CHESSWOOD INCOME FUND

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2009 AND 2008

CHESSWOOD INCOME FUND

NOTICE TO READERS

Accompanying this notice are the unaudited interim consolidated financial statements of the Fund for the three and six months ended June 30, 2009 and 2008. These statements have been prepared by, and are the responsibility of, the Fund's management.

Following consultation with management and with the Fund's independent auditors, the Fund's board of trustees concluded that the auditors would not be engaged to perform a review of these financial statements. Under applicable securities legislation, there is no requirement that auditors be engaged to review these statements, but the Fund must advise you if (as noted above) no review engagement is made.

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009

TO OUR UNITHOLDERS

We're pleased that our second quarter of 2009 reflected a continuation of the pattern we experienced in the first quarter, of an improving trend in delinquencies in our portfolio at Pawnee Leasing. While net charge-offs remained relatively level, we are hopeful that the improved delinquency levels will result in lower charge-offs in the coming months.

Our income before realized and unrealized foreign exchange gains and losses (and before the goodwill impairment taken in the same period last year) showed improvement year-over-year notwithstanding that our Acura dealership had record earnings in the first half of last year, due to very strong retail incentives for Canadian consumers.

We continued to repurchase Chesswood units under our issuer bid, however the limits to this process make the repurchase of significant volumes challenging. It is our belief that, at current trading prices, repurchasing our units using available excess cash is in the best interests of Chesswood and our unitholders.

Lastly, early in July, our trustees approved an increase in our distribution by $0.005 per month per unit commencing in the third quarter – a 20% increase in our monthly payout.

Barry Shafran
President & CEO

FUND PROFILE

Chesswood Income Fund ("Chesswood" or the "Fund") is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario pursuant to a declaration of trust. The Fund was created to indirectly acquire (i) all of the shares in Pawnee Leasing Corporation ("Pawnee"), a Colorado company, and (ii) all of the shares of cars4U Ltd., pursuant to a plan of arrangement under the *Business Corporations Act* (Ontario).

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

The Fund's annual report and annual information form for the year-ended December 31, 2008 are available on SEDAR at www.sedar.com, and provide additional information on the Fund and its operating companies.

Our units are listed on the Toronto Stock Exchange under the symbol CHW.UN.

BUSINESS OF PAWNEE

Pawnee is an equipment leasing company that provides lease financing on micro and small-ticket business equipment. Pawnee focuses on small businesses in the start-up and ''B'' credit segment of the U.S. leasing market, servicing the lower 48 states through a network of approximately 550 independent brokers. As of June 30, 2009, Pawnee administered approximately 7,021 leases in its portfolio, with remaining scheduled lease payments of approximately U.S.$103.9 million over the next five years.

Pawnee finances equipment leases where generally:

- (i) the equipment is fundamental to the core operations of the lessee's business;
- (ii) the cost of the equipment usually does not exceed U.S.$30,000;
- (iii) a personal guarantee of at least the major shareholder/owner is obtained; and
- (iv) all scheduled lease payments are required to be paid by direct debit out of the lessee's account.

Pawnee's business does not involve leasing of consumer goods. Pawnee funds only commercial equipment.

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

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

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

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

● Pawnee does not sell its leases, but rather retains its leases for their full term,

● Pawnee's revenues are derived directly from its leases and are not derived from (and therefore, and more importantly, Pawnee's revenues are not dependent upon) fees from the sale of its portfolio of leases, and

● not only is there significant geographic diversification (within the United States) within Pawnee's portfolio of leases, there is also significant diversification in terms of the equipment funded and significant diversification in terms of the industries in which Pawnee's lessees operate. At June 30, 2009:

- no state represented more than 8.5% of the number of Pawnee's total active leases, with the exception of California which represented 12.0%;
- Pawnee financed over 65 equipment categories, with its five largest categories by volume, being restaurant, auto repair, titled trucks and trailers, beauty salon, and construction equipment which combined accounted for 47.3% of the number of active leases;
- its lessees operated in over 85 different industry segments, with no industry concentration accounting for more than 15.2% of its number of active leases;
- no lessee accounted for more than 0.01% of its total lease portfolio; and
- its largest source of lease originations accounted for originations of 19.7% of its leases in the first quarter of 2009, and its ten largest origination sources accounted for 43.8% of its leases.

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

As of June 30, 2009, Pawnee employed approximately 40 full-time equivalent employees, over one-third of whom are dedicated to collection and default remediation.

SHERWAY LP AND LEASE-WIN

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

Lease-Win has approximately 1,101 leases in its portfolio under administration with remaining scheduled lease payments totaling approximately $27.3 million as at June 30, 2009. As of September 1, 2008, Lease-Win ceased originating new leases other than extensions with existing customers and a very small volume of leases on behalf of one originator, until the contract with that one originator terminated in February 2009. Virtually all of Lease-Win's leases are open-ended leases, which limits Lease-Win's exposure to losses where the fair market value of a leased vehicle is less than its residual value at the end of the lease term.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") is a review of the financial condition and results of operations of Chesswood Income Fund ("Chesswood" or the "Fund") for the three and six-months ended June 30, 2009. This discussion should be read in conjunction with the consolidated financial statements and accompanying notes of the Fund for the three and six-months ended June 30, 2009, and the audited consolidated financial statements and the notes thereto and the MD&A for the fiscal year ended December 31, 2008 set forth in the Fund's 2008 Annual Report. The financial statements of the Fund are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The fiscal year of the Fund ends on December 31. The date of this MD&A is August 6, 2009.

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

All dollar amounts in this MD&A are Canadian dollars, unless otherwise indicated.

Our annual information form in respect of the fiscal year ended December 31, 2008 is available on SEDAR at www.sedar.com, and provides additional information and should be read in conjunction with this report, management discussion and analysis, financial statements and notes thereto.

FORWARD-LOOKING STATEMENTS

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

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

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

- continuing access to required financing;
- continuing access to products to allow us to hedge our exposure to changes in interest rates;
- risks of increasing default rates on leases;

- our provision for credit losses;
- increasing competition;
- increased governmental regulation of the rates and methods we use in financing and collecting on our leases;
- dependence on key personnel; and
- general economic and business conditions.

Readers should also carefully review the risk factors in the Fund's annual information form filed with various Canadian securities regulatory authorities through SEDAR (the System for Electronic Document Analysis and Retrieval) at www.sedar.com.

KEY PERFORMANCE INDICATORS - PAWNEE

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

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

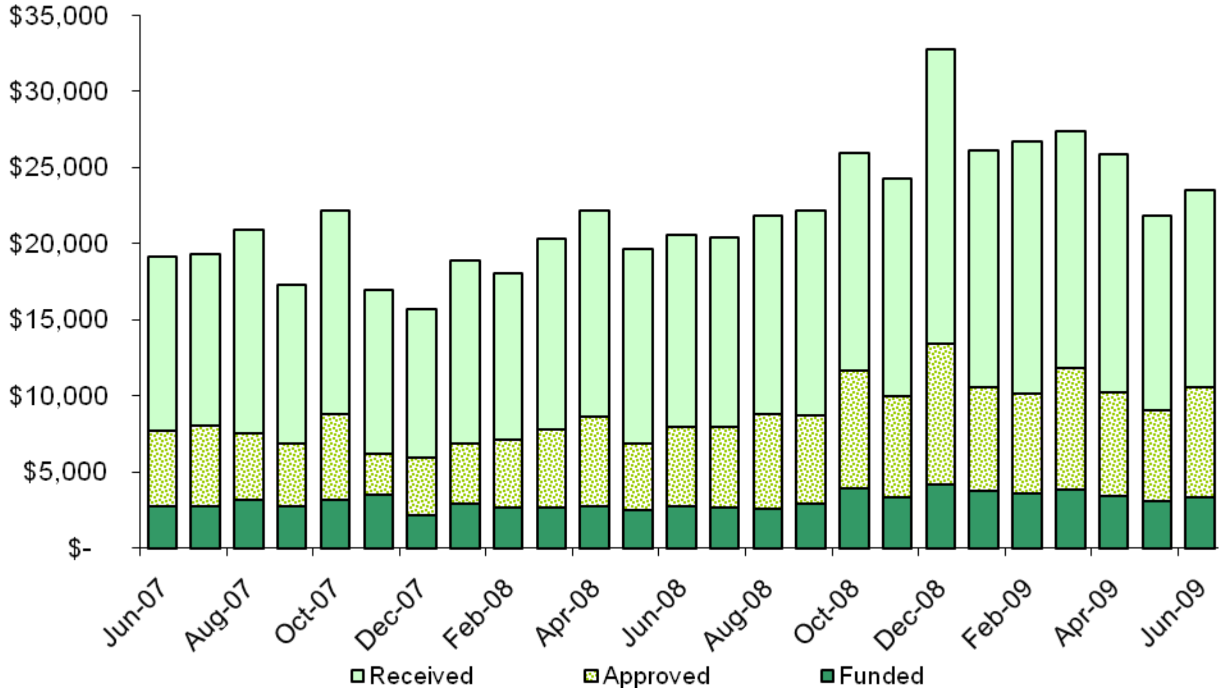
	Jun 30 2007	Sep 30 2007	Dec 31 2007	Mar 31 2008	Jun 30 2008	Sep 30 2008	Dec 31 2008	Mar 31 2009	June 30 2009
Number of leases outstanding (#)	7,411	7,330	7,265	7,088	6,977	6,899	6,980	7,059	7,021
Gross lease receivable ("GLR") (1)	$110,151	$108,840	$107,163	$103,522	$100,139	$97,921	$101,324	$104,037	$103,896
Residual receivable	$13,475	$13,576	$13,623	$13,391	$13,201	$12,970	$13,066	$13,261	$13,035
Net investment in leases, before allowance	$84,440	$83,732	$82,580	$80,162	$77,867	$76,303	$78,558	$80,620	$80,631
Security deposits	$10,144	$10,005	$9,795	$9,486	$9,200	$8,975	$9,022	$9,142	$9,038
Allowance for doubtful accounts	$6,489	$7,108	$7,612	$8,998	$9,788	$10,604	$11,150	$11,461	$11,658
Over 31 days delinquency (% of GLR) (2)	3.24%	5.60%	6.88%	6.31%	6.29%	7.62%	6.90%	6.34%	5.88%
Net charge-offs for the three-months ended	$1,830	$1,827	$2,285	$3,053	$2,619	$2,648	$2,827	$3,091	$3,083
Provision for credit losses for the three-months ended	$2,232	$2,446	$2,789	$4,439	$3,408	$3,465	$3,373	$3,402	$3,275

Notes:
(1) Excludes residual receivable
(2) Over 31-days delinquency includes non-accrual gross lease receivables. Pawnee ceases to accrue interest income on leases after they become 91 days contractually past due and charges-off leases when they become 151 days contractually past due, unless information indicates that an earlier charge-off is warranted.

Lease Application, Approval and Origination Volume

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

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



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

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

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

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

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

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

Collections

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

Pawnee’s collections activities begin when a lease initially becomes delinquent. An account is recognized as troubled if for any reason the direct debit payment is not successfully received on the required due date – the account is immediately considered delinquent. When the lease becomes 30 days past due, or the collector recognizes that the problem is something more significant than a past due payment, the lease is referred to the appropriate negotiation, repossession/remarketing, bankruptcy or legal specialist on the Advanced Collection team.

The Advanced Collection team’s objective is to minimize Pawnee’s loss through a combination of collecting payments, writing forbearances, repossessing and selling leased equipment, initiating lawsuits and, most importantly, negotiating settlements. After 150 days of delinquency, or earlier if the Advanced Collection team determines the account is uncollectible, the lease is charged off.

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

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

KEY PERFORMANCE INDICATORS – SHERWAY LP

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

NON-GAAP MEASURES

The Fund provides non-GAAP measures as supplementary information. Management believes EBITDA, Adjusted EBITDA and distributable cash are useful measures in evaluating the performance of the Fund and in determining whether to invest in units of the Fund (“Fund Units”). Specifically, management views distributable cash as an operating performance measure, as it is a measure generally used by Canadian income trusts as an indicator of financial performance. As the Fund will distribute substantially all of its distributable cash on an on-going basis, and since EBITDA and Adjusted EBITDA are metrics used by many investors to compare issuers on the basis of the ability to generate cash from operations, management believes that, in addition to net income (loss), EBITDA and Adjusted EBITDA are useful supplemental measures from which to make adjustments to determine distributable cash.

EBITDA, Adjusted EBITDA and distributable cash are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA, Adjusted EBITDA and distributable cash may not be comparable to similarly titled measures presented by other issuers. Investors are cautioned that EBITDA, Adjusted EBITDA and distributable cash should not be construed as an alternative to net income (loss) determined in accordance with GAAP as indicators of Chesswood's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

Definitions of EBITDA and Adjusted EBITDA

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

"Adjusted EBITDA" is defined as EBITDA adjusted for (i) interest on leasing and vehicle credit lines, (ii) non-cash gain (loss) on interest rate swaps, (iii) non-cash unrealized gain (loss) on foreign exchange, (iv) elimination of the effects of Accounting Guideline 12 of the Canadian Institute of Chartered Accountants (which is described in Accounting for the Securitization of Leases and Off-Balance Sheet Arrangements under Critical Accounting Policies and Estimates) from Lease-Win's results to provide for a constant yield basis of revenue recognition over the term of Lease-Win's securitized leases, (v) non-cash unit compensation expenses, and (vi) the non-cash loss on sale of property and equipment. See "Distributable Cash" for a reconciliation of EBITDA and Adjusted EBITDA to net income.

DISTRIBUTABLE CASH

Distributable cash is not a defined term under GAAP, but is derived from Adjusted EBITDA, which in turn is derived from net earnings, which is a measure recognized under GAAP. Management believes that distributable cash is a useful supplemental measure of performance as it provides investors with an indication of the amount of cash available for distribution to unitholders. Distributable cash should not be used as an alternative to using net income as a measure of profitability or as an alternative to the statement of cash flows.

Management of the Fund calculates distributable cash, using an operations approach, as the aggregate amount the Fund's subsidiaries can distribute up to the Fund in compliance with their bank covenants, are based on GAAP (or U.S. GAAP) net income with a few adjustments. Management believes that cash flows from operations is not an appropriate measure from which to derive distributable cash for the Fund because normal day-to-day lease financing transactions are required to be grouped under financing and investing activities in accordance with GAAP and therefore cash flows from operations does not reflect these core activities. Management believes that by calculating distributable cash with reference to, and providing a reconciliation of distributable cash with, net income, the Fund's financial disclosure provides the most transparent evaluation of the Fund's performance, being the income generated by the Fund's operating entities which can actually be used for distribution. Our method of calculating distributable cash may not be comparable to similarly titled items reported by many other issuers but is intended to provide greater transparency in the circumstances of the Fund.

	For the three-months ended		For the six-months ended
($ thousands except per unit amounts)	March 31, 2009	June 30, 2009	June 30, 2009
Net income	$556	$2,142	$2,698
Interest expense	1,185	1,027	2,212
Income tax provision	165	141	306
Amortization expense	210	235	445
EBITDA [(1)]	**2,116**	**3,545**	**5,661**
Foreign exchange loss / (gain)	92	(499)	(407)
Interest rate swap mark-to-market gain	(79)	(447)	(526)
Unit-based compensation expense	-	8	8
Elimination of AcG-12 in Lease-Win	112	72	184
Interest on leasing lines	(1,099)	(940)	(2,039)
Adjusted EBITDA [(1)]	**1,142**	**1,739**	**2,881**
Income Taxes	(165)	(141)	(306)
Amortization expense – Pawnee	(21)	(20)	(41)
Capital expenditures	(23)	(289)	(312)
Interest on long-term debt	(78)	(79)	(157)
Distributable cash [(1)]	**$855**	**$1,210**	**$2,065**
Total distributions declared to unitholders	$635	$634	$1,269
Distributions declared per unit	$0.075	$0.075	$0.150

(1) EBITDA, Adjusted EBITDA and Distributable cash are non-GAAP measures. See "Non-GAAP Measures" for a definition of EBITDA, Adjusted EBITDA and Distributable cash.

On July 6, 2007, the Canadian Securities Administrators amended National Policy 41-201 - Income Trusts and Other Indirect Offerings. The revised policy is intended to promote further transparent disclosure for investors with respect to presentation of distributable cash. On July 18, 2007, the Canadian Institute of Chartered Accountants ("CICA") issued its interpretive release "Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities: Guidance on Preparation and Disclosures". This interpretive release provides guidance on reporting Standardized Distributable Cash in the MD&A of income trusts and other flow-through entities. It supplements the non-GAAP financial measures discussion provided in CICA's "Canadian Performance Reporting Board (CPRB) 2004 publication Management's Discussion and Analysis: Guidance on Preparation and Disclosure". Although this guidance related to disclosure of distributable cash has been issued, a range of alternative disclosures and definitions persist in practice. Other income trusts and the investment community employ various definitions and calculations of distributable cash and the related distribution percentage that can produce significantly differing results.

Canadian Securities Administrators Notice 52-306 – Non-GAAP Financial Measures and National Policy 41-201 concluded that distributable cash is, in all circumstances, a cash flow measure, and that distributable cash is fairly presented only when reconciled to cash flows from operating activities as presented in the issuer's financial statements. Although, for the reasons detailed above, management does not believe that reconciliation of distributable cash to cash flows from operating activities is as useful a presentation in the circumstances of the Fund as the reconciliation of distributable cash to net income, a reconciliation to cash flows from operating activities is presented below. To arrive at distributable cash various adjustments, all of which are derived from actual financial results, are made to cash generated from operating activities, details of which are as follows:

Cash Flow Available for Distribution	For the three-months ended June 30, 2009	2008	For the six-months ended June 30, 2009	2008
Cash provided by operating activities	**$9,589**	$4,336	**$16,117**	$9,907
Less: Non-cash items added back to cash provided by operating activities due to bank covenant restrictions *(a)*:				
Accretion expense on lease financing *(a)*	**(35)**	(35)	**(92)**	(94)
Gain on sale of leased vehicles	**123**	159	**240**	237
Provision for credit losses *(a)*	**(4,523)**	(4,276)	**(9,650)**	(9,408)
Recovery of income taxes *(a)*	**433**	(2,199)	**(154)**	(1,177)
Recovery of income taxes – exclude non-cash taxes relating to Canadian automotive operations	**-**	69	**-**	122
Amortization relating to Pawnee *(a)*	**(20)**	(18)	**(41)**	(36)
Subtotal	**$5,567**	($1,964)	**$6,420**	($449)
Less: Non-cash items adjusted for in cash provided by operating activities relating to AcG-12 at Lease-Win *(b)*:				
Unrealized gain on sale of lease receivables *(b)*	**-**	77	**8**	179
Impairments of retained interest in securitizations *(b)*	**51**	197	**179**	499
Amortization of securitization servicing liability *(b)*	**45**	120	**88**	189
AcG-12 impact *(b)*	**72**	11	**184**	(50)
Lease-Win's net leasing revenue on securitized leases *(b)*	**168**	405	**459**	817
Subtotal	**5,735**	(1,559)	**$6,879**	$368
Less: Changes in non-cash working capital items relating to operations *(c)*				
Accounts receivable *(d)*	**564**	(631)	**128**	(1,437)
Inventories *(e)*	**(1,212)**	633	**(597)**	461
Prepaid and other assets *(f)*	**(353)**	907	**(595)**	763
Prepaid income taxes *(f)*	**(2,403)**	942	**(2,789)**	998
Accounts payable and accrued liabilities *(f)*	**(832)**	624	**(649)**	461
Subtotal	**1,499**	916	**$2,377**	$1,614
Capital expenditures *(g)*	**(289)**	(7)	**(312)**	(17)
Cash flow available for distribution	**$1,210**	$909	**$2,065**	$1,597

(a) Pawnee's dividends issued up to the Fund 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, thus there are a number of non-cash items on the Statement of Cash Flows that can not be considered in the calculation of cash flow available for distribution.
(b) Under GAAP, the Consolidated Statement of Cash Flows deducts non-cash items relating to Lease-Win leases that are securitized and accounted for using AcG-12, but does not consider any adjustment for the actual effective yield interest earned on the securitized leases during the period, less any interest paid to the securitization company.
(c) Changes in non-cash working capital items - various working capital items, including but not limited to the timing of receivables collected and payment of payables and accruals, can have a significant impact on the determination of cash flow available for distribution. Accordingly, management excludes the impact of changes in non-cash working capital items to remove the resulting variability of including such amounts in the determination of cash flow available for distribution. As well, based on bank covenants, the subsidiaries are unable to adjust for these non-cash working capital changes to calculate cash flow that they can send up to the Fund. Even though this is included in cash provided by operations on the Consolidated Statement of Cash Flows per GAAP, it should not be included to calculate cash flow available for distribution as a result of the bank covenants. Realized changes in working capital are typically funded from excess cash flow or the Fund's subsidiaries' credit facilities.
(d) The accounts receivable balance principally relates to the Acura Sherway dealership and includes amounts due from the manufacturer for financing contracts in transit, which are typically collected within seven to ten days, and are usually at their highest levels at month end. Vehicle receivable balances fluctuate throughout the year based on seasonality, and sales volumes of the industry. Any fluctuation is temporary in nature and is typically funded from existing working capital at the dealership or the dealership's credit facilities. There is no impact on cash flow available for distribution.
(e) Inventory balances, comprised predominantly of vehicles at the automotive operations also fluctuate throughout the year based on seasonality, sales volumes and market conditions. Vehicle inventory is financed through vehicle financing credit facilities. The changes in the vehicle financing credit facilities are included in financing activities on the Consolidated Statements of Cash Flows. Any fluctuation in inventory is typically offset by fluctuations in vehicle financing or existing working capital at the dealerships. There is no impact on cash flow available for distribution.
(f) The prepaid expenses and other assets are not expected to change significantly and the changes in prepaid expenses and other assets are typically funded from existing working capital at the subsidiaries or the subsidiaries' credit facilities. Management does not expect changes in accounts payable and accrued liabilities to be significant, and changes in accounts payable and accrued liabilities are typically funded from existing working capital or the Fund's subsidiaries' credit facilities.
(g) The Fund's operating businesses do not regularly require significant capital asset expenditures or depend on capital-intensive operations. Annual capital expenditures can typically be funded by excess cash flow from operations. On July 1, 2009, the Fund's U.S. subsidiary, Pawnee Leasing Limited completed its conversion to a new management operating system, generating the majority of the capital expenditures noted above.

Management believes that adjusting for certain non-cash items added back to net income, and non-cash working capital items is necessary to provide a more meaningful understanding of sustainable cash flows as shown in the table entitled Cash Flows Available for Distribution. These adjustments relating to non-cash items are known and predictable in nature.

In accordance with National Policy 41-201, the following table compares both cash generated from operating activities and net income to distributions paid to unitholders:

($ thousands)	**For the three-months ended June 30,**		**For the six-months ended June 30,**	
	2009	2008	**2009**	2008
Cash provided by operating activities	$9,589	$4,336	$16,117	$9,907
Net income	$2,142	($13,586)	$2,698	($13,839)
Distributions paid to unitholders	$636	$1,218	$1,282	$2,426
Excess of cash provided by operating activities over distributions paid to unitholders	$8,953	$3,118	$14,835	$7,481
Excess of (shortfall of) net income over distributions paid to unitholders	$1,506	($14,804)	$1,416	($16,265)

Cash provided by operating activities is significantly higher than distributions paid to unitholders; the primary reasons for the difference is outlined in the previous table entitled Cash Flow Available for Distribution. The Distributable Cash table on page 7 outlines the primary reasons for the differences between net income and Distributable Cash.

SELECTED QUARTERLY FINANCIAL INFORMATION

Fiscal 2009	For the three-months ended		For the six-months ended
($ thousands except per unit figures)	March 31, 2009	June 30, 2009	June 30, 2009
Revenue	$16,408	$21,698	$38,106
Gross profit	9,930	10,040	19,970
Income before tax, and gain (loss) on foreign exchange and interest rate swaps	734	1,337	2,071
Income before tax	721	2,283	3,004
Net income	556	2,142	2,698
Basic and diluted income per unit	$0.07	$0.25	$0.32
Total assets	149,563	133,511	133,511
Total long-term financial liabilities	80,641	70,958	70,958
Other Data			
Adjusted EBITDA *(1)*	$1,142	$1,739	$2,881
Distributable cash	855	1,210	$2,065
Distributions declared	635	634	$1,269
Distributions declared per unit *(1)(2)*	$0.075	$0.075	$0.150

Fiscal 2008	For the three-months ended				For the year ended
($ thousands except per unit figures)	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	December 31, 2008
Revenue	$22,907	$23,321	$19,717	$17,960	$83,905
Gross profit	9,342	9,422	8,915	9,631	37,310
Income before tax, goodwill impairment and loss on foreign exchange and interest rate swaps	212	1,129	718	628	2,687
Income (loss) before tax	(560)	(13,107)	225	(959)	(14,401)
Net income (loss)	(253)	(13,586)	73	936	(12,830)
Basic and diluted income (loss) per unit	(0.03)	(1.59)	0.01	0.10	(1.51)
Total assets	138,978	120,857	121,307	144,524	144,524
Total long-term financial liabilities	69,154	67,199	68,084	77,926	77,926
Other Data					
Adjusted EBITDA *(1)*	$451	$1,438	$1,067	$1,248	$4,204
Distributable cash	688	909	815	2,459	4,871
Distributions declared	1,207	1,230	774	598	3,809
Distributions declared per unit *(1)(2)*	$0.171	$0.171	$0.107	$0.075	$0.524

Fiscal 2007

($ thousands except per unit figures)	For the three-months ended March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007	For the year ended December 31, 2007
Revenue	$21,082	$23,008	$21,840	$22,408	$88,338
Gross profit	10,457	10,084	9,642	10,020	40,203
Income before tax, impairment, and loss on foreign exchange and interest rate swaps	2,615	2,636	2,271	2,550	10,072
Income (loss) before tax	2,416	4,542	(7,607)	(4,161)	(4,810)
Net income (loss)	1,858	4,751	(7,927)	(3,200)	(4,518)
Basic and diluted income (loss) per unit	0.22	0.56	(0.93)	(0.38)	(0.53)
Total assets	179,705	165,948	144,355	138,743	138,743
Total long-term financial liabilities	83,905	77,408	72,409	70,712	70,712
Other Data					
Adjusted EBITDA *(1)*	$3,166	$3,244	$2,657	$2,184	$11,251
Distributable cash	2,458	2,321	2,246	1,746	8,771
Distributions declared	2,448	2,292	2,220	1,510	8,470
Distributions declared per unit *(1)(2)*	$0.2874	$0.2874	$0.2874	$0.2098	$1.072

(1) Adjusted EBITDA and Distributable cash are non-GAAP measures. See “Non-GAAP Measures” for the definitions of EBITDA and Adjusted EBITDA. See “Distributable cash” for a description of the calculation methodology for Distributable cash, and for a reconciliation of EBITDA, Adjusted EBITDA and Distributable cash to net income.

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

RESULTS OF OPERATIONS FOR THE SIX-MONTHS ENDED JUNE 30, 2009 AND 2008

Pawnee’s U.S. dollar results for the six-months ended June 30, 2009 were converted at 1.2062, which was the average exchange rate for the six-month period. The U.S. dollar results for the six-months ended June 30, 2008 were converted at 1.0072 which was the average exchange rate for the corresponding period.

Revenue from automotive operations totaled $21.7 million in the six-months ended June 30, 2009 compared to $32.2 million for the same period in the prior year, a decrease of $10.5 million or 32.6% year-over-year. New vehicles sales at Acura Sherway decreased by 174 vehicles during the six-month period compared to the same period in the prior year, resulting in a decrease of $8.8 million in revenue. In the first half of 2008, Acura Canada offered unusually strong incentives to consumers, to offset the strength of the Canadian dollar. These incentives generated record new car sales for our dealership in the first half of 2008. Revenue generated by Lease-Win in the six-month period was down $1.7 million year-over-year due to decreases in vehicle sales and leasing income as Lease-Win’s wind-down continues.

2009 was expected to be a challenging year for new car sales in Canada, with some experts calling for a decrease in new car sales of at least 25% compared to 2008.

The automotive operations generated $3.6 million in gross profit for the six-months ended June 30, 2009 compared to gross profit of $4.8 million in the same period in the prior year, a decrease of $1.2 million or 25.0%. Gross profit at Acura Sherway was down $546,000 or 16.4% in the six-months compared to the same period in the prior year. Gross profit at Lease-Win was down $635,000 in the six-months compared to the same period in the prior year; $234,000 of the $635,000 decrease is the result of a non-cash decrease in AcG-12 revenue and gross profit.

Direct financing lease income totaled $13.9 million in the six-months ended June 30, 2009 compared to $11.9 million in the same period in the prior year; an increase of approximately $2.0 million year-over-year predominantly due to an increase of $2.3 million from the change in the foreign exchange rates offset by a decrease of $304,000 in direct financing lease income due to a decrease in direct finance income paid when leases terminate early due to fewer leases terminating earlier in 2009 than 2008 during the six-month period.

Ancillary lease and other income totaled $2.5 million in the six-months ended June 30, 2009 compared to $2.1 million in the same period in the prior year; an increase of $430,000 year-over-year predominantly due to the effects of foreign exchange. In U.S. dollars, Pawnee's ancillary lease and other income increased approximately $19,000 in the six-month period compared to the same period in the prior year.

Salaries, commissions and benefits totaled $3.7 million in the six-months ended June 30, 2009 compared to $3.8 million in the same period in the prior year, a decrease of $98,000. In U.S. dollars, Pawnee's salaries and benefits increased by approximately $95,000, however with foreign exchange the increase in Canadian dollars was approximately $411,000. This increase was offset by decreased salaries, commissions and benefits at the Canadian automotive operations of $509,000 year-over-year due to decreased new vehicle sales and fewer staff at Lease-Win.

During the six-month period ended June 30, 2009, the provision for credit losses totaled $8.2 million compared to $8.0 million in the same period in the prior year; an increase of $170,000 year-over-year. The $170,000 year-over-year increase is comprised of an increase of $1.6 million due to the change in foreign exchange rates offset by a decrease of $1.4 million in the provision for credit losses. In the six-month period, Pawnee's actual net charge-offs increased by U.S.$502,000 year-over-year. Pawnee's non-cash increase in allowance for doubtful accounts totaled U.S.$503,000 in the six-months ended June 30, 2009 compared to a non-cash increase of U.S.$2.2 million in the allowance for doubtful accounts in the six-months ended June 30, 2008.

Interest expense on long-term debt totaled $2.2 million in the six-months ended June 30, 2009 compared to $1.9 million in the same period in the prior year, an increase of $259,000 year-over-year. The increase in interest expense was primarily due to a $319,000 increase in foreign exchange translation, a $263,000 increase in Pawnee's interest rate swap expense offset by a $250,000 decrease in Pawnee's interest expense due to the decrease in the lease financing credit facility balance outstanding during 2009 compared to the same period in the prior year. Lease-Win's interest expense decreased by $65,000 year-over-year, primarily due to the absence of the mortgage on the property and building that Lease-Win sold in July 2008.

Income before gain and losses on foreign exchange and interest rate swaps totaled $2.1 million for the six-months ended June 30, 2009 compared to $1.3 million in the same period of the prior year, an increase of $730,000 or 54.6%. The $730,000 increase is predominantly the result of the $1.4 million decrease in the provision for doubtful accounts offset by $317,000 decrease in revenue from Pawnee, and a $453,000 decrease in income from the Canadian operations.

The mark-to-market adjustment to revalue the interest rate swaps at Pawnee created a non-cash gain of $526,000 in the six-months ended June 30, 2009 compared to a non-cash loss of $25,000 in the same period of the prior year, an increase of $551,000 in income before taxes year-over-year.

During the first quarter of 2009, the Fund had entered into foreign exchange contracts to manage its exposure to the U.S. dollar fluctuations as significant cash flows are generated in the U.S. However, given the significant change in U.S. – Canadian dollar exchange rates in late May, it was determined that liquidation of the hedge was an appropriate and desirable step. Therefore, the Fund sold its foreign exchange forward contracts on May 29, 2009 and received $391,000 on settlement; which represents the majority of the $407,000 of the net gain on foreign exchange reported in the six-months ended June 30, 2009 compared to $110,000 in the same period of the prior year.

The provision for income taxes for the six-months ended June 30, 2009 totaled $306,000 compared to $172,000 in the same period of the prior year. The provision for income taxes is comprised of a current recovery of income taxes of $859,000 offset by a future taxes payable of approximately $1,165,000.

For the six-months ended June 30, 2009, the Fund reported consolidated net income of $2.7 million, or $0.32 per Fund Unit, compared to a net loss of $13.8 million or $1.62 per Fund Unit, in the six-months ended June 30, 2008, an increase of $16.5 million year-over-year, predominantly as a result of the $14.8 million goodwill impairment recorded in 2008.

RESULTS OF OPERATIONS FOR THE THREE-MONTHS ENDED JUNE 30, 2009 AND 2008

Pawnee's U.S. dollar results for the three-months ended June 30, 2009 were converted at 1.1668, which was the average exchange rate for the three-month period. The U.S. dollar results for the three-months ended June 30, 2008 were converted at 1.0101 which was the average exchange rate for the corresponding period.

Revenue from automotive operations totaled $13.7 million in the three-months ended June 30, 2009 compared to $16.4 million for the same period in the prior year, a decrease of $2.7 million or 16.4% year-over-year. New vehicles sales at Acura Sherway decreased by 22 vehicles during the three-month period compared to the same period in the prior year, and was the predominant reason for the decrease of $1.4 million in Acura Sherway's revenue. Revenue generated by Lease-Win in the three-month period was down $1.3 million year-over-year due to decreases in vehicle sales and leasing income as Lease-Win's wind-down continues.

The automotive operations generated $2.1 million in gross profit for the three-months ended June 30, 2009 compared to gross profit of $2.5 million in the same period in the prior year, a decrease of $452,000 or 18.0%. Gross profit at Acura Sherway was down $78,000 in the three-months compared to the same period in the prior year. Gross profit from Lease-Win was down $374,000 in the three-months compared to the same period in the prior year; $61,000 of the $374,000 is the result of a non-cash decrease in AcG-12 revenue and gross profit.

Direct financing lease income totaled $6.8 million in the three-months ended June 30, 2009 compared to $5.9 million in the same period in the prior year; an increase of approximately $896,000 year-over-year predominantly due to an increase of $893,000 from the change in the foreign exchange rates and an increase of $3,000 in direct financing lease income.

Ancillary lease and other income totaled $1.2 million in the three-months ended June 30, 2009 compared to $1.0 million in the same period in the prior year; an increase of $174,000 year-over-year predominantly due to foreign exchange. In U.S. dollars, Pawnee's ancillary lease and other income increased approximately $16,000 in the three-month period compared to the same period in the prior year.

Salaries, commissions and benefits totaled $1.85 million in the three-months ended June 30, 2009 compared to $1.94 million in the same period in the prior year. In U.S. dollars, Pawnee's salaries and benefits increased by approximately $23,500, however with foreign exchange the increase in Canadian dollars was approximately $145,000. This increase was offset by decreased salaries, commissions and benefits at the Canadian automotive operations of $238,000 year-over-year due to decreased new vehicle sales and fewer staff at Lease-Win.

During the three-month period ended June 30, 2009, the provision for credit losses totaled $3.9 million compared to $3.5 million in the same period in the prior year; an increase of $366,000 year-over-year. The $366,000 year-over-year increase is comprised of an increase of $534,000 due to the change in foreign exchange rates offset by a decrease of $156,000 in the provision for credit losses. In the three-month period, Pawnee's actual net charge-offs increased by U.S.$462,000 year-over-year. Pawnee's non-cash increase in allowance for doubtful accounts totaled U.S.$192,000 compared to a non-cash increase of U.S.$789,000 in the allowance for doubtful accounts in the same period in 2008.

Interest expense on long-term debt totaled approximately $1.0 million in the three-months ended June 30, 2009 compared to $919,000 in the same period in the prior year, an increase of $83,000 year-over-year. The increase in interest expense was primarily due to a $120,000 increase in foreign exchange translation. Lease-Win's interest expense decreased by $42,000 year-over-year due to the absence of the mortgage on the property and building that Lease-Win sold in July 2008.

Income before gains and losses on foreign exchange and interest rate swaps totaled $1.3 million for the three-months ended June 30, 2009 compared to $1.1 million in the same period of the prior year, an increase of $208,000. The $208,000 increase is predominantly the result of the $156,000 decrease in provision for credit losses, $153,000 increase due to foreign exchange and $91,000 decrease in income from the Canadian operations.

The mark-to-market adjustment to revalue the interest rate swaps at Pawnee created a non-cash gain of $447,000 in the three-months ended June 30, 2009 compared to $572,000 in the same period of the prior year, a decrease of $125,000 in income before taxes year-over-year.

The Fund sold its foreign exchange forward contracts on May 29, 2009 and received $391,000 on settlement; which represents the majority of the $395,000 of the net gain on foreign exchange reported in the three-months ended June 30, 2009 compared to $15,000 in the same period of the prior year. The $104,000 unrealized loss on foreign exchange contracts at March 31, 2009 was reversed during the quarter.

The provision for income taxes for the three-months ended June 30, 2009 totaled $141,000 compared to $479,000 in the same period of the prior year. The provision for income taxes is comprised of a current recovery of income taxes of $301,000 offset by a future taxes payable of $442,000.

For the three-months ended June 30, 2009, the Fund reported consolidated net income of $2.1 million, or $0.25 per Fund Unit, compared to net loss of $13.6 million or $1.59 per Fund Unit, in the three-months ended June 30, 2008, an increase of $15.7 million year-over-year; predominantly as a result of the $14.8 million goodwill impairment recorded in 2008.

BALANCE SHEET

Total consolidated assets of the Fund at June 30, 2009 were $133.5 million compared to $144.5 million at December 31, 2008, a decrease of $11.0 million. Over half of the total assets are represented by Pawnee's and Lease-Win's net investments in direct financing lease receivables. The exchange rate on June 30, 2009 was 1.1625 compared to 1.2246 at December 31, 2008. The change in the foreign exchange rates decreased assets by $6.7 million, thus total assets excluding the foreign exchange impact decreased by $4.3 million from December 31, 2008. The receipt of $3.8 million in income tax refunds during the six-month period accounted for the large decrease in prepaid income taxes.

Cash totaled $5.3 million at June 30, 2009 compared to $5.7 million at December 31, 2008, a decrease of $348,000. The $348,000 decrease was the result of $6.7 million of cash inflow from operations, leasing activities and vehicle financing; $5.6 million of cash being applied against leasing financing; $282,000 was being used to purchase Fund Units under the Fund's normal course issuer bid; $312,000 decrease in cash flow for the purchase of equipment; $391,000 cash being generated on the sale of foreign exchange forward contracts and $1.3 million in cash distributions paid during the quarter ended June 30, 2009.

Accounts receivable totaled $1.3 million at June 30, 2009 compared to $1.2 million at December 31, 2008, an increase of $128,000. The accounts receivable balance principally relates to the Acura Sherway dealership and includes amounts due from the manufacturer for financing contracts in transit, which are typically collected within seven to ten days, and are usually at their highest levels at month end. Vehicle receivable balances fluctuate throughout the year based on seasonality, and sales volumes of the industry.

Inventory totaled $8.0 million at June 30, 2009 compared to $8.6 million at December 31, 2008, a decrease of $0.6 million. Vehicle inventory balances at dealerships fluctuate throughout the year based on seasonality, sales volumes and market conditions.

Prepaid expenses totaled $1.4 million at June 30, 2009. Prepaid personal property taxes paid on behalf of Pawnee's lessees of approximately $1.1 million comprise the majority of the prepaid expenses balance. At June 30, 2009, the deferred financing costs that were previously netted against Pawnee's lease financing facility were reclassified to prepaid expenses and other assets, and totaled $162,000 (December 31, 2008 - $166,000).

Pawnee's prepaid income taxes totaled $1.5 million compared to $4.4 million at December 31, 2008. Prepaid income taxes decreased $2.9 million as a result of the receipt of a $3.5 million tax refund, a $225,000 decrease due to a change in foreign exchange rates offset by a current tax recovery of $859,000.

As at June 30, 2009, net investment in leases totaled $87.3 million compared to $91.7 million at December 31, 2008, a decrease of $4.4 million; the decrease was comprised of:

	($ thousands)
Decrease in net investment in leases from change in foreign exchange	$4,186
Increase of 41 leases since December 31, 2008 at Pawnee	(547)
Increase of U.S.$229.00 per lease in the average book value of net investment in leases	(1,862)
Increase in allowance for doubtful accounts	591
Net decrease in net investment in leases on-balance sheet at Lease-Win	2,007
Total decrease in net investment in leases	$4,375

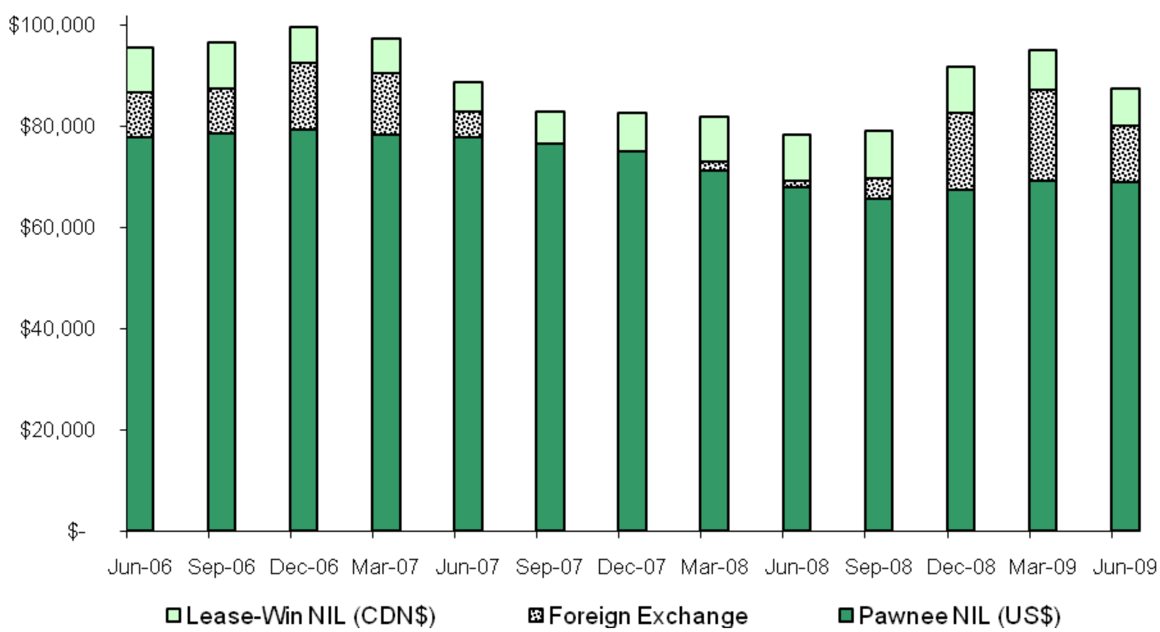
The gross lease receivable of leases under administration as at June 30, 2009 was approximately $148.5 million, compared to $162.6 million at December 31, 2008. Pawnee's gross lease receivable represented $120.8 million (U.S.$103.9 million) of the total gross lease receivable outstanding at June 30, 2009, compared to $124.1 million (U.S.$101.3 million) at December 31, 2008.

Lease-Win's gross lease receivable under administration totaled $27.7 million at June 30, 2009 down from $38.5 million at December 31, 2008, a decrease of $10.8 million. As of September 1, 2008, Lease-Win ceased originating new leases other than extensions with existing customers and a very small volume of leases on behalf of one originator, until the contract with that originator terminated in February 2009.

The $87.3 million in net investment in leases is net of $14.0 million in allowance for doubtful accounts compared to $14.0 million in allowance for doubtful accounts at December 31, 2008. At Pawnee, the allowance for doubtful accounts of U.S.$ 11.7 million represents 16.28% of the net investment in lease receivables less security deposits on hand at June 30, 2009 compared to U.S.$9.8 million or 14.25% at June 30, 2008. Pawnee has a policy of maintaining an allowance for doubtful accounts, as a percentage of net investment in leases, that is equal to the last twelve-month rolling net charge-off percentage level. Pawnee ceases to accrue interest income on leases after they become 91 days contractually past due, and charges-off leases when they become 151 days contractually past due, unless information indicates that an earlier charge-off is warranted.

The chart below shows that the foreign exchange impact of converting Pawnee's U.S.$ based net investment in leases to Canadian dollars has created the majority of the variance in net investment in leases balance over time. Lease-Win's on-balance sheet net investment in leases comprises a very small portion of the Fund's consolidated balance.

Components of Net Investment In Leases
(in thousands of dollars)



Pawnee NIL = Pawnee's net investment in leases, net of allowance for doubtful accounts in thousands of U.S.$.
Foreign Exchange = foreign exchange impact of converting Pawnee's U.S.$ net investment in leases to Canadian $. The foreign exchange at September 30, 2007 was ($284,000) and at December 31, 2007 ($892,000), as the amounts are so small they do not appear on the chart above.
LW NIL = Lease-Win's on-balance sheet net investment in leases in thousands of Canadian $.

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

Included in the net investment in lease receivables is $1.2 million in securitized lease receivables at Lease-Win, relating to $21.2 million in assets under administration, compared to $26.4 million at December 31, 2008. At June 30, 2009, 76.5% of Lease-Win's gross lease receivable was securitized compared to 78.8% at December 31, 2008, which reflects Lease-Win's decision to self-finance shorter-term leases. Lease-Win has used securitization for funding its leasing activities since July 1997. These securitization transactions have an off-balance sheet component. See "Critical Accounting Policies and Estimates".

Pawnee has acquired a new leasing management system that keeps track of its portfolio and the accounting thereof; the expected cost of the new system is approximately $233,000 and accounts for the majority of the capital expenditures in 2009. None of the Fund's operating businesses require significant capital asset expenditures or depend on capital-intensive operations.

Intangible assets totaled $10.2 million at June 30, 2009 compared to $11.0 million at December 31, 2008. The $785,000 decrease in intangible assets is comprised of a $478,000 increase as the result of the change in foreign exchange rates and $307,000 in amortization of broker relationships and back-end systems. The significant intangible assets of broker relationships and customer relationships do not require any outlay of cash to be maintained, as the creation of lease receivables does not require an outlay of cash, other than commissions, which are separately expensed.

Goodwill totaled $16.7 million at June 30, 2009 compared to $18.5 million at December 31, 2008. The decrease in goodwill is due to the movement in foreign exchange rates. Goodwill is typically tested annually for impairment unless certain circumstances arise that would require an assessment prior to an annual review.

Goodwill Continuity	($ thousands)
Goodwill generated on acquisition of Pawnee	$40,242
Goodwill generated on acquisition of cars4U Ltd	6,626
	46,868
Adjustment for deferred purchase compensation payment	(96)
Goodwill impairment	(278)
Cumulative foreign exchange adjustment	2,024
Goodwill, December 31, 2006	**$48,518**
Goodwill impairment	(16,117)
Cumulative foreign exchange adjustment	(6,427)
Foreign exchange on goodwill impairment	724
Goodwill, December 31, 2007	**$26,698**
Goodwill impairment	(14,823)
Cumulative foreign exchange adjustment	6,637
Goodwill, December 31, 2008	**$18,512**
Cumulative foreign exchange adjustment	(1,824)
Goodwill, June 30, 2009	**$16,688**

Vehicle inventory is financed through vehicle financing credit facilities, of which $6.7 million was outstanding at June 30, 2009 compared to $7.6 million at December 31, 2008, leaving $1.3 million of inventory that was self-financed as at June 30, 2009 compared to $1.0 million of inventory self-financed at December 31, 2008.

Lease financing of $42.6 million at June 30, 2009 is comprised of:

($ thousands)	June 30, 2009	December 31, 2008
Pawnee's credit facility	$41,183	$46,535
Lease-Win's credit facility	1,418	3,037
	$42,601	$49,572
Pawnee's credit facility (U.S.$)	$35,427	$38,000

The $5.4 million decrease in Pawnee's lease financing is predominantly due to US$2.6 million of excess funds applied against credit facility and a decrease in foreign exchange translation of $2.2 million. At June 30, 2009, the deferred financing costs that were previously netted against Pawnee's credit facility were reclassified to Prepaid expenses and other assets, and totaled $162,000 (December 31, 2008 - $166,000). Pawnee has a credit facility that allows borrowings of up to U.S.$52.5 million, subject to, among other things, adhering to certain percentages of eligible gross lease receivables, and the maintenance of a minimum debt to tangible net worth ratio.

This credit facility is secured by substantially all of Pawnee's assets, contains negative covenants including the maintaining of leverage and interest coverage ratios, requires Pawnee to mitigate its interest rate risk by entering interest rate swaps for a notional amount not less than 50% of the aggregate commitment, and matures on May 10, 2011.

Lease-Win's floating rate lease financing is the amount financed through a Canadian chartered bank and not securitized. Many of the leases financed through the bank have certain characteristics that make them ineligible for securitization, such as: age of vehicle, length of term, or concentration of leases from certain customers. Lease-Win's lease financing is repaid over the term of the corresponding leases.

The majority of the $10.7 million in customer security deposits relates to security deposits held by Pawnee. Pawnee's primary lease contract requires that the lessee provide two payments as security deposit (not advance payments), which are held for the full term of the lease and then returned or applied to the purchase option of the equipment at the lessee's request, unless the lessee has previously defaulted (in which case the deposit is applied against the lease receivable). Historically, a very high percentage of lessees' deposits are either applied to the purchase option of the leased equipment at the end of the lease term or used to offset charge-offs. The approximate $563,000 decrease in the security deposit balance from December 31, 2008 is due to a $562,000 decrease as a result of foreign exchange conversion, $25,400 decrease in security deposits at Lease-Win, offset by a $24,200 increase in security deposits at Pawnee.

Most of Lease-Win's lease receivables are sold on a fully serviced basis. Accordingly, upon each securitization a servicing liability is recorded to recognize the potential reduction in the cash flows receivable by the Fund's automotive leasing operations if an amount was paid by the special purpose entity to a replacement servicer. The estimated fees that would otherwise be payable to a replacement servicer forms the basis of determination of the fair value of the servicing liability that is charged against the gain or loss at the time of recognizing the sale of securitized assets. The $289,000 in servicing liability would be payable only if Lease-Win was unable to service the lease receivables that have been sold.

Pawnee enters into interest rate swap agreements with its principal lender under its banking facility that provides for payment of an annual fixed rate. In return, Pawnee receives payment of a LIBOR based floating rate amount. Pawnee's bank has the option to terminate the swaps typically one year prior to the maturity date. The interest rate swaps are intended to offset a portion of the variable interest rate risk on the credit facility. At June 30, 2009, the mark-to-market adjustment is a loss of approximately $2.1 million compared to $2.8 million at December 31, 2008 and is shown as a liability on the balance sheet.

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

The $3.5 million principal amount of convertible debentures (the "Debentures") were issued by the Fund in exchange for convertible debentures in the same principal amount issued by cars4U Ltd. on February 10, 2003. The Debentures bear interest at the rate of 9% per annum, payable quarterly, and were originally to be due on August 10, 2007. The Debentures were amended so as to provide for an extension of the due date to January 31, 2011. The terms of conversion were amended as well. The Debentures are now convertible into Fund Units (at the holders' option) at a conversion price of $3.50 per Fund Unit (the conversion price was previously $15.58 per Fund Unit). The Fund has the option to convert the Debentures into Fund Units (at the conversion price of $3.50 per Fund Unit) in the event that the 20-day average price for the Fund Units is at least $4.40 per Fund Unit. Debentures in the principal amount of $2.8 million (out of the aggregate $3.5 million principal amount of the Debentures) are held by trustees of the Fund and/or directors of Chesswood GP Limited (who were previously directors of cars4U Ltd.), which is a 100% owned subsidiary of the Fund. The change in the conversion option was valued at approximately $80,170.

Future income taxes payable at June 30, 2009 totaled $13.9 million compared to $13.2 million at December 31, 2008, an increase of $675,000. The increase in future income taxes payable is the result of a future income tax provision of approximately $1.1 million offset by a $438,000 decrease as a result of the change in foreign exchange rates.

The Fund is subject to United States federal income taxes as Pawnee's business operates in the United States and subject to Canadian federal and provincial income taxes as Lease-Win and Sherway LP operate in Canada. The structure of the Fund, similar to other cross-border income fund structures, includes inter-company debt that generates inter-company interest expense, as described below under "Liquidity and Capital Resources Overview – Financial Covenants, Restrictions and Events of Default". Taxes payable, and therefore the calculation of income tax expense, have been reduced by this inter-company interest expense. Income taxes in Pawnee and Lease-Win are provided for using the asset and liability method of accounting. This method recognizes future tax assets and liabilities that arise from differences between the accounting basis of the subsidiaries' assets and liabilities and their corresponding tax basis.

At June 30, 2009, there were 6,900,058 Fund Units, 1,274,601 Class B common shares and 203,936 Class C common shares of U.S. Acquisitionco outstanding, totalling $74.9 million. The Class B and C common shares of U.S. Acquisitionco were issued as partial consideration for the acquisition of Pawnee and are fully exchangeable at any time for Fund Units, on a one-to-one basis, through a series of steps.

In November 2008, the Fund's board of trustees approved a normal course issuer bid for the repurchase and cancellation of up to 447,412 of the outstanding Fund Units for the period commencing November 6, 2008 and ending on November 5, 2009. During the six-months ended June 30, 2009, under this issuer bid, the Fund repurchased for cancellation 140,500 Fund Units for a total cost of $281,750 and an average cost of approximately $2.01 per unit. The book value of the Fund Units is $9.05 per unit or $1,271,525 in respect of the units repurchased during the six-month period. The excess of book value over purchase price of $989,775 has been credited to contributed surplus.

On May 13, 2009, the Fund's unitholders approved the adoption of an equity incentive Plan (the "Incentive Plan"). The Incentive Plan is available to (i) the trustees of the Fund, (ii) the directors of Chesswood GP Limited (the Fund's Administrator), (iii) the officers and employees of the Fund and its subsidiaries (together, the Fund's Entities") and (iv) designated service providers who spend a significant amount of time and attention on the affairs and business of one or more Fund Entities (the "Participants"), all as selected by the board of trustees of the Fund or a committee appointed by the board to administer the Incentive Plan (the "Plan Administrators").

The objective of the Incentive Plan is to encourage increased long term equity participation in the Fund by Participants. The Incentive Plan is intended to facilitate long term ownership of the Fund Units by Participants and to provide Participants with additional incentives by increasing their interest, as owners, in the Fund. As well, the trustees of the Fund believe that the Incentive Plan encourages Participants to remain with the Fund Entities, and also attracts new employees to the Fund.

Awards granted under the Incentive Plan may consist of unit options and restricted units. Each such award is subject to the terms and conditions set forth in the Incentive Plan and to those other terms and conditions specified by the Plan Administrators and memorialized in a written award agreement.

The maximum number of Fund Units issuable under the Incentive Plan is 15% of the issued and outstanding Fund Units at any given time, (including for these purposes the 1,479,803 Fund Units issuable upon exchange of Class B and Class C common shares of Chesswood U.S. Acquisitionco Ltd.). Accordingly, options and restricted units relating to up to 1,277,864 Fund Units can be issued pursuant to the Incentive Plan based on currently outstanding Fund Units.

On June 23, 2009, options in respect of 530,000 Fund Units were granted to key employees of the Fund. Compensation costs related to options granted to eligible employees are recognized as a charge to earnings over the vesting period, based on the fair value of the options on the grant date. The options granted in June 2009 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. Each option has an exercise price equal to the 10-day volume weighted average price of the Units at the day prior to the day the option is granted. The options expire on the 10th anniversary of the grant date. Included in contributed surplus and salaries and commission expense is $1,400 relating to the options granted on June 23, 2009. As of June 30, 2009, unrecognized non-cash compensation expense related to non-vested options granted on June 23, 2009 was $242,631, expected to be recognized over the three-year vesting period.

On June 23, 2009, 175,000 restricted units were also granted and these units expire in ten years. At June 30, 2009 accounts payable and other liabilities included accrued compensation costs relating to the restricted units of $6,900 (December 31, 2008 – $0). As of June 30, 2009, unrecognized non-cash compensation expense related to non-vested restricted units granted was $353,600. The Fund expects to recognize this expense over the next year.

LIQUIDITY AND CAPITAL RESOURCES OVERVIEW

The primary sources of cash for the Fund and its subsidiaries have been cash flows from operating activities, and borrowings under its various subsidiaries' credit facilities. The primary uses of cash for the Fund and its subsidiaries are to fund equipment and vehicle leases, long-term debt principal repayments and distributions to unitholders and non-controlling interest. The majority of the cash required for the acquisition of the Fund's operating businesses and related costs was raised through the Fund's initial public offering.

The Fund's automotive dealership may be required to spend approximately $2.0 million in the next few years under a dealership rebranding program as required by the manufacturer.

The Fund's subsidiaries' objective is to maintain low cash balances, investing any free cash in leases as needed and using any excess to pay down debt on the primary financing facilities. The subsidiaries fund working capital needs, lease originations and growth using advances under credit facilities available when operating cash flow is not sufficient. At June 30, 2009, the Fund's operating units had $20.7 million in additional borrowings available under various credit facilities to fund business operations.

During the first quarter of 2009, the maximum permitted borrowings under Pawnee's credit facility was voluntarily reduced by U.S.$5 million to U.S.$52.5 million and its borrowing rate was increased slightly; however, the credit facility continues to provide significant room for growth and an attractive borrowing rate. Pawnee's borrowings on its credit facility were U.S.$35.4 million at June 30, 2009.

The Fund itself does not have any credit facility. Each of its operating subsidiaries has a credit facility. These credit facilities are used to provide funding for the subject subsidiary's operations (i.e. to provide financing for the purchase of assets which are to be the subject of leases or to acquire vehicle inventory and support working capital). The credit facilities are not intended to directly fund distributions by the Fund (and these facilities generally limit the amount which can be distributed up to the Fund to the net income of the subject subsidiary).

Cash Sources and Uses

For the six-months ended June 30, 2009

The Fund's operations generated net cash flow from operations of $16.1 million during the six-months ended June 30, 2009 compared to net cash flow from operations of $9.9 million in the six-months ended June 30, 2008, an increase of $6.2 million compared to the same period in the prior year.

Cash flow generated from operations during the six-months ended June 30, 2009 includes the cash inflow from the decrease in inventory of $597,000 but excludes the $867,000 cash outflow from the decrease in short-term vehicle financing during the six-months ended. Cash flow generated from operations during the six-months ended June 30, 2008 includes the cash outflow from the increase in inventory of $461,000 but excludes the $773,000 increase in short-term vehicle financing.

Thus, cash flow from operations after considering the movement in these short-term working capital items was $15.3 million in the six-months ended June 30, 2009 compared to $10.7 million in the same period in the prior year, an increase of $4.6 million or approximately 43.0% compared to the same period in the prior year. The increase in cash flow year-over-year reflects Pawnee's receipt of approximately $3.8 million in tax refunds in 2009 compared to paying tax instalments of approximately $1.0 million in 2008.

During the six-months ended June 30, 2009, investment made in net direct financing leases of $10.1 million (2008 – $7.3 million) was offset by financing of $1.5 million (2008 - $5.5 million) from proceeds from lease financing and securitization, along with cash received from residual interests in securitizations and security deposits. This resulted in a net cash used of $8.6 million (2008 - $1.8 million) in the investment of leases prior to payments against lease financing credit facilities; a $6.8 million increase of net cash used to fund net investment in leases year-over-year. Pawnee could have utilized their credit facilities further to fund the increase in net investment in leases but had sufficient cash on hand to cover this growth, distributions paid and normal business operations while also allowing Pawnee to apply U.S.$2.5 million of excess funds against their lease financing credit facility during the six-month period.

Cash flow from operations after considering the vehicle financing and leasing transactions was $6.7 million in the six-months ended June 30, 2009 compared to $8.9 million in the same period of the prior year, a decrease of $2.2 million or approximately 24.7% due primarily due to the $6.8 million increase in net cash used in funding net investment in leases offset by the increase in cash flow from operations of $4.6 million resulting from the receipt of approximately $3.8 million in tax refunds in 2009 compared to paying tax instalments of approximately $1.0 million in 2008.

During the six-months ended June 30, 2009, cash payments applied to lease financing credit facilities totalled $5.6 million compared to $5.9 million during the six-months ended June 30, 2008. Of the $5.6 million cash payments toward lease financing credit facilities, $1.6 million (2008 - $323,000) was required payments at Lease-Win.

Cash flow after payments to lease financing credit facilities totalled $1.1 million for the six-months ended June 30, 2009, compared to $3.0 million for the same period in the prior year, a decrease of $1.9 million.

During the six-months ended June 30, 2009, the Fund sold its U.S. dollar foreign exchange forward contracts and received $391,000 (2008 - $1.2 million) on settlement.

The Fund repurchased for cancellation 140,500 Fund Units, under the normal course issuer bid outstanding, for a total cost of $281,750 (2008 – nil) or approximately $2.01 per unit, during the six-months ended June 30, 2009.

Principal payments under long-term debt and capital leases totalled $nil (2008 - $31,000) during the six-months ended June 30, 2009. Capital expenditures totalled $312,000 (2008 – $17,000) during the six-months ended June 30, 2009.

The Fund paid distributions to unitholders in the amount of $1.3 million during the six-months ended June 30, 2009 compared to $2.4 million in the same period in the prior year; a decrease of $1.1 million due to the decrease in distributions per Fund Unit.

In total, in the six-months ended June 30, 2009, there was a decrease in cash of $347,000 compared to $1.7 million in the same period in the prior year.

For the three-months ended June 30, 2009

The Fund's operations generated net cash flow from operations of $9.6 million during the three-months ended June 30, 2009 compared to net cash flow from operations of $4.3 million in the three-months ended June 30, 2008, an increase of $5.3 million compared to the same period in the prior year.

Cash flow generated from operations during the three-months ended June 30, 2009 includes the cash inflow from the decrease in inventory of $1.2 million but excludes the $1.5 million cash outflow from the decrease in short-term vehicle financing. Cash flow generated from operations during the three-months ended June 30, 2008 includes the cash outflow from the increase in inventory of $633,000 but excludes the $407,000 increase in short-term vehicle financing.

Thus, cash flow from operations after considering the movement in these short-term working capital items was $8.1 million in the three-months ended June 30, 2009 compared to $4.7 million in the same period in the prior year, an increase of $3.3 million or approximately70.1% compared to the same period in the prior year. The increase in cash flow year-over-year reflects Pawnee's receipt of approximately $2.4 million in tax refunds in 2009 compared to paying tax instalments of approximately $1.0 million in 2008.

During the three-months ended June 30, 2009, investment in net direct financing leases of $4.5 million (2008 – $3.5 million) was offset by financing of $146,000 (2008 - $2.9 million) from proceeds from lease financing and securitization, cash received from residual interest in securitizations, and security deposits, resulting in a net usage of $4.4 million (2008 - $612,000) of cash used in the investment of leases prior to payments against lease financing credit facilities.

Cash flow from operations after considering the vehicle financing and leasing transactions was $3.7 million in the three-months ended June 30, 2009 compared to $4.1 million in the same period of the prior year, a decrease of $398,000.

During the three-months ended June 30, 2009, cash payments applied to lease financing credit facilities totalled $4.1 million compared to $3.2 million during the three-months ended June 30, 2008. Of the $4.1 million debt repayments during the three-months ended June 30, 2009, $1.0 million related to Lease-Win's scheduled payments or payments relating to leases returned early (2008 - $172,000). The remaining $3.1 million related to Pawnee applying excess cash (that cannot be sent up to the Fund based on bank covenants) against their line of credit.

During the three-months ended June 30, 2009, under the normal course issuer bid outstanding, the Fund repurchased for cancellation 78,500 Fund Units for a total cost of $164,730 or approximately $2.10 per unit. The book value of the Fund Units was $9.05 per unit or $710,425.

Principal payments under long-term debt and capital leases totalled $nil (2008 - $15,000) during the three-months ended June 30, 2009. Capital expenditures totalled $289,000 (2008 – $7,000) during the three-months ended June 30, 2009.

The Fund paid distributions to unitholders in the amount of $636,000 during the three-months ended June 30, 2009 compared to $1.2 million in the same period in the prior year; a decrease of $582,000 due to the decrease in distributions per Fund Unit.

In total, in the three-months ended June 30, 2009, there was a decrease in cash of $1.1 million compared to $358,000 in the same period in the prior year.

Chesswood's trustees and directors will continue to review the Fund's cash flow and cash position, to determine appropriate changes, if any, to the distribution policy going forward. Given the fluctuations in monthly earnings at Pawnee due to market volatility, it is difficult to project charge-off levels and the resultant cash flow. Chesswood's distributable cash may or may not attain the levels necessary to generate the current level of distributions. On July 14, 2009, the Fund announced an increase in the monthly distributions commencing in the third quarter of 2009 from $0.025 to $0.030 per Fund Unit.

The Fund expects that current operations, planned capital expenditures and internal growth for the foreseeable future of its subsidiaries will be financed using funds generated from operations, existing cash, and the funds available under existing credit facilities. The Fund's methodology for calculating distributable cash, which is based on the earnings of its subsidiaries that can be distributed up to the Fund, is subject to the terms of credit facilities which permit distributions based on net income determined in accordance with GAAP (or, in the case of Pawnee, U.S. GAAP). Distributions to date have been funded from operational cash flows (which term is not intended to be a reference to cash flow from operations in the Fund's financial statements, as management believes that cash flow from operations is not an appropriate measure from which to derive or reflect the Fund's distributable cash because normal day-to-day leasing and vehicle financing transactions are required to be grouped under financing and investing activities in accordance with GAAP and therefore cash flows from operations does not reflect these core activities).

The Fund may require additional funds to finance future acquisitions. It will seek such additional funds, if necessary, through public or private equity or debt financings from time to time, as market conditions permit.

Financial Covenants, Restrictions and Events of Default

Each of the Fund's operating subsidiaries is subject to bank and/or manufacturer covenants relative to leverage and/or working capital.

Pawnee funds its business primarily through variable rate borrowings and has a revolving credit facility for up to U.S.$52.5 million which can, subject to certain conditions, be extended to U.S.$65 million. As of June 30, 2009, Pawnee had used approximately U.S.$35.4 million of its available borrowing under this facility. Pawnee's ability to access funding at competitive rates through various economic cycles enables it to maintain the liquidity necessary to manage its business, and its ability to continue to access funding is an important condition to its future success. Pawnee is required to purchase fixed interest rate hedges for at least 50% of the total commitment under its credit facility, and as of June 30, 2009 Pawnee has hedged U.S.$30.0 million, representing approximately 77.9% of the U.S.$35.4 million outstanding under the credit facility.

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

Advances on the revolving facility may be drawn at any time, subject to compliance with borrowing base calculations and compliance with the covenants set out therein. As of June 30, 2009, U.S.$35.4 million was outstanding under the facility and Pawnee had capacity to draw up to and in excess of the U.S.$52.5 million commitment and remain within the borrowing base under the facility.

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

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

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

Pawnee is a wholly-owned subsidiary of U.S. Acquisitionco. The Fund holds its economic interests in U.S. Acquisitionco (and thereby, its economic interests in Pawnee) through (i) the ownership (by Chesswood Holdings Inc., a wholly-owned subsidiary of the Fund) of all of the Class A common shares of U.S. Acquisitionco and (ii) a U.S.$33.5 million subordinated promissory note issued by U.S. Acquisitionco to Chesswood Holding Limited Partnership (the "Holding LP") (the sole limited partner of which is wholly-owned by the Fund) (the "Note"). As such, to the extent that the covenants under Pawnee's credit facility allow, profits of Pawnee flow-up to the Fund through interest payments on the Note and (in periods where further funds can be paid up) through dividends paid on the Class A common shares of U.S. Acquisitionco.

As described above, amounts available to flow up to the Fund from Pawnee are limited by various covenants in Pawnee's senior credit facility, and compliance with such covenants is determined in accordance with U.S. GAAP. As the Note is subordinated to such senior credit facility, and given the importance of the credit facility to Pawnee's ongoing operations, it is in the best interests of the Fund and its subsidiaries that the obligations of U.S. Acquisitionco under the Note not result in any non-compliance by Pawnee (which is consolidated with U.S. Acquisitionco for purposes of Pawnee's senior credit facility covenants) of its financial covenants under its senior credit facility.

As previously announced by the Fund, and as described above, the amounts which could flow-up to the Fund from Pawnee in 2008 were reduced due to lower net income in 2008 compared to 2007, resulting in decreased distributions to the Fund's unitholders. In order to ensure that the terms of the Note allow for compliance with Pawnee's covenants under its senior credit facility, the Holding LP provided a waiver to U.S. Acquisitionco as to payment of interest under the Note in respect of 2008 in excess of levels permitted to be paid under Pawnee's senior lending facility covenants. The waiver, therefore, simply provided consistency of the interest obligations under the Note with the amounts of interest which could actually be paid.

In the first quarter of 2009, Pawnee signed an agreement to amend certain terms and conditions of its Credit Facility. In connection with this agreement, the maximum principal amount of the revolving line of credit was voluntarily reduced to U.S.$52.5 million from U.S.$57.5 million. In addition, the amendment included a waiver from its lenders with respect to a GAAP adjustment to the Company's interest expense on the loan from its parent company (which eliminates in the Fund's consolidated financial statements), and the GAAP adjustment's effect on certain borrowing covenants. The amendments to the Credit Facility address the GAAP interest adjustment on a current and prospective basis, so as to retain the Credit Facility's terms and conditions on a basis consistent with the past.

Distribution to Unitholders

The Fund declared cash distributions during the three-months ended June 30, 2009 as follows:

Unitholder Record Date	Per Unit
January 31, 2009	$0.025
February 28, 2009	$0.025
March 31, 2009	$0.025
April 30, 2009	$0.025
May 31, 2009	$0.025
June 30, 2009	$0.025
	$0.150

Distribution Policy

Our policy is to pay monthly distributions to unitholders of record on the last business day of each month by the 15th of the following month (or the next business day thereafter if the 15th is not a business day). Unitholder distributions are subject to review and approval by the trustees of the Fund and the board of directors of Chesswood GP Limited.

The Fund's trustees and directors review the Fund's cash flow and cash position on an ongoing basis, to determine any appropriate change to the distribution policy going forward.

On July 14, 2009, the Fund announced an increase in the monthly distributions commencing in the third quarter of 2009 from $0.025 to $0.030 per Fund Unit.

Given the fluctuations in monthly earnings at Pawnee due to market volatility, it is difficult to project charge-off levels and the resultant cash flow. Chesswood's distributable cash may or may not attain the levels necessary to generate the current level of distributions.

Minimum payments

The aggregate amount of minimum principal payments required on debt is as follows:

($ thousands)	2009	2010	2011	2012	2013 and beyond	Total
Lease-Win's lease financing (*)	$1,418	$-	$-	$-	$-	$1,418
Pawnee's lease financing credit facility	-	-	41,183	-	-	41,183
Convertible debentures	-	-	3,500	-	-	3,500
Total	$1,418	$-	$44,683	$-	$-	$46,101

(*) $1.4 million of the long-term debt would only be payable in 2009 if the bank called the loan, which is not anticipated. Otherwise the loan is payable over the term of the underlying leases.

OUTLOOK

The continued uncertainty surrounding most western economies, and most notably the U.S. economy, makes forecasts and expectations much more difficult to assess than in the past.

In past downturns, our U.S. business enjoyed growth and increased profitability as competition pulled back and small business sought credit from a much smaller base of lenders, such as Pawnee. We continue to experience a strong flow of new business applications, however the broad uncertainty in the economy makes charge-offs difficult to predict and our credit standards more demanding.

We will continue to watch credit profiles and portfolio performance very closely and adjust credit adjudication and pricing on an ongoing basis.

Both of our businesses – Pawnee and Sherway LP – continue to have strong balance sheets and excellent market positions that management believes will continue to serve Chesswood well in the future.

In Canada, the Federal government's introduction of taxation of income trusts in 2011, which was first announced on October 31, 2006, has impacted upon income trusts generally. The trustees of the Fund and directors of Chesswood GP Limited, working with management and legal, tax and financial advisers, have been and will continue to consider the Fund's current structure and any changes or initiatives, which might provide enhanced unitholder value.

RISK FACTORS

An investment in Fund Units entails certain risk factors that should be considered carefully.

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

Dependence on Key Personnel

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

Relationships with Brokers and Other Origination Sources

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

Risk of Future Legal Proceedings

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

Interest Rate Fluctuations

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

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

Portfolio Delinquencies; Inability to Underwrite Lease Applications

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

In addition, since defaulted leases and certain delinquent leases can neither be used as collateral under its variable rate financing facilities, higher than anticipated lease defaults and delinquencies could adversely affect Pawnee's liquidity by reducing the amount of funding available to it under these financing arrangements. Furthermore, increased rates of delinquencies or loss levels could result in adverse changes to the terms of future financing arrangements, including increased interest rates payable to lenders and the imposition of more burdensome covenants and increased credit enhancement requirements.

Deterioration in Economic or Business Conditions

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

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

Losses from Leases

Losses from leases in excess of Pawnee's or Lease-Win's expectations would have a material adverse impact on our businesses, financial condition and results of operations, and on the amount of cash available for distribution to our unitholders. In connection with financing new leases, Pawnee and Lease-Win determine and record a provision for credit losses in order to maintain an appropriate allowance for credit losses to cover the estimated credit losses for all of the leases in their portfolios. Pawnee and Lease-Win reserve for losses based on their respective historical experience for losses adjusted by management's assessment of the current condition of their portfolios, general economy, condition of the leasing industry and other factors. Should there be a significant change in the above noted factors, then Pawnee and Lease-Win may have to set aside additional reserves which could have a material adverse impact on their respective business, financial condition and results of operations and on the amount of cash available for distribution to our unitholders.

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

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

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

External Financing

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

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

''Characterization'' Risks

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

Pawnee's management has determined that as at June 30, 2009 a small number of its existing portfolio (less than 1.0% of the gross lease receivable balance) consisted of nominal purchase option leases which would probably be interpreted by a court to be non-true leases. If Pawnee were to become the subject of adverse judicial or regulatory action resulting in penalties, fines, or the inability to collect lease payments and/or interest with respect to leases as a result of a determination that such leases were not true leases, it could have a material adverse impact on our business, financial condition and results of operations, and the amount of cash available for distribution to our unitholders.

Defenses to Enforcement of a Significant Amount of Leases

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

Origination, Funding and Administration of Transactions

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

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

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

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

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

State Licensing Requirements

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

Fees and Charges

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

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

Possible Acquisitions

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

Insurance

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

Lessor Liability

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

Liability for Misuse of Leased Equipment

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

Estimates Relating to Value of Leases

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

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

Competition From Alternative Sources of Equipment Financing

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

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

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

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

Fraud by Lessees, Vendors or Brokers

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

Protection of Intellectual Property

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

Stopping unauthorized use of Pawnee's proprietary rights may be difficult, time-consuming and costly. There can be no assurance that Pawnee will be successful in protecting its proprietary rights.

Failure of Computer and Data Processing Systems

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

Competition in the Automobile Retailing Industry

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

Manufacturers' Control Over Dealerships and the Acura Framework Agreement

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

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

Accounting for the Securitization of Leases

Lease-Win is party to various securitization transactions with an off-balance sheet component. The policies discussed below are considered by management to be critical to securing an understanding of Chesswood's financial statements, as they require the use of significant judgment and estimation in order to measure, at a specific point in time, matters that are inherently uncertain. For all of these policies, management cautions that future events rarely develop precisely as forecasted, and estimates routinely require adjustment and may require material adjustment.

Substantially all leases originated by Lease-Win are sold to a securitization trust. Lease-Win removes the leases from its balance sheet and records a gain on the sale. Lease-Win retains an interest in the leases in the form of a interest-only strip and deferred proceeds (residual interest), and assumes first risk of credit losses up to the amount of the reserve held at the Securitization Trust. As the cash flows of the underlying leases and market conditions change, the value of Lease-Win's residual interests may also change, resulting in either additional unrealized gains or impairment of the residual interests.

All leases securitized are transferred with servicing rights retained. Servicing activities include processing of lease payments and the administration of leases. Lease-Win provides for an estimated servicing fee of 1.5% on the outstanding gross receivable of leases securitized, as well as the right to receive certain ancillary income including, but not limited to, late fees and prepayment penalties. Estimated lease servicing costs are recorded in the current liabilities at allocated carrying amounts based on original lease receivable balances. Variations in the prepayment rate assumptions could materially affect the carrying value of the estimated lease servicing liabilities.

Lease-Win is required, under the terms of the securitization, to build and/or maintain reserves to specified levels, using the excess cash flows received, until specified percentages of the securitized portfolio are attained. Lease-Win funds the reserve account from the proceeds of the sale. Upon maturity of the leases, any remaining amounts in the securitization trust are distributed. The estimated future cash flows to be distributed to Lease-Win are included as part of the residual interest and are valued upon the timing of the distribution from the reserve account.

Revenues consist of proceeds from the sale of lease receivables, accretion or impairment on residual interests and excess interest spread received on leases.

Security Risks

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

Cyclicality and Seasonality

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

Imported Products

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

Environmental Matters

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

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

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

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

Risks Related to our Structure and Exchange Rate Fluctuations

The distributions expected to be made to our unitholders will be denominated in Canadian dollars, however, a significant percentage of our revenues are expected to be derived from the revenues of Pawnee, which is in U.S. dollars. Changes in the value of the U.S. dollar could have a negative impact on the amount in Canadian dollars available for distribution to our unitholders.

Unpredictability and Volatility of Unit Price

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

Leverage, Restrictive Covenants

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

Loss of Limited Liability

On December 16, 2004, the *Trust Beneficiaries' Liability Act, 2004,* a new Ontario Statute included in Bill 106, received Royal Assent. That statute provides, in effect, that our unitholders are not liable, as beneficiaries of a trust, for any act, default, obligation or liability of the Fund or as trustees, arising after December 16, 2004. That statute has not yet been judicially considered and it is possible that reliance on the statute by a unitholder could be successfully challenged on jurisdictional or other grounds.

Statutory Remedies

Although the Fund is a legal entity, it is not generally regulated by established corporate law and unitholders' rights are governed primarily by the specific provisions of our Declaration of Trust, which addresses such items as the nature of the Fund Units, the entitlement of our unitholders to cash distributions, restrictions respecting non-resident holdings, meetings of our unitholders, delegation of authority, administration, Fund governance and liabilities and duties of the Fund's trustees to our unitholders. As well, under certain existing legislation such as the *Bankruptcy and Insolvency Act* (Canada) and the *Companies Creditor's Arrangement Act* (Canada), the Fund is not a legally recognized entity within the definitions of these statutes. In the event of an insolvency or restructuring of the Fund, the rights of our unitholders will be different from those of shareholders of an insolvent or restructuring corporation.

Restrictions on Potential Growth

The payout by our operating companies of a significant portion of their distributable cash will make additional capital and operating expenditures dependent upon increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of our operating companies and their cash flow. In addition, recently proposed federal taxation measures would provide expedited applicability of taxation of income trusts to the Fund if we issue equity in excess of certain prescribed annual limits.

Canadian Income Tax Matters

The income of the Fund and its related entities must be computed in accordance with Canadian and foreign tax laws, as applicable, and the Fund is subject to Canadian tax laws, all of which may be changed in a manner that could adversely affect the amount of distributable cash. There can be no assurance that Canadian federal income tax laws and administrative policies respecting the treatment of mutual fund trusts will not be changed in a manner which will adversely affect our unitholders. On October 31, 2006, the Minister of Finance (Canada) announced proposals to amend Canadian tax laws such that many income trusts which are not currently taxable will become taxable as of 2011**.** If the proposed amendments are enacted, then to the extent they are determined to apply to the Fund, the amount of cash available for distribution to our unitholders would be reduced.

United States Income Tax Matters

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

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

A successful challenge of this position would increase the U.S. federal income tax liability of U.S. Acquisitionco, due to the absence of tax deductions for interest payments. Together with the possible dividend withholding tax on such payments, the amount of after-tax cash generated that would otherwise be available to make payments on the Subordinated Acquisitionco Debt and distributions to the Canadian subsidiary of the Fund which is a shareholder of U.S. Acquisitionco would be reduced, thereby having an adverse effect on the cash flow of the Fund available for distribution to our unitholders.

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

In addition, there can be no assurance that future changes to U.S. federal income tax provisions will not otherwise restrict or eliminate the ability of U.S. Acquisitionco to claim a deduction for U.S. federal income tax purposes for interest paid on such indebtedness. In this regard, proposed legislation has been introduced, through not enacted, several times in recent years to amend existing laws or regulations, particularly with respect to ''earnings stripping'' rules.

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

There is a risk that the "portfolio interest exemption" may not be available to any of the Fund's non-U.S. unitholders. If that occurs, U.S. withholding tax at a rate of 30% (subject to possible reduction to 10% under the Canada – U.S. tax treaty) may be imposed on interest payments on the Subordinated Acquisitionco Debt, and thus the cash flow of the Fund available for distribution to our unitholders may be adversely affected. U.S. Acquisitionco intends to take the position that the "portfolio interest exemption" should apply for those non-U.S. unitholders who meet certain ownership, identity and certification requirements, provided that the Fund is classified as a partnership for U.S. federal income tax purposes (and as long as it meets the "qualifying income exception" to the U.S. publicly traded partnership rules). U.S. Acquisitionco has received an opinion from U.S. tax counsel that the portfolio interest exemption should apply to non-U.S. unitholders. There is limited, non-binding IRS authority that the 10% threshold should be determined at the Fund unitholder level, not at the Fund level, which generally would allow for the portfolio interest exemption to apply. There can be no certainty, however, that the IRS will not take a contrary position. Furthermore, Treasury or the U.S. Congress may enact regulations or legislation, respectively, that supersede this position. If the portfolio interest exemption did not apply, U.S. withholding tax would arise on the interest payments made to the Fund that are attributable to our non-U.S. unitholders. This would have an adverse effect on the cash flow of the Fund available for distribution to our unitholders.

Although the burden of the U.S. tax liability would fall ultimately upon the non-U.S. unitholder that does not qualify for the portfolio interest exception, the obligation to withhold the U.S. taxes due would fall on U.S. Acquisitionco. U.S. Acquisitionco is not anticipating the imposition of any withholding obligation provided that the ownership, identity and certification requirements are met, and is not establishing any reserves or hold-backs to fund any such obligation. If the IRS were to seek collection of unpaid withholding taxes from U.S. Acquisitionco, U.S. Acquisitionco may also be subject to interest and penalties, which would reduce the available cash flow for all our unitholders.

U.S. Acquisitionco has not established any procedure for monitoring the level of investment of non-U.S. unitholders, so its assumption that individual non-U.S. unitholders will hold less than 10% of the stock of U.S. Acquisitionco (after the application of U.S. attribution rules) is based solely upon its observations of patterns of trading in similar Canadian investment funds.

If any non-U.S. unitholder is or becomes ineligible for the portfolio interest exemption, such unitholder is required to give notice to the Fund, pursuant to our Declaration of Trust. The Declaration of Trust contains provisions that allow U.S. Acquisitionco and the Fund to recover from a unitholder amounts that should have been, but were not, withheld from a distribution to such unitholder because of failure to provide such notice. However, there can be no assurance that U.S. Acquisitionco and the Fund will be able to recover these amounts in full or at all, which could result in a reduction in cash available for distribution to other unitholders.

It is possible that new U.S. ''corporate inversion'' tax rules could apply to U.S. Acquisitionco's acquisition of Pawnee. If these rules were to apply, they could prevent certain types of income of Pawnee from being offset by certain tax attributes such as loss carryforwards. However, because it is not anticipated that Pawnee will have significant amounts of the types of income that are subject to these rules, the potential adverse effect of these rules should not be significant.

RELATED PARTY TRANSACTIONS

1) Debentures in the principal amount of $2.8 million (out of the aggregate $3.5 million principal amount of the Debentures) are held by trustees of the Fund and/or directors of Chesswood GP Limited, which is a 100% owned subsidiary of the Fund.

2) Pawnee leases a 10,800 square foot office facility. The lessor is a related party because of common ownership between itself and the holders of the Class B and C common shares of Chesswood U.S. Acquisitionco Ltd. (the subsidiary through which the Fund holds its interest in Pawnee). As of June 30, 2009, the minimum lease payments are U.S.$189,000 per year triple net and run through 2011, with options for two additional five-year terms.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Understanding the Fund's accounting policies is essential to understanding the results of the Fund's operations and financial condition. The Fund's significant accounting policies are described in Note 1 to the Fund's consolidated financial statements for the year ended December 31, 2008. The preparation of these financial statements requires us to make estimates and judgments that affect reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. On an ongoing basis, we evaluate our estimates, including credit losses, residuals, initial direct costs and fees, other fees and realizability of deferred tax assets. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties. Our financial statements are based on the selection and application of critical accounting policies, the most significant of which are described below.

Revenue Recognition

Direct financing lease income is recognized under the effective interest method. The effective interest method of income recognition applies a constant rate of interest equal to the internal rate of return on the lease.

Late Fee and Other Income

Late fee and other income consists of charges and fees for such things as administration fees to process each lease at origination, late fees, collection call charges, property tax management fees, interim rental fees, insurance fees and lease termination fees. Fee income also includes net residual income, which includes income from lease renewals and gains and losses on the realization of residual values of equipment disposed of at the end of term. Fees are recognized when received. Net residual income includes charges for the reduction in estimated residual values on equipment for leases in renewal and is recognized during the renewal period.

Lease Residual Values

A direct financing lease is recorded at the aggregate future minimum lease payments plus the estimated residual values less unearned income. Residual values reflect the estimated amounts to be received at lease termination from lease extensions, sales or other dispositions of leased equipment. These estimates are based on industry data and on our experience. Management performs periodic reviews of the estimated residual values and any impairment, if other than temporary, is recognized in the current period.

Allowance for Credit Losses

Pawnee's policy is to maintain an allowance for doubtful accounts, as a percentage of its net investment in leases, equal to the last twelve-month rolling net charge-off percentage level.

Pawnee management's periodic evaluation of the adequacy of the allowance is based on past loss experience of known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions. These estimates involve judgments and a certain level of subjectivity. Pawnee ceases to accrue interest income on leases after they become 91 days contractually past due, and charges off leases when they become 151 days contractually past due, unless information indicates that an earlier charge-off is warranted.

Pawnee uses a comprehensive proprietary software tracking system that permits it to track all of the receivables by various categories. Receivables are normally tracked by type of industry and equipment, geographic location, size of lease, and broker. Additional tracking is created on a case-by-case basis as new programs are added or management desires to evaluate specific aspects of the portfolio's performance. A provision is charged against earnings to maintain the allowance for credit losses at the appropriate level.

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

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

Accounting for the Securitization of Leases and Off-Balance Sheet Arrangements

The Fund, through its subsidiary Lease-Win, transfers or sells receivables to a securitization trust (the "Securitization Trust") as a means of financing its automobile finance contracts. These securitization transactions have an off-balance sheet component. These transactions are currently considered a sale under Canadian GAAP. As such, Lease-Win is required to make estimates in respect of frequency, timing and severity of losses and prepayment on the underlying pools of assets sold, which impacts the future expected cash flows Lease-Win would expect to receive from the sale of the receivables. The expected cash flows are discounted at a rate that Lease-Win feels is commensurate with the underlying risk of the receivables. Changes in these estimates or significant variations in actual performance from these estimates could significantly impact Lease-Win's financial results in a period.

Substantially all leases originated are sold to the Securitization Trust which result in the sale of the leases. Lease-Win removes the leases from its balance sheet and records a gain on the sale. Lease-Win retains an interest in the leases in the form of an interest-only strip and deferred proceeds (residual interest and cash reserve monies), that is recorded as an asset on the balance sheet and assumes first risk of credit losses up to the amount of the reserve held by the Securitization Trust. As the cash flows of the underlying leases and market conditions change, the value of Lease-Win's residual interests may also change, resulting in either additional unrealized gains or impairment of the residual interests.

All leases securitized are transferred with servicing rights retained. Servicing activities include processing of lease payments and the administration of leases. Lease-Win provides for an estimated servicing fee of 1.5% on the outstanding gross receivable of leases securitized, as well as the right to receive certain ancillary income including, but not limited to, late fees and prepayment penalties. Estimated lease servicing costs are recorded in the liabilities at allocated carrying amounts based on original lease receivable balances. Variations in the prepayment rate assumptions could materially affect the carrying value of the estimated lease servicing liabilities.

Lease-Win is required, under the terms of its securitizations, to build and/or maintain reserves to specified levels, using the excess cash flows received, until specified percentages of the securitized portfolio are attained. Lease-Win funds the reserve account from the proceeds of the sale. Upon maturity of the leases, any remaining amounts in the Securitization Trust are distributed. The estimated future cash flows to be distributed to Lease-Win are included as part of the residual interest and are valued upon the timing of the distribution from the reserve account.

Revenue from automotive operations include revenues from proceeds from the sale of lease receivables, accretion or impairment on residual interests, lease servicing fees and excess interest spread received on leases.

Gains on Sale of Lease Receivables

When Lease-Win securitizes its lease receivables, it records a gain on sale. Lease-Win calculates the gains on sale as the cash proceeds less the allocated cost of leases sold and the estimated servicing liability. The relative fair value of the receivable is determined using discounted cash flow models, which require various management assumptions (see discussion below under "Valuation of Residual Interests"). Variations in these assumptions affect the estimated fair values, which would affect the reported gains on sale.

Valuation of Residual Interests

Lease-Win uses discounted cash flow models to arrive at the estimated fair values of its residual interests. The fair value of residual interests is estimated by computing the present value of the future cash flows from the retained interest and the reserve account less expected losses to be incurred on the portfolio of the leases sold (as projected to occur) over the terms of the leases. Prepayment and loss assumptions used in estimating the cash flows are based on evaluations of the actual experience of Lease-Win's servicing portfolio, the characteristics of the applicable lease portfolio, as well as taking into consideration the current economic and interest rate environments and their expected impact. The prepayment speeds are somewhat correlated with the movement of market interest rates. As market interest rates decline there is a corresponding increase in actual and expected borrower prepayments as customers refinance existing leases under more favourable interest rate terms. This, in turn, reduces the anticipated cash flows from the residual interests. The estimated cash flows are discounted at an interest rate Lease-Win believes an unaffiliated third-party purchaser would require as a rate of return on a financial instrument with a similar risk profile. Lease-Win evaluates the fair values of residual interests quarterly by updating the actual and expected assumptions in the discounted cash flow models based on current information and events and by estimating, or validating with third-party experts, if necessary, what a market participant would use in determining the current fair value. Variations in the above assumptions, as well as the discount rate and interest rate assumptions, could materially affect the estimated fair values, which may require Lease-Win to record impairments or unrealized gains. In addition, variations will also affect the amount of residual interest accretion recorded on a monthly basis.

As the cash flows of the underlying leases and market conditions change, the value of Lease-Win's residual interest may also change, resulting in either additional unrealized gains or impairment of the value of the residual interests.

Accounting for Goodwill and Intangible Assets

Current GAAP require that goodwill and other intangible assets with indefinite useful lives no longer be amortized, but instead be evaluated for impairment on an annual basis, or more frequently if certain events or circumstances exist. The Fund will evaluate the goodwill balances in the last quarter of each fiscal year, at a minimum. If the fair value of a subsidiary is less than its carrying value, then the implied fair value of the goodwill must be compared to the carrying value of that goodwill. In the instance that the fair value of the goodwill is less than the carrying value, goodwill is deemed to be impaired and an impairment loss, equal to the amount by which the fair value exceeds the carrying value, must be recorded.

The performance of the goodwill impairment test is subject to significant judgment in determining the fair value of the subsidiaries, due to the estimation of future cash flows, discount rates, and other assumptions. Changes in these estimates and assumptions could have a significant impact on the fair value and/or goodwill impairment.

Interest Rate Swaps and Foreign Exchange Contracts

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

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

Chesswood Holdings LP, a wholly owned subsidiary of the Fund, had entered into foreign exchange contracts to manage its exposure to the U.S. dollar as significant cash flows for unitholder distributions are generated in the U.S. As the foreign exchange contracts related to equity transactions, they do not qualify as a hedge for accounting purposes, and are therefore recorded as separate derivative financial instruments. The fair value is determined from a monthly market valuation report obtained from its bank counterparty.

Income Taxes

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

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

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 30.5% 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 provides that existing SIFT trusts will be grandfathered and the trust distribution tax will not apply until 2011 as long as normal growth guidelines are met.

The Fund is considered a SIFT trust and is expected to be subject to the trust distribution tax commencing in 2011 assuming no changes in the current structure occur. GAAP requires the Fund to recognize future income tax assets and liabilities based on estimated temporary differences expected as at January 1, 2011, and on the basis of its structure at the balance sheet date. GAAP does not permit the Fund to consider future changes to its structure.

Most of the Fund's future income tax assets and liabilities are already recorded as substantially all operating assets are held by Pawnee and Lease-Win which are corporations and are tax paying entities. The Fund estimates that the unrecognized temporary differences, in the other subsidiaries, outstanding as of June 30, 2009 that will remain outstanding as of January 1, 2011 is approximately $3 million resulting in a future tax asset of $914,000, based on an effective tax rate of 30.5%. The Fund's estimate of its future income taxes will vary based on actual results of the factors described above, and such variations may be material.

RECENT ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2009, the CICA’s new Handbook Section 3064, Goodwill and Intangible Assets was adopted. The Section clarifies that costs can be deferred only when they relate to an item that meets the definition of an asset, and as a result, start-up costs must be expensed as incurred. Section 1000, Financial Statements Concepts was also amended to provide consistency with Section 3064. The adoption of these new Sections did not have any impact on the consolidated financial position or earnings of the Fund.

Future changes in accounting policy

Section 1582, Business Combinations. This new Section will be applicable to business combinations for which the acquisition date is on or after the Fund's interim and fiscal year beginning January 1, 2011. Early adoption is permitted. This section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. The Fund has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

Section 1601 Consolidated financial statements. This new Section will be applicable to financial statements relating to the Fund's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for the preparation of consolidated financial statements. The Fund has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

Section 1602, Non-Controlling interests. This new Section will be applicable to financial statements relating to the Fund's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Fund has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

IFRS-IASB

In 2006, Canada's Accounting Standards Board ("AcSB") ratified a strategic plan that will result in Canadian GAAP, as used by public entities being converged with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") over a transitional period. In February 2008, the AcSB confirmed that the changeover to IFRS-IASB from Canadian GAAP will be required for publicly accountable enterprises effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The AcSB issued the "omnibus" exposure draft of IFRS in March 2008. The eventual changeover to IFRS represents a change due to new accounting standards.

The Fund has selected the transition date of January 1, 2011 as the date of adoption of IFRS-IASB and this will require the restatement for comparative purposes of amounts reported by the Fund for the year ended December 31, 2010. The implementation of IFRS-IASB and the transition to IFRS-IASB will be managed by the Director of Finance. Third party advisors have been engaged to assist in the implementation and transition project. The Director of Finance has attended several training courses in order to gain the necessary knowledge to create a transition plan and understand the impact of a change to IFRS-IASB from Canadian GAAP.

The Fund has identified the following phases that will have to be completed prior to the adoption of IFRS-IASB:

1) *Initial impact assessment and scoping* – This phase includes the identification of the relevant differences between existing Canadian GAAP and the current state of IFRS-IASB.

   An initial evaluation has been completed to analyze potential significant differences between current IFRS and Canadian GAAP as they apply to the Fund. The results of this assessment identified:

   - Preliminary analysis of all Canadian GAAP to IFRS differences and IFRS 1 elections and resulting prioritization of high, medium and low impact areas of focus for the Fund based on potential impact;
   - Preliminary resource requirements;
   - Preliminary training requirements;
   - A preliminary IFRS Transition Plan.

2) *Identification and selection* - This phase includes identification, evaluation and selection of accounting policies necessary for the Fund to change over to IFRS-IASB. This phase also includes other operational elements such as information technology, internal control over financial reporting and training.

   Currently underway are the identification, evaluation and selection of accounting policies necessary for the Fund to change over to IFRS-IASB; consideration of impacts on operational elements, such as information technology and internal control over financial reporting, are integral to this process. Training activities occurred during the current reporting period.

   During fiscal 2009, the Fund will establish and execute a formal IFRS Transition Plan. This plan will include:

- An established project structure and governance practices
- Detailed timetable for fiscal 2009 and 2010
- Identification and allocation of resources (combination of internal and external)
- Development and execution of a training program
- Detailed analysis of all Canadian GAAP to IFRS differences
- Detailed analysis and selection of all IFRS 1 elections
- Assessment of impact on data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements

Although its impact assessment activities are underway and progressing according to a plan, continued progress is necessary before the Fund can prudently increase the specificity of the disclosure of pre- and post-IFRS-IASB changeover accounting policy differences.

3) *Integration* – during this phase the Fund will integrate the necessary procedures into the Fund's underlying financial system and processes that are required for the Fund to change over to IFRS-IASB.

The IASB's work plan currently, and expectedly, has projects underway that are expected to result in new pronouncements that continue to evolve IFRS-IASB, and, as a result, IFRS-IASB as at the transition date is expected to differ from its current form. In August 2008, the United States Securities and Exchange Commission issued a proposed road map that would permit certain United States reporting issuers to use IFRS-IASB in their filings. This proposal is a significant development as it contemplates mandatory usage of IFRS-IASB by all United States reporting issuers as early as 2014. It is not possible to currently assess the impact, if any, this proposal will have on the IASB's work plan.

The impact of adopting IFRS-IASB will have on the Fund's consolidated financial statements will only be finalized when the first set of audited financial statements are prepared for December 31, 2011. Until this time the IFRS-IASB standards, especially given the on-going IASB work plan; and the application of these standards, may change and any consequential impact on the financial statements may be material. Management continues to monitor these regulatory developments.

The Fund will present its results for fiscal 2010 using Canadian GAAP while also presenting supplementary disclosure for fiscal 2010 according to IFRS. To accomplish this, in 2010 the Fund will effectively maintain two parallel books of account.

As the Fund transitions from Canadian GAAP to IFRS it is required to qualitatively disclose its implementation impacts. As our IFRS Transition Plan progresses, disclosure on pre- and post-IFRS implementation accounting policy differences is expected to increase. Over the next year the Fund with the assistance of its advisor will refine its transitional plan and assess the impact on internal controls over financial reporting, disclosure controls, and information systems. On a quarterly basis the Fund will be updating its MD&A disclosures to report on the progress of its transition plan.

CONTROLS & PROCEDURES

Chesswood's Chief Executive Officer and Director of Finance, evaluated or caused an evaluation under their direct supervision of, the design and operating effectiveness of many of the Fund's disclosure controls and procedures (as defined in National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings) as at June 30, 2009 and have concluded that the disclosure controls and procedures were appropriately designed.

Chesswood has also established internal controls over financial reporting (as defined in National Instrument 52-109) ("ICFR") to provide reasonable assurance regarding the reliability of the Fund's financial reporting and preparation of its financial statements for external purposes in accordance with GAAP. The Fund's Chief Executive Officer and Director of Finance assessed, or caused an assessment under their direct supervision of, the design and operating effectiveness of the Fund's ICFR as at June 30, 2009 using the Committee of Sponsoring Organizations Internal Control - Integrated Framework. Based on that assessment, it was determined that the Fund's ICFR was designed appropriately with the below noted exceptions. The assessment also determined that the Fund did not conduct sufficient control testing to assess the operating effectiveness of all of its ICFR. Arrangements have been made for the independent review of the key controls of the Fund.

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

Weakness of Controls

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

1) Segregation of Duties

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

2) Information Technology Controls

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

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

3) Anti-fraud controls

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

No changes were made to the design of the Fund's ICFR during the quarter ended June 30, 2009 that would have materially affected or would be reasonably likely to materially affect the Fund's ICFR.

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

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

MARKET FOR SECURITIES

The Fund Units are traded on the Toronto Stock Exchange under the symbol CHW.UN. The following table summarizes the high and low sales prices of the Fund Units and the average daily trading volume for each month in the period ended June 30, 2009, as reported by the Toronto Stock Exchange.

2009	High	Low	Average Daily Volume
January	$2.28	$1.17	5,235
February	$2.20	$1.70	777
March	$2.05	$1.50	28,097
April	$2.00	$1.80	19,091
May	$2.30	$1.81	29,773
June	$2.23	$2.04	1,839
	$2.30	$1.17	13,811

ADDITIONAL INFORMATION

Additional information about the Fund is available:

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

CHESSWOOD INCOME FUND
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

	June 30, 2009 (unaudited)	December 31, 2008 (audited)
ASSETS		
Cash	**$ 5,327**	$ 5,675
Accounts receivable	**1,318**	1,190
Inventories	**7,992**	8,589
Prepaid expenses and other assets	**1,417**	1,915
Prepaid income taxes	**1,515**	4,427
Net investment in leases *(note 2)*	**87,306**	91,681
Future income tax asset	**914**	914
Property and equipment - net	**825**	627
	106,614	115,018
Intangible assets	**10,209**	10,994
Goodwill	**16,688**	18,512
TOTAL ASSETS	**$ 133,511**	$ 144,524
LIABILITIES		
Accounts payable and accrued liabilities	**$ 3,982**	$ 4,469
Distributions payable	**209**	220
Vehicle financing	**6,716**	7,583
Lease financing	**42,601**	49,572
Customer security deposits	**10,718**	11,281
Servicing liability	**289**	414
Interest rate swaps	**2,108**	2,755
Convertible debentures	**3,449**	3,433
Future income taxes	**13,901**	13,226
	83,973	92,953
UNITHOLDERS' EQUITY		
Fund units *(note 5)*	**74,869**	76,141
Conversion option	**80**	80
Contributed surplus *(note 5)*	**1,065**	74
Accumulated other comprehensive income	**2,663**	5,844
Deficit	**(29,139)**	(30,568)
	49,538	51,571
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY	**$ 133,511**	$ 144,524

Please see notes to consolidated financial statements.

CHESSWOOD INCOME FUND
INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(in thousands of dollars, except per unit amounts)
(unaudited)

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2009	2008	2009	2008
REVENUE		*(note 5(c))*		*(note 5(c))*
Revenue - automotive operations	**$ 13,715**	$ 16,408	**$ 21,739**	$ 32,263
Direct financing lease income	**6,793**	5,897	**13,874**	11,902
Ancillary lease and other income	**1,190**	1,016	**2,493**	2,063
	21,698	23,321	**38,106**	46,228
COST OF SALES - automotive operations	**11,658**	13,899	**18,136**	27,464
GROSS PROFIT	**10,040**	9,422	**19,970**	18,764
EXPENSES				
Salaries and commissions	**1,852**	1,944	**3,683**	3,781
Provision for credit losses	**3,864**	3,498	**8,157**	7,987
General and administrative	**1,725**	1,676	**3,402**	3,239
Interest on long-term debt	**1,002**	919	**2,150**	1,891
Other interest	**25**	52	**62**	116
Amortization	**235**	204	**445**	409
	8,703	8,293	**17,899**	17,423
INCOME BEFORE ITEMS BELOW	**1,337**	1,129	**2,071**	1,341
Unrealized gain (loss) on interest rate swaps	**447**	572	**526**	(25)
Unrealized gain (loss) on foreign exchange contracts	**104**	-	**-**	(270)
Net gain on foreign exchange	**395**	15	**407**	110
Goodwill and intangible asset impairment	**-**	(14,823)	**-**	(14,823)
	946	(14,236)	**933**	(15,008)
INCOME (LOSS) BEFORE INCOME TAXES	**2,283**	(13,107)	**3,004**	(13,667)
Provision for income taxes	**141**	479	**306**	172
NET INCOME (LOSS)	**$ 2,142**	$ (13,586)	**$ 2,698**	$ (13,839)
Basic and diluted income (loss) per unit *(note 6)*	$ 0.25	$ (1.59)	**$ 0.32**	$ (1.62)

Please see notes to consolidated financial statements.

CHESSWOOD INCOME FUND
INTERIM CONSOLIDATED STATEMENTS OF DEFICIT
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(in thousands of dollars)

	FOR THE THREE MONTHS ENDED JUNE 30, 2009	FOR THE THREE MONTHS ENDED JUNE 30, 2008 *(note 5(c))*	FOR THE SIX MONTHS ENDED JUNE 30, 2009	FOR THE SIX MONTHS ENDED JUNE 30, 2008 *(note 5(c))*
Deficit, balance at beginning of period	**$ (30,647)**	$ (15,389)	**$ (30,568)**	$ (13,929)
Net income (loss)	**2,142**	(13,586)	**2,698**	(13,839)
Distributions	**(634)**	(1,230)	**(1,269)**	(2,437)
Deficit, balance at end of period	**$ (29,139)**	$ (30,205)	**$ (29,139)**	$ (30,205)

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(in thousands of dollars)

	FOR THE THREE MONTHS ENDED JUNE 30, 2009	FOR THE THREE MONTHS ENDED JUNE 30, 2008 *(note 5(c))*	FOR THE SIX MONTHS ENDED JUNE 30, 2009	FOR THE SIX MONTHS ENDED JUNE 30, 2008 *(note 5(c))*
Net income (loss)	**$ 2,142**	$ (13,586)	**$ 2,698**	$ (13,839)
Other comprehensive income, net of tax				
Change in unrealized gains on translating financial statements of self-sustaining foreign operations	**(5,005)**	(465)	**(3,181)**	1,601
Total other comprehensive income (loss), net of tax	**(5,005)**	(465)	**(3,181)**	1,601
Comprehensive income for the period	**$ (2,863)**	$ (14,051)	**$ (483)**	$ (12,238)

INTERIM CONSOLIDATED STATEMENTS OF ACCUMULATED
OTHER COMPREHENSIVE INCOME (LOSS)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(in thousands of dollars)

	FOR THE THREE MONTHS ENDED JUNE 30, 2009	FOR THE THREE MONTHS ENDED JUNE 30, 2008 *(note 5(c))*	FOR THE SIX MONTHS ENDED JUNE 30, 2009	FOR THE SIX MONTHS ENDED JUNE 30, 2008 *(note 5(c))*
Accumulated other comprehensive income (loss), beginning of period	**$ 7,668**	$ (4,334)	**$ 5,844**	$ (6,400)
Other comprehensive income (loss) for the period	**(5,005)**	(465)	**(3,181)**	1,601
Accumulated other comprehensive income (loss), end of period	**$ 2,663**	$ (4,799)	**$ 2,663**	$ (4,799)

CHESSWOOD INCOME FUND
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(in thousands of dollars)
(unaudited)

	FOR THE THREE MONTHS ENDED JUNE 30, 2009	FOR THE THREE MONTHS ENDED JUNE 30, 2008	FOR THE SIX-MONTHS ENDED JUNE 30, 2009	FOR THE SIX-MONTHS ENDED JUNE 30, 2008
CASH PROVIDED BY (USED IN)		*(note 5(c))*		*(note 5(c))*
OPERATING ACTIVITIES				
Net income (loss) for the period	**$ 2,142**	$ (13,586)	**$ 2,698**	$ (13,839)
Add (deduct) items not involving cash:				
Amortization	**235**	204	**445**	409
Goodwill and intangible asset impairment	**-**	14,823	**-**	14,823
Accretion expense on lease financing	**35**	35	**92**	94
Accretion expense on convertible debentures	**8**	-	**16**	-
Gain on sale of leased vehicles	**(123)**	(159)	**(240)**	(237)
Unrealized (gain) loss on interest rate swaps	**(447)**	(572)	**(526)**	25
Unrealized gain on sale of lease receivables, net of provision for prepayment and provision for credit losses	**-**	(77)	**(8)**	(179)
Impairments of retained interest in securitizations	**(51)**	(197)	**(179)**	(499)
Amortization of securitization servicing liability	**(45)**	(120)	**(88)**	(189)
Provision for credit losses	**4,523**	4,276	**9,650**	9,408
Unit-based compensation expense	**8**	-	**8**	-
Provision for income taxes	**(433)**	2,199	**154**	1,177
Unrealized loss on foreign exchange contracts	**(104)**	-	**-**	270
Net gain on foreign exchange	**(395)**	(15)	**(407)**	(110)
	5,353	6,811	**11,615**	11,153
Changes in non-cash working capital items relating to operations				
Accounts receivable	**(564)**	631	**(128)**	1,437
Inventories	**1,212**	(633)	**597**	(461)
Prepaid and other assets	**353**	(907)	**595**	(763)
Prepaid income taxes	**2,403**	(942)	**2,789**	(998)
Accounts payable and accrued liabilities	**832**	(624)	**649**	(461)
	4,236	(2,475)	**4,502**	(1,246)
Cash provided by operating activities	**9,589**	4,336	**16,117**	9,907
INVESTING ACTIVITIES				
Purchase of property and equipment - net	**(289)**	(7)	**(312)**	(17)
Purchase of Fund Units	**(165)**	-	**(282)**	-
Cash received from residual interest in securitization	**510**	674	**889**	1,223
Increase in net investment in leases	**(4,875)**	(3,540)	**(10,129)**	(7,319)
Decrease in security deposits	**35**	(260)	**(1)**	(564)
Cash used in investing activities	**(4,784)**	(3,133)	**(9,835)**	(6,677)
FINANCING ACTIVITIES				
Proceeds from securitization of leases	**-**	1,529	**137**	3,730
Vehicle financing	**(1,521)**	407	**(867)**	773
Proceeds from lease financing	**-**	959	**578**	1,075
Lease financing payments	**(4,145)**	(3,223)	**(5,561)**	(5,895)
Servicing liability	**(20)**	10	**(37)**	38
Mortgage principal payments	**-**	(14)	**-**	(28)
Obligations under capital leases	**-**	(1)	**-**	(3)
Proceeds from sale of foreign exchange forward contracts	**391**	-	**391**	1,235
Cash distributions paid	**(636)**	(1,218)	**(1,282)**	(2,426)
Cash used in financing activities	**(5,931)**	(1,551)	**(6,641)**	(1,501)
Unrealized foreign exchange gain on cash	**(8)**	(10)	**11**	16
Net increase (decrease) in cash	**(1,134)**	(358)	**(348)**	1,745
Cash, beginning of period	**6,461**	4,455	**5,675**	2,352
Cash, end of period	**$ 5,327**	**$ 4,097**	**$ 5,327**	$ 4,097

Supplemental disclosures of cash flow information (see note 7)

Please see notes to consolidated financial statements.

These consolidated financial statements of Chesswood Income Fund (the "Fund") have been prepared by management in accordance with Canadian generally accepted accounting principles. The disclosures contained in the unaudited interim consolidated financial statements do not include all requirements of generally accepted accounting principles for annual financial statements. The unaudited interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the period ended December 31, 2008. The unaudited interim consolidated financial statements are based upon accounting principles consistent with those used and described in the annual consolidated financial statements, except those listed in note 1.

Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end and the results of operations for the interim periods shown in this report are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all adjustments (of a normal recurring nature) which are necessary to present fairly the financial position of the Fund as of June 30, 2009 and the results of operations and cash flows for the three and six months ended June 30, 2009.

All financial information is presented in Canadian dollars, unless otherwise noted.

1. Change in Accounting Policies

Effective January 1, 2009, the CICA's new Handbook Section 3064, Goodwill and Intangible Assets was adopted. The Section clarifies that costs can be deferred only when they relate to an item that meets the definition of an asset, and as a result, start-up costs must be expensed as incurred. Section 1000, Financial Statements Concepts was also amended to provide consistency with Section 3064. The adoption of these new Sections did not have any impact on the consolidated financial position or earnings of the Fund.

Future accounting changes

a) Section 1582, Business Combinations. This new Section will be applicable to business combinations for which the acquisition date is on or after the Fund's interim and fiscal year beginning January 1, 2011. Early adoption is permitted. This section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. The Fund has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

b) Section 1601 Consolidated financial statements. This new Section will be applicable to financial statements relating to the Fund's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for the preparation of consolidated financial statements. The Fund has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

c) Section 1602, Non-Controlling interests. This new Section will be applicable to financial statements relating to the Fund's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Fund has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

d) International financial reporting standards ("IFRS")
The Canadian Accounting Standards Board ("AcSB") confirmed that the adoption of IFRS would be effective for the interim and annual periods beginning on or after January 1, 2011 for Canadian publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for these enterprises. Comparative IFRS information for the previous fiscal year will also have to be reported. These new standards will be effective for the Fund in the first quarter of 2011.

The Fund is currently in the process of evaluating the potential impact of IFRS to the consolidated financial statements. This will be an ongoing process as the International Accounting Standards Board and the AcSB issue new standards and recommendations. The Fund's consolidated financial performance and financial position as disclosed in the Fund's current GAAP financial statements may be significantly different when presented in accordance with IFRS.

2. Net Investment In Leases

The Fund's net investment in direct finance leases includes the following:

	June 30, 2009	December 31, 2008
	($ thousands)	
Total minimum lease payments for non-securitized leases	**$124,996**	$129,383
Estimated residual values of leased equipment	**11,200**	12,491
Initial direct costs of lease acquisition	**6,305**	6,368
	142,501	148,242
Unearned income	**(42,463)**	(44,456)
	100,037	103,786
Allowance for doubtful accounts	**(13,961)**	(14,032)
	86,076	89,754
Securitized lease receivable	**1,230**	1,927
Net investment in leases	**87,306**	91,681
Less: Current portion	**(22,560)**	(24,263)
Net investment in leases - long-term portion	**$64,746**	$67,418

	For the six-months ended	
	June 30, 2009	June 30, 2008
The activity in the allowance for doubtful accounts is as follows:	*($ thousands)*	
Opening balance	**$14,032**	$7,850
Provision for credit losses	**8,157**	7,987
Impact of change in foreign exchange rates over period	**(714)**	305
Direct write-downs, net of recoveries	**(7,514)**	(5,741)
Ending balance	**$13,961**	$10,401

Securitization lease receivable - Lease-Win sells financing leases through securitization transactions. In all of those securitizations, Lease-Win retained servicing responsibilities and subordinated interests. Lease-Win retains the right to a portion of the future cash flows arising after investors in the securitization trust have received the return for which they have 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.

	June 30, 2009	December 31, 2008
	($ thousands)	
Assets under administration from the securitization of leases	**$18,750**	$26,440

3. Minimum Payments

The aggregate amount of minimum payments required on debt is as follows:

($ *thousands*)	2009	2010	2011	2012	2013 and beyond	Total
Lease-Win's lease financing (*)	$1,418	$-	$-	$-	$-	$1,418
Pawnee's lease financing credit facility	-	-	41,183	-	-	41,183
Convertible debentures	-	-	3,500	-	-	3,500
Total	$1,418	$-	$44,683	$-	$-	$46,101

(*) $1.4 million of the lease financing would only be payable in 2009 if the bank called the loan, which is not anticipated, otherwise the loan is payable over the term of the underlying leases.

4. Financial Instruments

Fair value
The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities and distributions payable approximate their fair market value due to the short-term maturity of these instruments.

The stated value of the vehicle financing, lease financing and long-term debt 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.

As at June 30, 2009, the estimated fair value of other financial assets and liabilities approximates their carrying values.

Financial Risk Management
In the normal course of business, the Fund manages risks that arise as a result of its use of financial instruments. These risks include market, liquidity, credit, interest rate and foreign exchange risk.

a) Market risk

Market risk is the risk that the fair value of financial instruments will fluctuate due to changes in market factors. Market risk includes fair value risk, interest rate risk and foreign currency risk. The Fund is exposed to some of these risks directly through its financial instruments.

b) Liquidity risk
Liquidity risk is the risk that the Fund is not able to meet its financial obligations as they become due or can do so only at excessive cost. The Fund is subject to bank and manufacturer covenants relative to working capital. The bank covenants safeguard the liquidity in the Fund's subsidiaries.

The Fund's operations and growth is financed through a combination of the cash flows from operations and borrowing under existing credit facilities. Prudent liquidity risk management implies maintaining sufficient working capital and adequate committed credit facilities, to the extent possible.

Pawnee has a credit facility that allows borrowings of up to U.S.$52.5 million subject to, among other things, certain percentages of eligible gross lease receivables, of which U.S.$35.4 million was utilized at June 30, 2009 (December 31, 2008 - U.S.$38.0 million). This credit facility is secured by substantially all of Pawnee's assets, contains negative covenants including the maintaining of leverage and interest coverage ratios, requires Pawnee to mitigate its interest rate risk by entering interest rate swaps for a notional amount not less than 50% of the aggregate commitment, and matures on

April 28, 2011. 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. Fees on the credit facility may increase, however we believe that any increases would be within market rates.

c) Credit risk
Credit risk stems primarily from the potential inability of a customer or counterparty to a financial instrument to meet its contractual obligations. The Fund is exposed to credit risk with respect to cash, accounts receivable and net investment in leases. The carrying amount of financial assets represents the Fund's maximum exposure.

Credit risk associated with cash is minimized substantially by ensuring that the cash is placed with creditworthy counterparties. Management monitors changes in the status of financial institutions where the cash is held to mitigate potential credit risk. The Fund's excess cash is held in accounts with a major Canadian chartered bank.

Accounts receivable, which totaled $1.3 million at June 30, 2009 (December 31, 2008 - $1.2 million), principally relates to the Acura Sherway dealership and includes amounts due from the manufacturer and financing contracts in transit, which are typically collected within seven to ten days. Credit risk is primarily limited to the concentration of the receivable with the automotive manufacturer.

Pawnee's lease receivables are with smaller, often owner-operated businesses that have limited access to traditional financing. There is a high degree of risk associated with leasing to such parties. The typical lessee in Pawnee's portfolio is a start-up business that has not established business credit or a more established business that has experienced some business credit difficulty at sometime in its history. As a result, such leases entail a relatively higher credit risk and may be expected to experience higher levels of delinquencies and loss levels. The credit risk is mitigated by Pawnee funding only ''business essential'' commercial equipment, where the value of the equipment is most often below $30,000, by obtaining at least one personal guarantee for each lease, by having diversification by geographic location (within the United States), by types of equipment funded and by significant diversification in terms of the industries in which Pawnee's lessees operate with no significant concentration with any one customer.

Pawnee's credit risk is also mitigated by the fact that Pawnee's primary lease contract requires that the lessee provide two payments as security deposit (not advance payments), which are held for the full term of the lease and then returned or applied to the purchase option of the equipment at the lessee's request, unless the lessee has previously defaulted (in which case the deposit is applied against the lease receivable).

Pawnee's policy is to maintain an allowance for doubtful accounts equal to the last twelve-month rolling net investment in leases net charge-off level. A provision is charged against earnings to maintain the allowance for credit losses at the appropriate level. Pawnee management's periodic evaluation of the adequacy of the allowance is based on past loss experience of the predecessor companies, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions. These estimates involve judgments and a certain level of subjectivity. The projections of probable net credit losses are inherently uncertain, and as a result we cannot predict with certainty the amount of such losses. Changes in economic and other conditions may necessitate revisions in future years. Pawnee ceases to accrue interest income on leases after they become 91 days contractually past due, and charges off leases when they become 151 days contractually past due, unless information indicates that an earlier charge-off is warranted.

Lease-Win is exposed to credit risk due to delinquencies. The credit risk associated with Lease-Win's leases receivables is mitigated by liens placed against the vehicles, personal guarantees, and the ability to repossess vehicles for non-payment.

Credit risk also exists at Lease-Win as a result of using only one financial institution to securitize its lease receivable and that institution's ability to source funding for its financing. This risk is mitigated with Lease-Win having a long-standing relationship with its bank and the excess capacity available on its bank leasing facility.

d) Interest rate risk

The Fund is subject to interest rate risks as its subsidiaries' credit facilities bear interest at rates that vary in accordance with borrowing rates in the U.S. and Canada.

The Fund's cash is used to finance working capital, which is short-term in nature, and is at floating interest rates. The vehicle financing used to finance the inventory, which is short-term in nature, is also at floating interest rates thus exposing the Fund to interest rate fluctuations.

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

Pawnee's credit facility requires Pawnee to mitigate its interest rate risk by entering interest rate swaps for a notional amount not less than 50% of the aggregate commitment. The interest rate swap agreements provide for payment of an annual fixed rate. In return, Pawnee receives payment of 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.

Lease-Win finances its activities using both fixed rate and floating rate funds. All of Lease-Win's $1.4 million lease financing is at the floating rate. Lease-Win has the right to fix the rate on all its floating rate debt. The leases financed through securitization can be financed at fixed or floating rate. As at June 30, 2009, approximately $1.1 million of Lease-Win's $21.2 million securitized gross lease receivables were funded on a floating rate basis.

Subsequent to December 31, 2008, the Canadian automotive operations' chartered bank increased the rates on Sherway LP and Lease-Win credit facilities. On Sherway LP's $1.5 million operating line of credit the rate increased from prime + 0.5% to prime + 1.625%. On Sherway LP's $8.5 million vehicle financing facility the rate increased from prime + 0.25% (or CDOR +1.35%) to prime + 1.375% (or CDOR +2.475%). The interest rate on Lease-Win's $500,000 operating line increased from prime + 0.25% to prime + 1.625%. The interest rate on Lease-Win's vehicle financing line increased from prime + 0.50% to prime + 1.875%. The floating interest rate on Lease-Win's $4.0 million lease financing facility increased from the bank's prime + 0.25% to prime + 1.625% and the fixed interest rate increased from the bank's prime rate plus 0.75% to the bank's cost of financing + 1.50%.

The following table presents a sensitivity analysis to hypothetical changes in market interest rates and their potential impact on the Fund:

	For the six-months ended June 30, 2009	
	+100 bps	-100 bps
	($ thousands)	
Increase (decrease) in interest expense	84	(84)
Increase (decrease) in net income	(66)	66

The following are the minimum principal payments required on debt:

($ thousands)	2009	2010	2011	2012	2013 and beyond	Total
Lease-Win's lease financing	$211	$458	$509	$240	$-	$1,418
Pawnee's lease financing credit facility	-	-	41,183	-	-	41,183
Convertible debentures	-	-	3,500	-	-	3,500
Total	$211	$458	$45,192	$240	$-	$46,101

e) Foreign exchange risk

Foreign currency risk is the risk of loss due to changes in the foreign exchange rates and the volatility of foreign exchange rates. The Fund is exposed to fluctuations in the U.S. dollar as significant cash flows are generated in the U.S. and distributions are paid in Canadian dollars. The Fund also has a significant portion of its net assets denominated in U.S. dollars.

Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates prevailing at the balance sheet date and non-monetary assets and liabilities are translated at historical exchange rates.

Assets and liabilities of self-sustaining foreign operations denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at each period-end date. The resulting unrealized exchange gains or losses on translation are reported in other comprehensive income. Revenue and expenses denominated in foreign currencies are translated into Canadian dollars at the average foreign currency exchange rate for the period. Foreign exchange gains and losses on other transactions are recorded in income in the year in which they occur.

U.S. Denominated Balances *($ thousands)*	June 30, 2009
Foreign exchange risk to balance sheet	
Balance sheet exchange rate	1.1625
Cash	$93
Prepaid expenses and other assets and prepaid income taxes	2,338
Net investment in leases	68,972
Capital assets – net	327
Goodwill and intangible assets	19,850
U.S. denominated assets in U.S.$	$91,580
Effect of a 10% increase or decrease in the Cdn/U.S. dollar on assets	$10,646

Accounts payable and accrued liabilities	$2,351
Lease financing	35,427
Customer security deposits	9,038
Interest rate swap contracts	1,813
Future income taxes payable	7,983
U.S. denominated liabilities in U.S.$	$56,612
Effect of a 10% increase or decrease in the Cdn/U.S. dollar on liabilities	$6,581
U.S. denominated net assets in U.S.$	$34,968
U.S. denominated net assets in CDN$	$40,650
Effect of a 10% increase or decrease in the Cdn/U.S. dollar on U.S. denominated net assets	$4,726
Foreign exchange risk to income statement	
Net income from U.S. in U.S.$ for the six months ended June 30, 2009	$1,896
Average exchange rate	1.2062
Net income from U.S. in Cdn$	$2,287
Effect of a 10% increase or decrease in the Cdn/U.S. dollar on U.S. denominated net income	$229
Foreign exchange risk to cash flows to the Fund	
Cash flow received from U.S. subsidiary – U.S.$ for the six months ended June 30, 2009	$1,539
Average exchange rate	1.2062
Cash flow received from U.S. subsidiary – CDN$	$1,856
Effect of a 10% increase or decrease in the Cdn/U.S. dollar on U.S. denominated cash flow	$186

Capital Management

The Fund's capital is comprised of unitholders' equity and convertible debentures. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for unitholders and to maintain financial strength.

The Fund's capital is not subject to any capital requirements imposed by a regulator. However, each of the Fund'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.

The Fund's subsidiaries' objective is to maintain low cash balances, investing any free cash in leases as needed and using any excess to pay down debt on the primary financing facilities. The subsidiaries fund working capital needs, lease originations and growth using advances under credit facilities available when operating cash flow is not sufficient. At June 30, 2009, the Fund's operating units had $20.7 million in additional borrowings available under various credit facilities to fund business operations.

Pawnee has a credit facility that allows borrowings of up to U.S.$52.5 million subject to, among other things, certain percentages of eligible gross lease receivables, of which U.S.$35.4 million was utilized at June 30, 2009 (December 31, 2008 U.S.$38.0 million). This credit facility is secured by substantially all of Pawnee's assets, contains negative covenants including the maintaining of leverage and interest coverage ratios, requires Pawnee to mitigate its interest rate risk by entering interest rate swaps for a notional amount not less than 50% of the aggregate commitment, and matures on April 28, 2011. During the first quarter of 2009, the maximum permitted borrowings under Pawnee's credit facility was voluntarily reduced by U.S.$5 million (to U.S.$52.5 million, as reflected above) and its borrowing rate was increased slightly; however, the credit facility continues to provide significant room for growth and an attractive borrowing rate.

The Fund itself does not have any credit facility. Each of its operating subsidiaries has a credit facility. These credit facilities are used to provide funding for the subject subsidiary's operations (i.e. to provide financing for the purchase of assets which are to be the subject of leases or to acquire vehicle inventory and support working capital). The credit facilities are not intended to directly fund distributions by the Fund (and these facilities generally limit the amount which can be distributed up to the Fund 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 a debt. Below is the consolidated debt to equity analysis. There are no bank covenants relating to the consolidated debt to equity calculation.

	June 30, 2009	December 31, 2008
	($ thousands, except ratio)	
Debt	$69,806	$78,239
Equity	$52,987	$55,004
Debt/Equity	1.32	1.42

The Fund's Declaration of Trust requires it to distribute to its unitholders in each year an amount not less than the Fund's income for the year, as calculated in accordance with the Income Tax Act (Canada) (the "Act") after all permitted deductions under the Act have been taken. Unitholder distributions are subject to review and approval by the trustees of the Fund.

5. Fund Units

The Fund may issue an unlimited number of trust units pursuant to its Declaration of Trust. Each unit is transferable and represents an equal, undivided beneficial interest in any distributions from the Fund and in the net assets of the Fund in the event of termination or winding up of the Fund. All units are of the same class with equal rights and privileges and are not subject to future calls or assessments. Each unit entitles the holder to one vote at all meetings of unitholders. Trust unit transactions during the period were as follows:

	Number of Fund Units	Number of Class B & C U.S. Acquisition Co Ltd. shares	Total
	(000's)	*(000's)*	*($ thousands)*
Fund Units – December 31, 2008	**7,041**	**1,479**	**76,141**
Fund Units purchased under normal course issuer bid (see note 5(a))	(141)	-	(1,272)
Fund Units – June 30, 2009	**6,900**	**1,479**	**74,869**

<u>(a) Normal Course Issuer Bids</u>

In November 2008, the Board of Trustees approved the repurchase and cancellation of up to 447,412 of the Fund's outstanding units for the period commencing November 6, 2008 and ending on November 5, 2009. During the six-months ended June 30, 2009, under this issuer bid, the Fund repurchased for cancellation 140,500 Fund Units for a total cost of $281,750 or approximately $2.01 per unit. The book value of the Fund Units is $9.05 per unit or $1,271,525. The excess of book value over purchase price of $989,775 has been credited to contributed surplus.

(b) Equity Incentive Plan
On May 13, 2009, the Fund's unitholders approved the adoption of an equity incentive plan (the "Incentive Plan"). The Incentive Plan is available to (i) the trustees of the Fund, (ii) the directors of Chesswood GP Limited (the Fund's Administrator), (iii) the officers and employees of the Fund and its subsidiaries (together, the "Fund Entities") and (iv) designated service providers who spend a significant amount of time and attention on the affairs and business of one or more Fund Entities ("Participants"), all as selected by the board of trustees of the Fund or a committee appointed by the board to administer the Incentive Plan (the "Plan Administrators").

The objective of the Incentive Plan is to encourage increased long term equity participation in the Fund by Participants. The Incentive Plan is intended to facilitate long term ownership of Units by Participants and to provide Participants with additional incentives by increasing their interest, as owners, in the Fund. As well, the trustees of the Fund believe that the Incentive Plan encourages Participants to remain with the Fund Entities, and also attracts new employees to the Fund Entities.

Awards granted under the Incentive Plan may consist of Unit options and restricted units. Each such award is subject to the terms and conditions set forth in the Incentive Plan and to those other terms and conditions specified by the Plan Administrators and memorialized in a written award agreement.

The maximum number of Units issuable under the Incentive Plan is 15% of the issued and outstanding Units at any given time (including, for these purposes, the 1,478,537 Units issuable upon exchange of Class B and Class C common shares of Chesswood U.S. Acquisitionco Ltd.). Accordingly, options and restricted units relating to up to 1,277,864 Units can be issued pursuant to the Incentive Plan based on the currently outstanding Units.

(i) Equity Unit Options

Compensation costs related to options granted to Participants are recognized as a charge to earnings over the vesting period, based on the fair value of the options on the grant date.

On May 10, 2006 (at the time of completion of the Fund's initial public offering), options to purchase 100,000 Units were issued to certain executives of the Fund Entities (the "Stand Alone Options"). On June 23, 2009, options to purchase an aggregate of 530,000 Units were issued under the Plan (the "Plan Options").

The Stand Alone Options are fully vested. The Plan 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 Stand Alone Options have an exercise price equal to the price for the Fund's initial public offering. The Plan Options have an exercise price equal to the 10-day volume weighted average price of the Units at the date prior to the day such Options were granted. The Stand Alone Options and the Plan Options expire on the 10th anniversary of the respective grant dates.

An analysis of the options outstanding is as follows:

	Number of Options	Weighted average exercise price
Outstanding – December 31, 2008	100,000	$10.00
Granted	530,000	$2.06
Exercised	-	-
Forfeited	-	-
Outstanding – June 30, 2009	630,000	$3.32

Grant date	Number of options	Vested	Expiry date	Exercise price
May 10, 2006	100,000	100,000	May 9, 2016	$10.00
June 23, 2009	530,000	-	June 22, 2019	$2.06

The weighted average remaining contractual life, in years, for all options outstanding is 9.5 years.

The fair value of options granted was estimated on the grant date using the Black-Scholes option pricing model with the following assumptions, for the Plan Options:

Number of options granted	530,000
Expected distribution yield	20%
Expected volatility	83%
Risk-free interest rate	2.7%
Expected life	3 years
Fair value of the Options	$0.46

Included in contributed surplus and salaries and commission expense is $1,400 relating to the 530,000 Plan Options. As of June 30, 2009, unrecognized non-cash compensation expense related to the Plan Options was $242,631, expected to be recognized over the next three-year vesting period.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, the Black-Scholes model requires the use of subjective assumptions including the expected unit price volatility. Because the options issued under the Incentive Plan have characteristics different from those of traded options, and because changes in the subjective assumptions can have a material effect on the fair value estimate, the Black-Scholes option-pricing model does not necessarily provide a reliable single measure of the fair value of options issued under the Incentive Plan.

Included in contributed surplus is $74,045 relating to 113,639 options granted on May 10, 2006. The weighted average grant date fair value of the options was $0.65 as calculated using the Black-Scholes option pricing model. During 2008, 13,639 options were forfeited as the individual is no longer associated with the Fund Entities; no adjustment to contributed surplus was required.

(ii) Restricted Units

The Incentive Plan provides for the granting of awards of restricted Units to Participants. On June 23, 2009, an aggregate of 175,000 restricted units were granted and expire in ten years. At June 30, 2009, accounts payable and other liabilities included accrued compensation costs relating to such restricted Units of $6,900 (December 31, 2008 – $0). The grantees of such restricted Units are not entitled to the distributions paid in respect of such Units before the restricted Units are exercised. Such restricted Units vest one year from the date of issue and are to be settled by the issue of Units. Restricted Units granted are considered to be in respect of future services and are recognized in salaries and commissions over the vesting period. Compensation cost is measured based on the market price of the Fund Units' on the date of the grant of the restricted Units.

As of June 30, 2009, unrecognized non-cash compensation expense related to non-vested Units related to such restricted Units was $353,600, expected to be recognized over the next year.

A summary of the restricted units outstanding is as follows:

	Restricted Units (#)
Balance at December 31, 2008	-
Granted	175,000
Redeemed	-
Forfeited	-
Balance at June 30, 2009	175,000

(c) Non-Controlling Interest

As partial consideration for the acquisition of Pawnee, 1,274,601 Class B shares and 203,936 Class C shares of a Fund subsidiary, U.S. Acquisitionco, were issued. These shares are fully exchangeable for Fund Units, on a one-for-one basis, through a series of steps. The Class B shares had been classified as non-controlling interest as they were not exchangeable into Fund units until November 9, 2008. As the Class B common shares had subordinated rights to distributions until November 8, 2008 and their distributions were restricted if certain minimum distributions had not been made, they were valued with a discount rate of 7.5 percent per EIC 151 (Emerging Issues Committee Abstract 151) - Exchangeable Securities Issued By Subsidiaries Of Income Trusts. Effective November 9, 2008, the restrictions on distributions and conversion of the Class B common shares ceased and therefore the non-controlling interest were reclassified as Unitholders' Equity. Per EIC 151, the reclassification of non-controlling interest to Unitholders' Equity was applied retroactively with restatement of prior periods.

The non-controlling interest had been comprised of:

	Units # *(000's)*	**Amount**	**Deficit/ Surplus** *($ thousands)*	**Total**
Class B Exchangeable U.S. Acquisitionco Shares issued on the acquisition of Pawnee	1,275	$11,790		$11,790
Issuance Costs		(1,208)		(1,208)
Net income attributable to Class B shares			794	794
Foreign currency cumulative translation adjustment allocated to non-controlling interest			502	502
Distributions declared on Class B shares			(937)	(937)
Non-controlling interest at December 31, 2006	**1,275**	**$10,582**	**$359**	**$10,941**
Net loss attributable to Class B shares	-	-	(676)	(676)
Foreign currency cumulative translation adjustment allocated to non-controlling interest	-	-	(1,450)	(1,450)
Distributions declared on Class B shares	-	-	(789)	(789)
Non-controlling interest at December 31, 2007	**1,275**	**$10,582**	**($2,556)**	**$8,026**
Reclassify to Unitholders Equity	(1,275)	(10,582)	2,556	(8,026)
Non-controlling interest at December 31, 2008	**-**	**-**	**-**	**-**

Of the ($2,556,000) amount, ($957,000) was reclassified to opening accumulated other comprehensive income (loss) and ($1,599,000) was allocated to opening deficit for 2008.

Certain of the comparative quarterly figures have been restated to reflect the reclassification of non-controlling interest.

6. Income (Loss) Per Unit

Basic income (loss) per Unit is computed by dividing net loss by the weighted average Units outstanding during the year including the assumed conversion of the Class B and Class C shares of U.S. Acquisitionco.

The weighted average Units and Class B and Class C shares of U.S. Acquisitionco outstanding during the periods are calculated as follows:

Weighted average:	2009	2008
Units outstanding	6,994,015	7,040,558
Class B shares	1,274,601	1,274,601
Class C shares	203,936	203,936
Weighted average Units outstanding	8,472,552	8,519,095

A convertible debenture, convertible into 1,000,000 units (December 31, 2008 – 1,000,000 units), and options to purchase 530,000 units (December 31, 2008 - 100,000 units) were outstanding during the year but were excluded from the calculations of diluted loss per unit due to their anti-dilutive effect.

7. Cash Flow Supplementary Disclosure

	For the three-months ended June 30,		For the six-months ended June 30,	
	2009	2008	**2009**	2008
	(*$ thousands*)		(*$ thousands*)	
Interest paid	**$1,010**	$947	**$2,152**	$1,884
Income tax installments paid	**162**	973	**162**	1,088
Non-cash transactions				
Increase in contributed surplus relating to the excess of book value over purchase price of Fund Units purchased under normal course issuer bid. (note 5(a))	**$546**	-	**$990**	-
Unit-based compensation	**8**	-	**8**	-

8. Related Party Transactions

1) Debentures in the principal amount of $2.8 million (out of the aggregate $3.5 million principal amount of the Fund Issued Debentures) are held by directors of Chesswood GP Limited, which is a wholly-owned subsidiary of the Fund.

2) Pawnee leases a 10,800 square foot office facility. The lessor is a related party due to common ownership between itself and the holders of the Class B and C shares of Chesswood U.S. Acquisitionco Ltd. (the subsidiary through which the Fund holds its interest in Pawnee). The minimum lease payments are U.S. $189,000 per year triple net and run through 2011 with options for two additional five-year terms. These transactions were recorded at the average exchange rate.

9. Economic Dependence

Sherway LP operates under a Dealer Sales and Service Agreement whereby it has the right to act as an authorized dealer for Acura vehicles. The manufacturer may cancel the agreement if the dealership does not observe certain established guidelines.

As the sole source of income of Sherway LP is derived from the sales of the manufacturer's automobiles and related products and services, its ability to continue viable operations is dependent on maintaining its right to act as an authorized dealer. Accordingly, the absence of the dealership would have a material adverse effect on the Fund.

10. Seasonal Operations and Significant Estimates

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

The accounting for the securitization of leases requires the use of significant judgment and estimations in order to measure, at a specific point in time, matters that are inherently uncertain. Due to the fact that future events rarely develop as forecasted and the estimates routinely require adjustments, and may require material adjustment.

11. Comparative Information

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the quarterly financial statements.

12. Segmented Information

The Fund's operations consist of two reporting segments, equipment leasing and automotive operations. The two reporting segments are also in separate geographic locations. The automotive operations are located in Canada and the equipment leasing is located in the United States. Segmented information is as follows:

	For the three-months ended June 30, 2009 ($ thousands)			For the six-months ended June 30, 2009 ($ thousands)		
	Canada	**U.S.**	**Total**	**Canada**	**U.S.**	**Total**
Revenue	$13,858	$7,840	$21,698	$22,029	$16,077	$38,106
Gross profit	2,200	7,840	10,040	3,893	16,077	19,970
Interest expense	130	897	1,027	288	1,924	2,212
Amortization	69	166	235	102	343	445
Corporate overhead	414	-	414	817	-	817
Income before other items	**177**	**1,160**	**1,337**	**52**	**2,019**	**2,071**
Unrealized gain (loss) on interest rate swaps	-	447	447	-	526	526
Foreign exchange gain (loss)	499	-	499	407	-	407
Net income (loss) before income taxes	**676**	**1,607**	**2,283**	**459**	**2,545**	**3,004**
Provision for income taxes	7	134	141	48	258	306
Net income (loss)	**669**	**1,473**	**2,142**	**411**	**2,287**	**2,698**
Property and equipment expenditures	45	244	289	57	255	312
Total Assets				27,045	106,466	133,511
Net investment in leases				7,126	80,180	87,306
Goodwill				2,520	14,168	16,688
Intangible assets				1,300	8,909	10,209

	For the three-months ended June 30, 2008 ($ thousands)			For the six-months ended June 30, 2008 ($ thousands)		
	Canada	**U.S.**	**Total**	**Canada**	**U.S.**	**Total**
Revenue	$16,545	$6,776	$23,321	$32,538	$13,690	$46,228
Gross profit	2,646	6,776	9,422	5,074	13,690	18,764
Interest expense	191	780	971	393	1,614	2,007
Amortization	60	144	204	121	288	409
Corporate overhead	424	-	424	812	-	812
Income before other items	**272**	**857**	**1,129**	**506**	**835**	**1,341**
Unrealized gain (loss) on interest rate swaps	-	572	572	-	(25)	(25)
Foreign exchange gain (loss)	15	-	15	(160)	-	(160)
Goodwill impairment	-	(14,823)	(14,823)	-	(14,823)	(14,823)
Net income (loss) before income taxes	**287**	**(13,394)**	**(13,107)**	**346**	**(14,013)**	**(13,667)**
Provision for income taxes	69	410	479	122	50	172
Net income (loss)	**218**	**(13,804)**	**(13,596)**	**224**	**(14,063)**	**(13,839)**
Property and equipment expenditures	4	3	7	7	10	17
Total Assets				31,187	89,446	120,633
Net investment in leases				9,089	69,345	78,434
Goodwill				3,300	9,459	12,759
Intangible assets				1,300	8,103	9,403

Directors, Trustees and Officers

Trustees, Directors and Officers

Edward Sonshine, Q.C.*
Trustee *(1)*
Chairman of the Fund
President & C.E.O.,
RioCan Real Estate Investment Trust
**Queen's Counsel*

Clare Copeland
Trustee *(1)*
Chairman, Compensation Committee
C.E.O., Falls Management Company
Chairman, Toronto Hydro Corporation

Frederick W. Steiner
Trustee *(1)*
Chairman, Audit and Governance Committee
President & C.E.O.,
Imperial Coffee and Services Inc.

Jeffrey Wortsman
Trustee *(1)*
President & C.E.O.,
Danier Leather Inc.

Barry Shafran
Director *(2)*
President & C.E.O., Chesswood GP Limited
Chairman, Pawnee Leasing Corporation

David Obront
Director *(2)*
President,
DOit Investments Ltd.

Robert Day
Director *(2)*
Former Chairman, Pawnee Leasing Corporation

Samuel Leeper
Director *(2)*
Former C.E.O., Pawnee Leasing Corporation

Fund Executive Team

Barry Shafran
President & C.E.O.

Lisa Stevenson
Director of Finance

Other Information

Auditors
BDO Dunwoody LLP

Transfer Agent
Equity Investment Services Inc.

Corporate Counsel
McCarthy Tétrault LLP

Website
www.chesswoodfund.com

Toronto Stock Exchange Symbol
CHW.UN

(1) – Each of the Trustees is also a director of Chesswood GP Limited, (please refer to note (2) below).
(2) - Director of Chesswood GP Limited, which is a 100% owned subsidiary of the Fund.

TSX: CHW.UN

Executive Office:

Chesswood Income Fund

4077 Chesswood Drive

Toronto, Ontario, Canada M3J 2R8

Tel. 416.386.3099 Fax. 416.386.3085

e-mail:investorrelations@ChesswoodFund.com

www.chesswoodfund.com