 90% of, the Targeted Amount) will be paid no later than the 38th month. It was determined at December 31, 2012 that the probability that the Targeted Amount would be reached was minimal.

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

#### *Tax*

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

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

- (a) Pawnee sells or licenses any of its assets as part of its acquisition by the Company, or licenses any assets to a related non-U.S. entity during the subsequent 10 years; or
- (b) If it does sell or license any such assets, it does not offset its U.S. tax arising from such sales or licenses with loss carry-forwards, foreign tax credits or certain tax amounts with similar attributes.

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



Notes to the Consolidated Financial Statements  
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#### *Share-based payments*

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

#### **Cash and cash equivalents**

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

#### **Inventories**

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

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

#### **Net investment in leases**

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

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

#### **Allowance for doubtful accounts**

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

The carrying amount of the financial asset is reduced through the use of an allowance for doubtful accounts and the amount of loss is recognized as a provision for credit losses. Individually significant loans and

receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Loans and receivables that are not considered to be individually impaired are reviewed for impairment on a group basis, determined by reference to the shared delinquency characteristics.

Pawnee's lease receivables are composed of a large number of homogenous leases, with relatively small balances. Thus, the evaluation of the allowance for credit losses is performed collectively for the lease receivable portfolio. Pawnee's allowance for doubtful accounts is comprised of the net investment in leases value that is over 30 days delinquent, plus any leases identified as impaired less than 30 days delinquent.

### **Property and equipment**

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

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

### **Goodwill and intangible assets**

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

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

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

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

**Impairment of non-financial assets**

Impairment testing is applied on an individual asset basis unless an asset does not generate cash inflows that are largely independent of the cash inflows generated by other assets or groups of assets. None of the Company's non-financial assets generate independent cash inflows and therefore all non-financial assets are allocated to cash generating units ("CGU") for purposes of assessing impairment. CGUs are defined as the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Impairment losses are recognized when the carrying amount of a CGU exceeds the recoverable amount, which is the greater of the CGU's fair value less cost to sell and its value in use. Value in use is the present value of the estimated future cash flows from the CGU discounted using a pre-tax rate that reflects current market rates and the risks inherent in the business of each CGU. If the recoverable amount of the CGU is less than its carrying amount, the CGU is considered impaired and is written down to its recoverable amount. The impairment loss is allocated to reduce the carrying amount of the assets of the CGU, first to reduce the carrying amount of the CGU's goodwill and then to the other assets of the CGU allocated pro-rata on the basis of the carrying amount of each asset.

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

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

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

**Revenue recognition**

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

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

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



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

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

### **Share-based payment transactions**

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

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

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

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

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

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

### **Taxes**

Taxes are accounted for using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary for deferred tax benefits for which realization is not considered probable.

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

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

### Earnings or loss per share

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

### Foreign currency transactions

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

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

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

Closing Rate As At December 31,		Average Rate For The Years Ended December 31,	
2012	2011	2012	2011
<b>0.9949</b>	1.0170	<b>0.9996</b>	0.9891

### Financial instruments

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



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

### ***Financial assets***

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

#### *Loans and receivables*

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

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

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

#### *Financial assets at fair value through net income or loss*

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

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

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

#### *Held to maturity investments*

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

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

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

*Available for sale financial assets*

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

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

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

*Financial liabilities*

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

*Financial liabilities at fair value through net income or loss*

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

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

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

*Loans and borrowings*

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

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

*Transaction costs*

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

**Statement of cash flows**

The statement of cash flows, which is compiled using the indirect method, shows cash flows from operating, investing, and financing activities, and the Company's cash and cash equivalents at the beginning and end of the year. Cash flows in foreign currencies have been translated at the average rate for the period. Exchange rate differences affecting cash items are presented separately in the statement of cash flows.

Cash flow from operating activities comprises net income (loss) adjusted for non-cash items, changes in working capital and operational net assets. Receipts and payments with respect to tax are included in cash from operating activities. The Company considers net investment in leases, net investment in leases – pledged, legal finance receivables, vehicle financing, borrowings, securitization debt and customer security deposits as operational assets and liabilities as they directly relate to our core business. The changes in these operational assets and liabilities are shown in cash flows from operating activities and the associated interest revenue and interest expenses are included in operating activities and not investing or financing activities.

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

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

**Accounting standards adopted in the current year**

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

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

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

**4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE***Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*

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

*Consolidated Financial Statements*

IFRS 10, *Consolidated Financial Statements*, will replace IAS 27 and SIC-12 (*Consolidation – Special Purpose Entities*). The new standard provides a single model for consolidation based on control, which exists when an investor has the power to control, is exposed to or has the right to variable returns from its involvement with the investee and has the current ability to affect those returns through its power over the investee. The standard also provides guidance on how to evaluate power to control. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company plans to adopt these new standards when they become effective and has determined there is no impact of these new standards on its results of operations and financial position.

*Disclosure of interests in other entities*

IFRS 12, *Disclosure of Interests in Other Entities*, includes amended disclosure requirements relating to subsidiaries, joint agreements, and associates. Additional disclosures include judgments and assumptions made in determining how to classify involvement with another entity, interests that non-controlling parties have in the consolidated entities, and the nature and risks associated with interests in other entities. The standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company plans to adopt these new standards when they become effective and has determined there is no impact of these new standards on its results of operations and financial position.

*Fair value measurement*

IFRS 13, *Fair Value Measurement*, establishes a single source of guidance for fair value measurements for financial reporting purposes and also requires enhanced disclosures in both annual and interim financial statements. The standard is effective for annual periods beginning on or after January 1, 2013. The Company plans to adopt these new standards when they become effective and has determined there is no impact of these new standards on its results of operations and financial position.

*Financial Instruments (Presentation and Disclosures)*

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

*Financial Liabilities: Measurement*

In October 2010, the IASB issued *IFRS 9 Financial Instruments*, which represents the completion of the first part of a three-part project to replace *IAS 39 Financial Instruments: Recognition and Measurement* with a new standard. As per the new standard, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income or loss section of the entity's statement of comprehensive loss, rather than within

profit or loss. Additionally, IFRS 9 includes revised guidance related to the de-recognition of financial instruments. IFRS 9 applies to financial statements for annual periods beginning on or after January 1, 2015, with early adoption permitted. The Company plans to adopt these new standards when they become effective and is currently assessing the impact of this standard.

*Financial Instruments (Classification and Measurement)*

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

## 5. CASH AND CASH EQUIVALENTS

*Operating line of credit*

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

## 6. ACCOUNTS RECEIVABLE

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

The aging of the accounts receivable is as follows:

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



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

## 7. INVENTORIES

	<b>December 31, 2012</b>	December 31, 2011
	<i>(\$ thousands)</i>	
New and demonstrator vehicles	<b>\$6,204</b>	\$4,431
Used vehicles	<b>1,521</b>	1,491
Parts and other	<b>156</b>	157
	<b><u>\$7,881</u></b>	<u>\$6,079</u>

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

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

## 8. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets comprise:

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

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

## 9. FINANCE RECEIVABLES

Finance receivables comprise:

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

## 10. INVESTMENT IN LEASES

(a) Net investment in leases includes the following:

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

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

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



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	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	<u>\$ 2,236</u>	<u>\$188</u>	<u>\$ 2,424</u>

(\*) includes allowances for leases pledged

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

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

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





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## 11. EQUIPMENT FINANCING AGREEMENTS

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

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

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

	<b>For the year ended December 31,</b>	
	<b>2012</b>	2011
	<i>(\$ thousands)</i>	
Balance, beginning of year	\$—	\$—
Provision for credit losses	<b>46</b>	—
Charge-offs	<b>(4)</b>	—
Recoveries	<u>—</u>	<u>—</u>
Balance, end of year	<u><b>\$ 42</b></u>	<u>\$—</u>

## 12. FINANCE RECEIVABLES PAST DUE

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



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The following aging of net investment in leases and EFAs before allowance for doubtful accounts represents the full carrying value of the leases and EFAs not just the lease payments that are past due. The net investment in leases and EFAs presented excludes the \$11.0 million (December 31, 2011 – \$10.0 million) in security deposits from borrowers, potential proceeds from repossessed collateral in vehicles and equipment, and potential recoveries from personal guarantees that would offset any charge-offs. An estimate of the fair value for the collateral cannot reasonably be determined.

(\$ thousands)	As at December 31, 2012				
	Current	1 - 30 days	31 - 60 days	61 - 90 days	Over 90 days
Equipment leases (Pawnee)	\$109,454	\$2,752	\$1,335	\$372	\$883
EFA's (Pawnee)	6,699	—	42	—	—
	116,153	2,752	1,377	372	883
Impaired	44	90	436	87	883
Past due but not impaired	\$ —	\$2,662	\$ 941	\$285	\$—

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

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

#### Collateral

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



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

### 13. LEGAL FINANCE RECEIVABLES

Legal finance receivables consist of:

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

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

(i)The contracts are deemed to have fixed or determinable payments, in that the payments are due when the underlying cases are settled however the date as to which that will happen is not known and is estimated. The terms of the plaintiff advances are on a non-recourse basis, and payment depends on the success and potential claim size. Thus, the current portion is an estimate of future cash collections.

### 14. NET INVESTMENT IN LEASES – PLEDGED

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

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



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The associated liability is disclosed in Note 21 – Borrowings.

Net investment in leases – pledged includes the following:

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

At Lease-Win, management reviewed each outstanding receivable by lessee, on an individual basis, for collectability and for reserve requirements, if any. As lessees may have securitized and non-securitized leases, the allowance and impairment analysis was done for both and shown under Note 10.

## 15. PROPERTY AND EQUIPMENT

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



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	<u>Leasehold improvements</u>	<u>Service equipment and vehicles</u>	<u>Furniture and equipment</u>	<u>Computer hardware and software</u>	<u>Total</u>
	<i>(\$ thousands)</i>				
<b>Accumulated amortization:</b>					
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	<u>\$526</u>	<u>\$125</u>	<u>\$220</u>	<u>\$262</u>	<u>\$1,133</u>
Amortization – current year	66	17	52	44	179
Disposals	—	—	—	—	—
Translation	—	—	(1)	(1)	(2)
<b>December 31, 2012</b>	<b><u>\$592</u></b>	<b><u>\$142</u></b>	<b><u>\$271</u></b>	<b><u>\$305</u></b>	<b><u>\$1,310</u></b>
	<u>Leasehold improvements</u>	<u>Service equipment and vehicles</u>	<u>Furniture and equipment</u>	<u>Computer hardware and software</u>	<u>Total</u>
	<i>(\$ thousands)</i>				
<b>Carrying amount:</b>					
December 31, 2010	\$312	\$ 97	\$154	\$266	\$ 829
December 31, 2011	\$200	\$ 85	\$304	\$220	\$ 809
<b>December 31, 2012</b>	<b>\$207</b>	<b>\$ 68</b>	<b>\$280</b>	<b>\$338</b>	<b>\$ 893</b>

- (a) Additions to leasehold improvements during the year include \$56,700 in costs related to Sherway's re-imaging upgrade of the dealership that have not been amortized. While not final, the estimated costs for the project are between \$1.0 million and \$2.0 million. Initial funding for the re-imaging upgrade will be provided by Sherway's bank. Once complete, a large portion of the costs will be reimbursed by Acura Canada. The construction is currently expected to start in 2013.
- (b) Computer hardware and software include \$34,900 in costs related to computer software projects at Case Funding, Sherway, and cars4U.com that are in process and have not been amortized.

**16. INTANGIBLE ASSETS**

	Indefinite useful life		Finite useful life	
	Trade names	Framework agreement	Broker relationships	Total
	<i>(\$ thousands)</i>			
<b>Cost:</b>				
December 31, 2010	\$5,371	\$889	\$3,481	\$ 9,741
Acquisitions	361	—	—	361
Translation	136	—	79	215
December 31, 2011	\$5,868	\$889	\$3,560	\$10,317
Acquisitions	—	—	—	—
Translation	(128)	—	(77)	(205)
<b>December 31, 2012</b>	<b>\$5,740</b>	<b>\$889</b>	<b>\$3,483</b>	<b>\$10,112</b>
	Trade names	Framework agreement	Broker relationships	Total
	<i>(\$ thousands)</i>			
<b>Accumulated amortization:</b>				
December 31, 2010	\$ —	\$—	\$2,321	\$ 2,321
Amortization – current year	—	—	495	495
Translation	—	—	66	66
December 31, 2011	\$ —	\$—	\$2,882	\$ 2,882
Amortization – current year	—	—	500	500
Translation	—	—	(65)	(65)
<b>December 31, 2012</b>	<b>\$ —</b>	<b>\$—</b>	<b>\$3,317</b>	<b>\$ 3,317</b>
	Trade names	Framework agreement	Broker relationships	Total
	<i>(\$ thousands)</i>			
<b>Carrying amount:</b>				
December 31, 2010	\$5,371	\$889	\$1,160	\$ 7,420
December 31, 2011	\$5,868	\$889	\$ 678	\$ 7,435
<b>December 31, 2012</b>	<b>\$5,740</b>	<b>\$889</b>	<b>\$ 166</b>	<b>\$ 6,795</b>

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

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



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

	<b>December 31, 2012</b>	December 31, 2011
	<i>(\$ thousands)</i>	
Pawnee	<b>\$5,372</b>	\$5,492
Case Funding	<b>368</b>	376
Sherway	<b>889</b>	889
Total indefinite-lived intangible assets	<b><u>\$6,629</u></b>	<u>\$6,757</u>

## 17. GOODWILL

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

	<u>Pawnee</u>	<u>Case Funding</u>	<u>Sherway</u>	<u>Lease-Win</u>	<u>Total</u>
	<i>(\$ thousands)</i>				
<b>Cost:</b>					
December 31, 2010	\$36,074	\$—	\$3,923	\$2,703	\$42,700
Acquisition (a)	—	638	—	—	638
Translation	813	26	—	—	839
December 31, 2011	<u>\$36,887</u>	<u>\$664</u>	<u>\$3,923</u>	<u>\$2,703</u>	<u>\$44,177</u>
Translation	(802)	(14)	—	—	(816)
<b>December 31, 2012</b>	<b><u>\$36,085</u></b>	<b><u>\$650</u></b>	<b><u>\$3,923</u></b>	<b><u>\$2,703</u></b>	<b><u>\$43,361</u></b>
	<u>Pawnee</u>	<u>Case Funding</u>	<u>Sherway</u>	<u>Lease-Win</u>	<u>Total</u>
	<i>(\$ thousands)</i>				
<b>Accumulated impairment:</b>					
December 31, 2010	\$25,377	\$—	\$1,403	\$2,703	\$29,483
Impairment – current year	—	—	—	—	—
Translation	572	—	—	—	572
December 31, 2011	<u>\$25,949</u>	<u>\$—</u>	<u>\$1,403</u>	<u>\$2,703</u>	<u>\$30,055</u>
Impairment – current year	—	—	—	—	—
Translation	(564)	—	—	—	(564)
<b>December 31, 2012</b>	<b><u>\$25,385</u></b>	<b><u>\$—</u></b>	<b><u>\$1,403</u></b>	<b><u>\$2,703</u></b>	<b><u>\$29,491</u></b>



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

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

- i) The five years of cash flows were based on achieving key operating metrics and drivers based on management estimates, past history, the current economic outlook, and were approved by Chesswood management. The key assumptions on which Pawnee cash flows were based on which the recoverable amount is most sensitive to is lease origination volumes and net charge-offs. The key assumptions on which Sherway cash flows were based on which the recoverable amount is most sensitive to were vehicle sales and gross margins. Management's approach to determining the values assigned to each key assumption was to assess past history and prior budget variances, consider the current market conditions and future economic outlook.
- ii) Terminal value incorporated into the VIU calculations was estimated by applying the growth rates in the following chart to the last year of the five years of cash flow estimates. The growth rates reflect the historical average core inflation rate which does not exceed the long term average growth rate for the industry.

	<u>Pawnee</u>	<u>Case Funding</u>	<u>Sherway</u>
<b>Terminal value growth rates:</b>			
December 31, 2011	3.0%	3.0%	2.0%
December 31, 2012	3.0%	3.0%	2.0%

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

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

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





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(a) Business acquisition

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

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

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

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

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

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



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

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

The amounts allocated to goodwill will not be deductible for tax purposes.

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

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

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



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## 18. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprise:

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

All amounts are due within one year, except for deferred lease incentive which is being amortized over the remaining term of the leases which expire in 2017.

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

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

## 19. VEHICLE FINANCING

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



extended for a second 90-day term subject to a further 20% repayment. Based on monthly average debt levels, the effective interest rate paid during the year was 3.25% (2011 – 3.51%).

## 20. INTEREST RATE SWAPS

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

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

The following swap agreements were outstanding at December 31, 2012:

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

## 21. BORROWINGS

Borrowings is comprised of:

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

- (a) Pawnee’s credit facility allows borrowings of up to U.S.\$85.0 million (December 31, 2011 – U.S.\$55.0 million) subject to, among other things, certain percentages of eligible gross lease receivables, of which U.S.\$48.3 million was utilized at December 31, 2012 (2011 – U.S.\$40.6 million). The facility can be extended, subject to certain conditions, to U.S.\$115.0 million (2011 – U.S.\$85.0 million). This credit facility is secured by substantially all of Pawnee’s assets, contains negative covenants including maintaining



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leverage and interest coverage ratios, requires Pawnee to mitigate its interest rate risk by entering interest rate swaps for a notional amount not less than 50% of the outstanding amount, and matures on July 24, 2016. At December 31, 2012 and 2011, Pawnee was in compliance with all covenants. Based on monthly average debt levels, the effective interest rate paid during the year was 5.78% (2011 – 6.71%).

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

**22. CUSTOMER SECURITY DEPOSITS**

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

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

**23. MINIMUM PAYMENTS**

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

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

- i. Pawnee’s financing credit facility is a line-of-credit; as such the balance can fluctuate. The credit facility matures in 2016.
- ii. The Company’s experience has shown that the actual contractual payment streams will vary depending on a number of variables including: prepayment rates, charge-offs and modifications. Accordingly, the scheduled contractual payments of customer security deposits shown in the table above are not to be regarded as a forecast of future cash payments.

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

For other commitments, refer to Note 30.

## 24. TAXES

(a) Tax expense consists of the following:

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

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

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

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

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

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

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

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

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

recognize deferred tax assets and liabilities based on estimated temporary differences expected as at January 1, 2011, and on the basis of its structure at each reporting date. Canadian GAAP and IFRS did not permit the Fund to consider future changes to its structure.

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

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

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

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

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

	<b>December 31, 2012</b>	December 31, 2011
	<i>(\$ thousands)</i>	
Deferred tax assets (c)	<b>\$ 359</b>	\$ 732
Deferred taxes payable (d)	<b><u>(25,321)</u></b>	<u>(23,196)</u>
Net deferred taxes payable	<b><u>\$(24,962)</u></b>	<u>\$(22,464)</u>





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

## 25. COMMON SHARES

### (a) Consolidation of units

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

### (b) Normal course issuer bids

In August 2011, the Board of Directors approved the repurchase and cancellation of up to 655,072 of the Company's outstanding Common Shares for the period commencing August 25, 2011 and ending on August 24, 2012. From January 1, 2012 to August 24, 2012, 58,538 Common Shares have been repurchased under the normal course issuer bid resulting in a decrease of \$262,250 in the value of Common Shares and \$182,381 in Retained Earnings.

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

## 26. COMPENSATION PLANS

### (a) Share options

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

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

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

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

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

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

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

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

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

<u>Grant date</u>	<u>Number of options outstanding</u>	<u>Vested</u>	<u>Expiry date</u>	<u>Exercise price</u>
May 10, 2006	100,000	100,000	May 9, 2016	\$10.00
June 23, 2009	211,650	211,650	June 22, 2019	\$ 2.06
April 13, 2010	206,250	127,500	April 13, 2020	\$ 4.49
April 25, 2011	287,500	86,250	April 24, 2021	\$ 7.79
June 10, 2011	150,000	45,000	June 9, 2021	\$ 7.73
December 6, 2011	200,000	60,000	December 6, 2021	\$ 6.14
June 25, 2012	237,500	—	June 24, 2022	\$ 7.45
July 9, 2012	5,000	—	July 8, 2022	\$ 7.42
December 6, 2011	125,000	—	December 6, 2022	\$ 8.86
	<u>1,522,900</u>	<u>630,400</u>		

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

(b) Restricted share units

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

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

During the year ended December 31, 2012, an aggregate of 44,000 (2011 – 37,000) restricted share units (“RSUs”) were granted to directors and expire in ten years. The grantees of such RSUs are not entitled to the dividends paid before the RSUs are exercised. Such RSUs vest one year from the date of issue and are to be settled by the issue of Shares. RSUs granted are in respect of future services and are expensed over the vesting period. Compensation cost is measured based on the market price of the Shares on the date of the grant of the RSUs, which was \$7.45.

During the year ended December 31, 2012, 7,500 RSUs were granted in accordance with the Case Funding purchase agreement to a senior executive of Case Funding, the RSUs vested immediately and were exercised by the executive. Compensation cost was measured based on the market price of the Shares on the acquisition date of Case Funding, which was \$7.73.

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

On exercise of the 39,500 RSUs, during the year ended December 31, 2012, the value of the RSUs of \$306,300 (2011 – \$1.1 million) that had been expensed during the vesting period was transferred from



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reserve – share-based compensation to Common Share capital. For the 39,500 RSUs exercised in 2012, the weighted average share price at the date of exercise was \$7.35 (2011 – 175,000 shares @ \$7.77).

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

The following RSUs are outstanding at December 31, 2012:

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

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

## 27. DIVIDENDS

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

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

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

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



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

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

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

<u>Record date</u>	<u>Payment date</u>	<u>Cash dividend per share (\$)</u>	<u>Total dividend amount (\$thousands)</u>
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
			<u>\$6,597</u>

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

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



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## 28. EARNINGS PER SHARE

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

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

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

## 29. CASH FLOW SUPPLEMENTARY DISCLOSURE

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



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### **30. CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS**

#### *(a) Contingent liabilities*

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

#### *(b) Other financial commitments*

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

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

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

(iv) Incentive Payment Amount on the acquisition of Case Funding – The consideration is payable in the event that Case Funding's normalized net income ("NNI") for the 25th through 36th months following the Acquisition Date (June 10, 2011) achieves the targeted amount of approximately U.S.\$4.7 million (the "Targeted Amount"), whereby an amount of U.S.\$1.4 million (the "Incentive Payment Amount") (or an identical percentage adjusted portion of the Incentive Payment Amount if NNI is less than, but at least 90% of, the Targeted Amount) will be paid no later than the 38th month.

### 31. FINANCIAL INSTRUMENTS

a) Categories

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

At December 31, 2012	Available for sale		Loans and receivables		Other liabilities		Held for trading
	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Carrying amount
<i>(\$ thousands)</i>							
<b>ASSETS</b>							
Cash (iii)			\$5,591	\$5,591			
Accounts receivable (iii)			\$ 771	\$ 771			
Legal finance receivables (i)	\$3,349	\$3,349	(i)	\$2,295			
<b>LIABILITIES</b>							
Accounts payable (iii)					\$ 8,017	\$ 8,017	
Vehicle financing (ii)					\$ 6,199	\$ 6,199	
Interest rate swaps							\$2,489
Borrowings (ii)					\$47,577	\$47,577	
Customer security deposits					\$10,994	\$10,994	
<b>At December 31, 2011</b>							
<i>(\$ thousands)</i>							
<b>ASSETS</b>							
Cash (c)			\$7,338	\$7,338			
Accounts receivable (iii)			\$1,207	\$1,207			
Legal finance receivables (i)	\$ 915	\$ 915	(i)	\$ 701			
<b>LIABILITIES</b>							
Accounts payable (iii)					\$ 5,543	\$ 5,543	
Vehicle financing (ii)					\$ 4,925	\$ 4,925	
Interest rate swaps							\$2,551
Securitization debt (ii)					\$ 707	\$ 707	
Borrowings (ii)					\$40,983	\$40,983	
Customer security deposits					\$ 9,991	\$ 9,991	

- (i) There is no organized market for valuing the legal finance receivables. The carrying value is the amortized cost using the effective interest rate method.
- (ii) The stated value of the vehicle financing, securitization debt, and borrowings approximates fair values, as the interest rates attached to these instruments are representative of current market rates, for loans with similar terms, conditions and maturities.
- (iii) Carrying amounts are expected to be reasonable approximations of fair value for cash and for financial instruments with short maturities, including accounts receivable and accounts payable.



b) Measurement hierarchy

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

- (i) Level 1 Inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;
- (ii) Level 2 Inputs – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- (iii) Level 3 Inputs – techniques which use inputs which have a significant effect on the recorded fair value for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

	<u>December 31, 2012</u>	
	<u>Level 2</u>	<u>Level 3</u>
	<i>(\$ thousands)</i>	
<b>ASSETS</b>		
<i>Available for sale</i>		
Plaintiff advances	\$ —	\$3,349
<b>LIABILITIES</b>		
<i>Held for trading</i>		
Interest rate swaps	\$2,489	\$ —
Total	<u>\$2,489</u>	<u>\$3,349</u>
	<u>December 31, 2011</u>	
	<u>Level 2</u>	<u>Level 3</u>
	<i>(\$ thousands)</i>	
<b>ASSETS</b>		
<i>Available for sale</i>		
Plaintiff advances	\$ —	\$ 915
<b>LIABILITIES</b>		
<i>Held for trading</i>		
Interest rate swaps	\$2,551	\$ —
Total	<u>\$2,551</u>	<u>\$ 915</u>

c) Reconciliation of Level 3 Financial Instruments



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

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

  

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

- i. Management considered that the change in fair value for plaintiff advances, which are carried at fair value, related to the amortization of interest or successful settlement of advances during the period. The fair value accretion on plaintiff advances is included in interest revenue on finance leases and loans on statement of income.
- ii. Difference between year-end foreign exchange rate and average exchange rate; amount included in other comprehensive income.

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

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

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

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

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

Inherent to the underwriting process is the approval for funding of cases that have a high probability of success, to be achieved either in pre-trial settlement or as a result of a judgment by a court. At December 31, 2012, the average size of a plaintiff advance is U.S.\$9,990 (2011 – U.S.\$8,221). The fair value estimate is inherently subjective being based largely on an estimate of the duration of plaintiff advance and its potential settlement. In the Company’s opinion there is no useful alternative valuation that would better quantify the market risk inherent in the portfolio and there are no inputs or variables to which the value of the plaintiff advances are correlated.

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

d) Gains and losses on financial instruments

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

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

e) ***Financial Risk Management***

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

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

***i) Credit risk***

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

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



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

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

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

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

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

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

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

Repayment of Case Funding's attorney loans is required by contract to be made on a priority basis, meaning that attorney fees resulting from settlements of cases from the basket are generally required to be used first to repay the loan, further reducing the potential for loan losses.

In the case of attorney loans, terms generally include; guarantees of the law firm, guarantees of the partners (often joint and several), registered liens against all of the firm's cases, a direction that requires the trust accounts to repay Case Funding upon receipt of proceeds and that all proceeds are to be held in escrow when received; generous effective annual rates of interest of which a portion is paid monthly, and the



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balance is paid upon payout or partial payout; requirement to report on an ongoing basis the status of cases in the basket; provision of the firm's monthly bank statements; and notice provisions for all settled cases including copies of all remittance cheques.

Plaintiff advances are made on the probability of success and potential claim size, not the plaintiff's credit score. The standard for this industry is that advances are made on a non-recourse, at-risk basis where the funder forfeits its entire advance and any related fees if the plaintiff is not successful in the lawsuit. Inherent to the underwriting process is the approval for funding of cases that have a high probability of success, to be achieved either in pre-trial settlement or as a result of a judgment by a court. At December 31, 2012, the average size of a plaintiff advance is U.S.\$9,990 (2011 – U.S.\$8,221).

*ii) Liquidity risk*

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

The Company's objective is to maintain low cash balances, investing any free cash in leases as needed and using any excess to pay down debt on the primary financing facilities. The subsidiaries fund working capital needs, lease originations and growth using advances under credit facilities available when operating cash flow is not sufficient. At December 31, 2012, the Company has \$18.1 million (2011 – \$15.6 million) in additional borrowings available under various credit facilities to fund business operations.

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

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

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

*iii) Market risk*

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

*iv) Interest rate risk*

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

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

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

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

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

*v) Foreign currency risk*

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

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

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

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

### **32. CAPITAL MANAGEMENT**

The Company's capital is comprised of shareholders' equity which at December 31, 2012 comprised \$60.6 million (2011 – \$58.9 million). The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in the long-term and to provide adequate returns for shareholders.

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

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

The Company is not subject to externally imposed regulatory capital requirements. However, each of the Company's operating subsidiaries is subject to bank and/or manufacturer covenants relative to leverage and/or working capital. These bank covenants safeguard the capital in each of its operating subsidiaries. Pawnee is restricted in its ability to further merge, acquire companies or be acquired, or incur additional debt without lender approval. Furthermore, dividends from Pawnee are limited to compliance with all bank covenants and may not exceed 95% of Pawnee's consolidated net income, as determined in accordance with U.S. GAAP, excluding mark-to-market adjustments for interest rate swaps.

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

The Company's subsidiaries' objective is to maintain low cash balances, investing any free cash in finance receivables as needed and using any excess to pay down debt on the primary financing facilities. The subsidiaries fund working capital needs, lease originations and growth using advances under credit facilities available when operating cash flow is not sufficient. At December 31, 2012, the Company's operating subsidiaries had \$18.1 million in additional borrowings available under various credit facilities, before any accordion provision, to fund business operations.

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

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



### 33. RELATED PARTY TRANSACTIONS

The Company has no parent or other ultimate controlling party.

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

- (a) Pawnee, a U.S. subsidiary of the Company, leases a 10,800 square foot office facility from an entity that is controlled by the holders of the Class B and Class C shares of U.S. Acquisition Co Ltd, a non-operating subsidiary of the Company. Minimum lease payments are U.S.\$212,890 per annum, triple net. The lease expires on April 30, 2016, and contains an option to renew for an additional five year terms. The expense is included in other expense and is translated at the average exchange rate for the period. At December 31, 2012 and December 31, 2011 there was no amount payable in respect of the lease.
- (b) Case Funding provides Quick Cash Inc. (“Quick Cash”), an entity controlled by a director of Case Funding and the CEO of Case Funding, with personnel and facilities to manage the portfolio of existing loans managed by Quick Cash and required origination and placement services in respect of future loans (Quick Cash is prohibited from making loans, other than those which Case Funding does not wish to make and Quick Cash is responsible for all out-of-pocket third party fees and expenses relating to its business). Payments received and committed for services provided are as follows:

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

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

- (c) Compensation of key management

The Company’s key management consists of the President & Chief Executive Officer, Chief Financial Officer and the board of directors. Key management compensation is as follows:

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

### 34. SEASONAL OPERATIONS

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





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

### 35. COMPARATIVE FIGURES

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

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

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

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

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

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

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

- (a) *Legal finance receivables, net investment in leases – pledged and net investment in leases are now grouped together as finance receivables on the statement of financial position compared to being listed separately on the statement of financial position in the Annual Report for the year ended December 31, 2011. With the requirement to disclose equipment finance agreements separately for accounting purposes, management felt there were too many lines on the statement of financial position and felt note disclosure would be more appropriate.*
- (b) *Contingent consideration payable was grouped with accounts payable and other current liabilities because of its immaterial balance and the 2012 balance is zero. The fair value accretion of the contingent consideration payable was moved from other expenses to undernoted items in the 2011 consolidated statement of income to correspond with the presentation of the 2012 reversal adjustment.*
- (c) *Securitization debt was grouped with borrowings due to its similarity and the 2012 balance is zero.*
- (d) *In Q4 2012, it was determined for accounting purposes that customer security deposits should be discounted, with the offsetting adjustment to unearned income for net investment in leases and equipment finance agreements.*
- (e) *In conjunction with (d) above, interest expense and interest revenue on finance leases and loans are now presented on a gross basis assuming an imputed interest savings on the customer security deposits.*
- (f) *Although immaterial in the periods presented, unrealized gain on foreign exchange has been separately disclosed for greater transparency.*
- (g) *Although immaterial in the periods presented, the dividend withholding tax expense on intercompany dividends has been classified as current tax expense and not as other expenses for greater transparency.*



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### **36. SEGMENT INFORMATION**

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

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

Segment information is prepared in conformity with the accounting policies adopted for the Company's financial statements.

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

When compared with the last annual financial statements, there are no differences in the basis of segmentation or in the basis of measuring segment results.



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Selected information by segment and geographically is as follows:

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

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



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

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

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