CHESSWOOD INCOME FUND

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

MARCH 31, 2010 AND 2009

CHESSWOOD INCOME FUND

NOTICE TO READERS

Accompanying this notice are the unaudited interim consolidated financial statements of the Fund for the three months ended March 31, 2010 and 2009. 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.

Chesswood Income Fund

FOR THE THREE-MONTHS ENDED MARCH 31, 2010

TO OUR UNITHOLDERS

Our first quarter of 2010 reflects what we hope will be a trend of continuing improvement in delinquencies in our largest business, Pawnee Leasing Limited. We experienced three consecutive months of improvement in all of our delinquency markers. Historically, decreasing delinquency levels are followed by lower charge-offs in subsequent months.

In fact, our net charge-offs in the first quarter were below the first quarter of 2009, contributing significantly to our increased profitability year-over-year.

Our Acura dealership also contributed in its typical consistent fashion in our first quarter by surpassing its performance in the same period of 2009.

Chesswood's pre-tax income increased by $1 million over the first quarter of last year.

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, 2009, and its financial statements for the three months ended March 31, 2010, 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 (with a particular focus 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 March 31, 2010, Pawnee administered 7,079 leases in its portfolio, with remaining scheduled lease payments of approximately U.S.$103.7 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.$35,000;
(iii) a personal guarantee of at least the major shareholder/owner is obtained; and

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

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

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

Management believes that Pawnee is the leading micro and small-ticket funding source available to equipment leasing brokers and lessors in the start-up equipment 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.

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

Pawnee added a new product offering to a limited number of its broker network in late 2008. This additional "B" market product complements Pawnee's long standing core B product, by offering funding to lessees that have stronger credit profiles than Pawnee has considered in the past.

Assessed as lower risk business than Pawnee's traditional "B" business, these lessees receive funding based on rates that typically range from 15-25%. At March 31, 2010, less than 15% of Pawnee's lease receivables consisted of this new "mainstream B" product. The Company expects this additional B product to continue to gain market share.

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, equipment finance, consumer, sub-prime mortgage and finance companies in a number of important respects, including the following:

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

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

● not only is there significant geographic diversification (within the United States) within Pawnee's portfolio of leases, there is also significant diversification in terms of the equipment funded and the industries in which Pawnee's lessees operate. At March 31, 2010:

- no state represented more than 9.4% of the number of Pawnee's total active leases, with the exception of California which represented 11.6%;
- Pawnee financed over 70 equipment categories, with its five largest categories by volume, being restaurant, auto repair, titled trucks and trailers, beauty salon and fitness equipment, which combined accounted for 49.3% of the number of active leases;
- its lessees operated in over 85 different industry segments, with no industry concentration accounting for more than 15.6% 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 20.2% of its leases in the three-months ended March 31, 2010, and its ten largest origination sources accounted for 44.1% 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 March 31, 2010, Pawnee employed approximately 41 full-time equivalent employees, over one-third of whom are dedicated to collection and default remediation.

SHERWAY LP AND LEASE-WIN

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

Lease-Win had 781 leases in its portfolio under administration with remaining scheduled lease payments totaling approximately $17.5 million as at March 31, 2010. 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-months ended March 31, 2010. This discussion should be read in conjunction with the consolidated financial statements and accompanying notes of the Fund for the three-months ended March 31, 2010, and the consolidated financial statements and accompanying notes of the Fund for the year ended December 31, 2009 set forth in the Fund's 2009 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 April 26, 2010.

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, 2009 is available on SEDAR at www.sedar.com, and provides additional information and should be read in conjunction with this report, management's discussion and analysis, financial statements and notes thereto.

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)

	Mar 31 2008	Jun 30 2008	Sep 30 2008	Dec 31 2008	Mar 31 2009	June 30 2009	Sep 30 2009	Dec 31 2009	Mar 31 2010
Number of leases outstanding (#)	7,088	6,977	6,899	6,980	7,059	7,021	7,134	7,092	7,079
Gross lease receivable ("GLR") (1)	$103,522	$100,139	$97,921	$101,324	$104,037	$103,896	$105,225	$104,156	$103,742
Residual receivable	$13,391	$13,201	$12,970	$13,066	$13,261	$13,035	$13,018	$12,914	$12,931
Net investment in leases, before allowance	$80,162	$77,867	$76,303	$78,558	$80,620	$80,631	$81,283	$80,637	$80,605
Security deposits	$9,486	$9,200	$8,975	$9,022	$9,142	$9,038	$9,223	$9,192	$9,204
Allowance for doubtful accounts	$8,998	$9,788	$10,604	$11,150	$11,461	$11,658	$11,688	$11,674	$11,145
Over 31 days delinquency (% of GLR) (2)	6.31%	6.29%	7.62%	6.90%	6.34%	5.88%	6.44%	6.23%	4.54%
Net charge-offs for the three-months ended	$3,053	$2,619	$2,648	$2,827	$3,091	$3,083	$2,695	$2,793	$2,576
Provision for credit losses for the three-months ended	$4,439	$3,408	$3,465	$3,373	$3,402	$3,275	$2,720	$2,779	$2,047

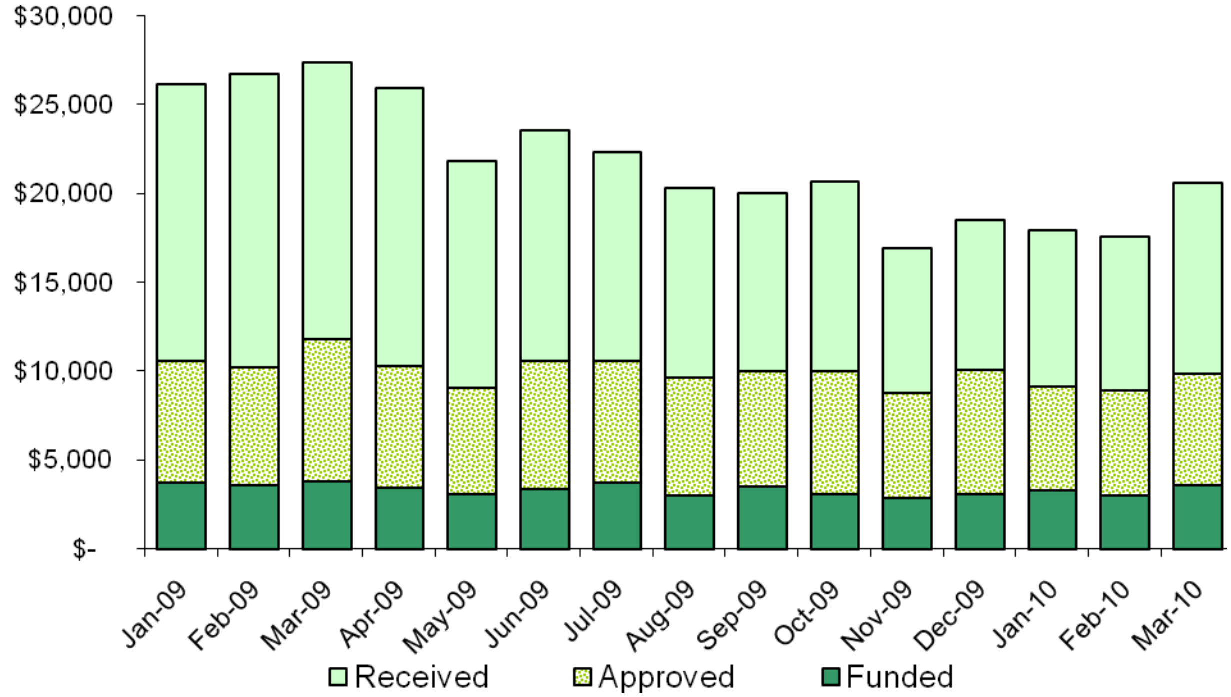
Notes:
(1) Excludes residual receivable.
(2) Over 31-days delinquency includes non-accrual gross lease receivables. Pawnee ceases to accrue interest income on leases after they become 94 days contractually past due unless information indicates that an earlier cessation of income is warranted and charges-off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

Lease Application, Approval and Origination Volume

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

Lease Application, Approval and Origination Volume

(in thousands U.S.$)



From September 2008 through March 2009, Pawnee's application flow was higher than normal as a result of a market "correction". During this time, many of its competitors left the market due to a variety of competitive reasons including: lack of funding, return to their core markets, and poor performance.

Asset Quality

Pawnee is a niche specialty leasing company that is focused on doing business with commercial enterprises that are not usually considered by conventional financing sources and that generally have a higher risk profile. This exposes the firm to a greater risk level; however management has built an operating model that is based on managing this risk. As a result, Pawnee has been able to generate greater margins with lower volume than many typical 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 finance industry for a minimum of one year. Two regional marketing managers are responsible for training and for developing a knowledge base with new and existing brokers regarding Pawnee's underwriting policies and procedures. This training process is very important in ensuring that neither the broker nor Pawnee spend extraordinary time in reviewing and handling applicants that can't meet Pawnee's basic qualifications. The managers are also responsible for monitoring the brokers for credit application review and closing efficiencies, including applications submitted, approved and ultimately funded.

The Pawnee credit process is not the automated scoring procedure typical of high volume equipment finance companies. A credit analyst reviews each application and manually completes a proprietary credit matrix, which is used as a guide for reaching a prudent credit decision. The matrix is designed to ensure that all of Pawnee's analysts are consistent in their review of applications. Analysts are available to directly assist brokers submitting lease applications and communicate credit decisions, including what would make an applicant more likely to be approved. Four basic principles underscore all credit decisions: (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 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 types and industries are reviewed in more detail to determine if there is a systematic or other identifiable cause on which corrective action can be taken. For example, if management determines that Pawnee has unusually high losses on leases for a particular type of equipment, management may raise the minimum required credit matrix score for those leases to be approved or stop originating leases of that equipment type altogether.

Collections

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

Pawnee's collections activities begin when a lease initially becomes delinquent. An account is recognized as troubled if for any reason the direct debit payment is not successfully received on the required due date – the account is immediately considered delinquent. When the lease becomes 31 days past due, or earlier if the collector recognizes that the problem is something more significant than a past due payment, the lease is referred to the appropriate negotiation, repossession/remarketing, bankruptcy or legal specialist on the Advanced Collection team.

The Advanced Collection team's objective is to minimize Pawnee's loss through a combination of collecting payments, writing forbearances, repossessing and selling leased equipment, initiating lawsuits and, most importantly, negotiating settlements. After 154 days of delinquency, or earlier if the Advanced Collection team determines the account is uncollectible, the lease is charged off.

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

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

KEY PERFORMANCE INDICATORS – SHERWAY LP

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

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.

($ thousands except per unit amounts)	For the three-months ended March 31, 2010
Net income	$825
Interest expense	695
Income tax provision	896
Amortization expense	186
EBITDA (1)	**2,602**
Foreign exchange gain	(9)
Interest rate swap mark-to-market loss	259
Unit-based compensation expense	109
Elimination of AcG-12 in Lease-Win	22
Interest on leasing lines	(695)
Adjusted EBITDA (1)	**2,288**
Income Taxes - Pawnee	(879)
Amortization expense – Pawnee	(22)
Capital expenditures	(3)
Distributable cash (1)	**$1,384**
Total distributions declared to unitholders	$971
Distributions declared per unit	$0.105

(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:

<u>**Cash Flow Available for Distribution**</u> ($ thousands)	For the three-months ended March 31, 2010	 2009
Cash (used in) provided by operating activities	**($119)**	$6,511
Less: Non-cash items added back to cash provided by operating activities due to bank covenant restrictions *(a)*:		
Accretion expense on lease financing *(a)*	**(29)**	(57)
Gain on sale of leased vehicles	**36**	117
Provision for credit losses *(a)*	**(2,972)**	(5,127)
Provision of income taxes *(a)*	**(896)**	(587)
Provision of income taxes – exclude non-cash taxes relating to Canadian	**17**	-

automotive operations		
Amortization relating to Pawnee *(a)*	**(22)**	(21)
Subtotal	**($3,985)**	$836
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)*	**-**	8
Impairments of retained interest in securitizations *(b)*	**100**	128
Amortization of securitization servicing liability *(b)*	**28**	43
AcG-12 impact *(b)*	**22**	112
Lease-Win's net leasing revenue on securitized leases *(b)*	**150**	291
Subtotal	**($3,835)**	$1,127
Less: Changes in non-cash working capital items relating to operations *(c)*		
Accounts receivable *(d)*	**539**	(436)
Inventories *(e)*	**3,782**	615
Prepaid and other assets *(f)*	**(35)**	(242)
Prepaid income taxes *(f)*	**-**	(386)
Accounts payable and accrued liabilities *(f)*	**936**	200
Subtotal	**$1,387**	$878
Capital expenditures *(g)*	**(3)**	(23)
Cash flow available for distribution	**$1,384**	$855

(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 cannot 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. In July 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 somewhat 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:

	For the three-months ended March 31,	
	2010	2009
	($ thousands)	
Cash provided by (used in) operating activities	($119)	$6,511
Net income	$825	$556
Distributions paid to unitholders	$894	$646
Excess of (shortfall of) cash provided by operating activities over distributions paid to unitholders	($1,013)	$5,865
Excess of (shortfall of) net income over distributions paid to unitholders	($69)	($90)

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 8 outlines the primary reasons for the differences between net income and Distributable Cash.

SELECTED QUARTERLY FINANCIAL INFORMATION

Fiscal 2010	For the three-months ended
($ thousands except per unit figures)	March 31, 2010
Revenue	$18,257
Gross profit	8,833
Income before tax, and gain (loss) on foreign exchange and interest rate swaps	1,971
Income before tax	1,721
Income tax provision	896
Net income	825
Basic income per unit	$0.092
Diluted income per unit	$0.089
Total assets	118,729
Total long-term financial liabilities	57,416
Other Data	
Adjusted EBITDA *(1)*	$2,288
Distributable cash	1,384
Distributions declared	971
Distributions declared per unit *(1)(2)*	$0.105

Fiscal 2009	For the three-months ended				For the year ended
($ thousands except per unit figures)	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009	December 31, 2009
Revenue	$16,408	$21,698	$20,783	$19,110	$77,999
Gross profit	9,930	10,040	8,779	9,067	37,816
Income before tax, and gain (loss) on foreign exchange and interest rate swaps	734	1,337	1,328	1,773	5,172
Income before tax	721	2,283	1,259	2,046	6,309
Income tax provision (recovery) *(3)*	165	141	568	2,370	3,244
Net income	556	2,142	691	(324)	3,065
Basic and diluted income per unit	$0.07	$0.25	$0.08	($0.04)	$0.36
Total assets	149,563	133,511	121,410	118,791	118,791
Total long-term financial liabilities	80,641	70,958	65,919	63,438	63,438
Other Data					
Adjusted EBITDA *(1)*	$1,142	$1,739	$1,775	$2,230	$6,886
Distributable cash	855	1,210	1,053	748	3,866
Distributions declared	636	634	751	743	2,764
Distributions declared per unit *(1)(2)*	$0.075	$0.075	$0.090	$.090	$0.330

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)
Income tax provision (recovery) *(3)*	(307)	479	152	(1,895)	(1,571)
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

(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.

(3) When the inter-company note was exchanged for equity on December 30, 2009 (see 2009 Annual Report under the heading "Inter-Company Debt Exchanged for Equity"), the deferred interest payable established in 2008 and 2009 required by GAAP (which eliminated on consolidation) was reversed and so was the future tax asset (which did not eliminate on consolidation), resulting in an increase in the income tax provision and future taxes payable on December 30, 2009. The 2009 increase in the income tax provision and future taxes payable totaled $1.8 million ("tax effect on exchange of inter-company debt to equity"); of which approximately $1.2 million related to recovery of income taxes booked in Q4-2008 and the remaining $625,000 related to reduced tax expense reported in the first nine-months of 2009.

RESULTS OF OPERATIONS FOR THE THREE-MONTHS ENDED MARCH 31, 2010 AND 2009

Pawnee's U.S. dollar results for the three-months ended March 31, 2010 were converted at approximately 1.0401, which was the average exchange rate for the three-month period. The U.S. dollar results for the three-months ended March 31, 2009 were converted at approximately 1.2456 which was the average exchange rate for the corresponding period. Therefore, there will be a significant difference in comparative results from Pawnee, based on foreign exchange alone, with an almost 16.5% difference in exchange rates, year-over-year.

Revenue from automotive operations totalled $10.9 million in the three-months ended March 31, 2010 compared to $8.0 million for the same period in the prior year, an increase of $2.9 million or 36.3% year-over-year. Vehicle sales at Acura Sherway increased by 46 vehicles during the three-month period compared to the same period in the prior year, and these differences were the predominant reason for the increase of $2.7 million in Acura Sherway's revenue.

The automotive operations generated $1.5 million in gross profit for the three-months ended March 31, 2010 relatively unchanged compared to the same period in the prior year, a decrease of $11,000 or 1.00%. Gross profit at Acura Sherway increased $90,000 in the three-months compared to the same period in the prior year. Gross profit from Lease-Win decreased by $101,000 in the three-months compared to the same period in the prior year predominantly from the decrease in income earned when leases terminate.

Direct financing lease income totalled $6.2 million in the three-months ended March 31, 2010 compared to $7.1 million in the same period in the prior year; a decrease of approximately $867,000 year-over-year predominantly due to a decrease of $1.2 million from the change in the foreign exchange rates and an increase of $333,000 in direct financing lease income. In U.S. dollars, Pawnee's direct financing lease income totalled $5.8 million the three-months ended March 31, 2010 compared to U.S.$5.6 million in the same period in the prior year, an increase of approximately U.S.$274,000 in the three-month period compared to the same period in the prior year.

Ancillary lease and other income totalled $1.1 million in the three-months ended March 31, 2010 compared to $1.3 million in the same period in the prior year, a decrease of $241,000 year-over-year predominantly due to foreign exchange. In U.S. dollars, Pawnee's ancillary lease and other income decreased approximately $3,400 in the three-month period compared to the same period in the prior year.

Salaries, commissions and benefits totalled $1.8 million in the three-months ended March 31, 2010 relatively unchanged from the same period in the prior year. In U.S. dollars, Pawnee's salaries and benefits decreased by approximately $14,000, however with the effect of foreign exchange, Pawnee's salaries and benefits decreased, in Canadian dollars, by approximately $200,000. Commissions and benefits at the Canadian automotive operations increased in the three-month period by approximately $37,000 year-over-year due to increased new and used vehicle sales. Compensation expense at the Fund increased by approximately $109,000 due to the non-cash unit based compensation for trustees, directors and certain senior management.

During the three-month period ended March 31, 2010, the provision for credit losses totalled $2.2 million compared to $4.3 million in the same period in the prior year; a decrease of $2.1 million year-over-year. The $2.1 million year-over-year decrease is comprised of a decrease of $421,000 due to the change in foreign exchange rates and a decrease of $1.7 million in the provision for credit losses. In the three-month period, Pawnee's actual net charge-offs decreased by U.S.$515,000 year-over-year. Pawnee's non-cash decrease in allowance for doubtful accounts totalled U.S.$529,000 compared to a non-cash increase of U.S.$311,000 in the allowance for doubtful accounts in the same period in 2009.

General and administrative expenses totaled $2.0 million for the three-months ended March 31, 2010 compared to $1.7 million in the same period in the prior year, an increase of $339,000, predominantly as a result of the recognition of costs of $350,000 relating to the proposed conversion of the Fund to a corporation, expected on or about December 31, 2010.

Interest expense on long-term debt totalled approximately $647,000 in the three-months ended March 31, 2010 compared to $1.1 million in the same period in the prior year, a decrease of $501,000 year-over-year. Pawnee's interest expense decreased by approximately $391,000 year-over-year in the three-month period, $120,000 of the decrease related to the change in foreign exchange rates. Interest expense at the Fund decreased by $85,700 year-over-year as a result of the conversion of the Fund's convertible debentures to Fund Units in January 2010. Lease-Win's interest expense decreased by $24,200 year-over-year due to the decrease in lease financing debt outstanding.

Income before gains and losses on foreign exchange and interest rate swaps totalled $2.0 million for the three-months ended March 31, 2010 compared to $734,000 in the same period of the prior year, an increase of $1.2 million. The $1.2 million increase in income is predominantly the result of the $1.7 million decrease in provision for credit losses; offset by a $350,000 increase in one-time general and administrative expenses at the Fund; $16,000 decrease in income from the Canadian automotive operations; and $109,000 decrease in income as a result of the increase in non-cash unit based compensation expense for certain trustees, directors and senior management.

The mark-to-market adjustment to revalue the interest rate swaps at Pawnee created a non-cash loss of $259,000 in the three-months ended March 31, 2010 compared to a non-cash gain of $79,000 in the same period of the prior year, a decrease of $338,000 in income before taxes year-over-year.

The provision for income taxes for the three-months ended March 31, 2010 totalled $896,000 compared to $165,000 in the same period of the prior year, an increase of $731,000. Prior to December 30, 2009, we had reduced our taxable income and, therefore, our calculation of income tax expense by the tax effect of interest expense on intercompany notes that were eliminated on consolidation. The intercompany note was exchanged for equity on December 30, 2009, thus going forward our taxable income will not be reduced by this interest expense. For further details refer to our 2009 Annual Report. Approximately $355,000 of the increase in income tax expense is the result of the conversion of the inter-company note for equity, the remaining increase in income tax expense is the year-over-year increase in income before taxes.

For the three-months ended March 31, 2010, the Fund reported consolidated net income of $825,000, or $0.09 income per Fund Unit, compared to net income of $556,000, or $0.07 per Fund Unit in the three-months ended December 31, 2009, an increase of $269,000 year-over-year.

BALANCE SHEET

Total consolidated assets of the Fund at March 31, 2010 were $118.8 million, a decrease of $62,000 from December 31, 2009. Over sixty percent of the total assets are represented by Pawnee’s and Lease-Win’s net investments in direct financing lease receivables. The exchange rate on March 31, 2010 was 1.0156 compared to 1.0466 at December 31, 2009. The change in the foreign exchange rates decreased assets by $2.7 million, thus total assets excluding the foreign exchange impact increased by $2.7 million from December 31, 2009. The $3.8 million increase in vehicle inventories at the Canadian automotive dealership accounted for the majority of the increase in assets.

Cash totalled $6.3 million at March 31, 2010 compared to $7.6 million at December 31, 2009, a decrease of $1.3 million. Of the $1.3 million decrease in cash since December 31, 2009, approximately $783,000 represents taxes paid by Lease-Win relating to 2009 and $95,600 in taxes relating to 2010. As Lease-Win continues its wind down, it is accumulating significant cash balances, a large portion of which will be used to satisfy its tax obligations over the next three years. At March 31, 2010, $2.0 million (December 31, 2009 - $2.6 million) of the Fund's consolidated cash balance represents funds on hand at Lease-Win.

Accounts receivable totalled $1.5 million at March 31, 2010 compared to $930,000 at December 31, 2009, an increase of $539,000. 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 totalled $11.0 million at March 31, 2010 compared to $7.2 million at December 31, 2009, an increase of $3.8 million. Vehicle inventory balances at dealerships fluctuate throughout the year based on seasonality, sales volumes and market conditions.

Prepaid expenses totalled $1.3 million at March 31, 2010. Prepaid personal property taxes paid on behalf of Pawnee’s lessees of approximately $902,000 comprise the majority of the prepaid expenses balance.

As at March 31, 2010, net investment in leases totalled $76.0 million compared to $78.2 million at December 31, 2009, a decrease of $2.2 million; the decrease was comprised of:

	($ thousands)
Decrease in net investment in leases from change in foreign exchange	$2,137
Decrease of 13 leases since December 31, 2009 at Pawnee	150
Increase of U.S.$16.31 per lease in the average book value of net investment in leases	(117)
Decrease in allowance for doubtful accounts	(537)
Net decrease in net investment in leases on-balance sheet at Lease-Win	623
Total decrease in net investment in leases	$2,256

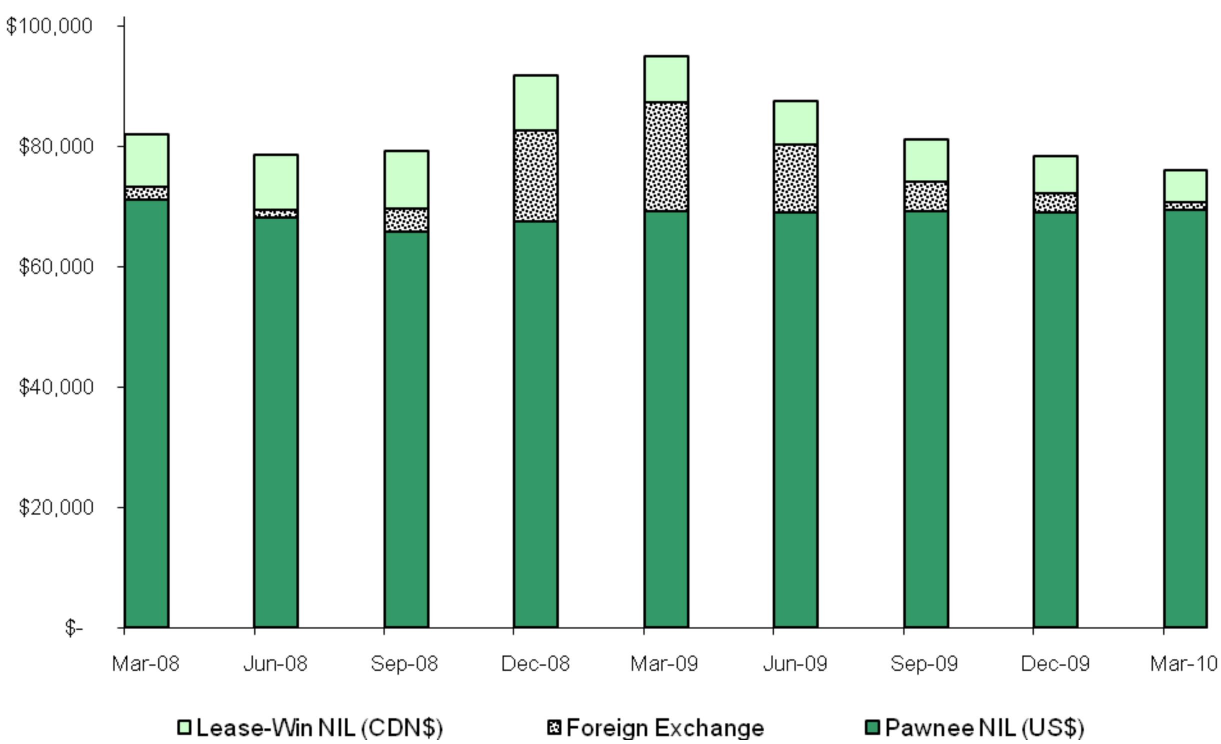
The gross lease receivable of leases under administration as at March 31, 2010 was approximately $122.9 million, compared to $129.2 million at December 31, 2009. Pawnee's gross lease receivable represented $105.4 million (U.S.$103.7 million) of the total gross lease receivable outstanding at March 31, 2010, compared to $109.0 million (U.S.$104.2 million) at December 31, 2009.

Lease-Win's gross lease receivable under administration totalled $17.5 million at March 31, 2010 down from $20.2 million at December 31, 2009, a decrease of $2.7 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 $76.0 million in net investment in leases is net of $11.6 million in allowance for doubtful accounts compared to $12.4 million in allowance for doubtful accounts at December 31, 2009. At Pawnee, the allowance for doubtful accounts of U.S.$ 11.1 million represents 15.61% of the net investment in lease receivables less security deposits on hand at March 31, 2010 compared to U.S.$11.7 million or 16.34% at December 31, 2009. 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 94 days contractually past due, unless information indicates earlier cessation is warranted, and charges-off leases when they become 154 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 $.
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 $666,000 in securitized lease receivables at Lease-Win, relating to $11.1 million in assets under administration. At December 31, 2009 Lease-Win's assets under administration totalled $13.1 million. At March 31, 2010, 69.9% of Lease-Win's gross lease receivable was securitized compared to 71.9% at December 31, 2009, 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".

Intangible assets totalled $8.0 million at March 31, 2010 compared to $8.4 million at December 31, 2009. The $357,000 decrease in intangible assets is comprised of a $220,000 decrease as the result of the change in foreign exchange rates and $137,000 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 totalled $13.4 million at March 31, 2010, compared to $13.8 million at December 31, 2009. The $333,000 decrease in goodwill during the period was 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, December 31, 2008	**$18,923**
Cumulative foreign exchange adjustment	(5,147)
Goodwill, December 31, 2009	**$13,776**
Cumulative foreign exchange adjustment	**(333)**
Goodwill, March 31, 2010	**$13,443**

Vehicle inventory is financed through vehicle financing credit facilities, of which $10.2 million was outstanding at March 31, 2010 compared to $6.1 million at December 31, 2009, leaving $810,000 of inventory that was self-financed as at March 31, 2010 compared to $1.1 million of inventory self-financed at December 31, 2009.

Lease financing of $34.6 million at March 31, 2010 is comprised of:

($ thousands)	March 31, 2010	December 31, 2009
Pawnee's credit facility	$33,718	$36,186
Lease-Win's credit facility	906	1,083
	$34,624	$37,269
Pawnee's credit facility (U.S.$)	$33,200	$34,574

The $2.5 million decrease in Pawnee's lease financing is predominantly due to U.S.$1.4 million of excess funds applied against credit facility and a decrease in foreign exchange translation of $1.1 million. 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. Lease-Win's credit facility is declining as Lease-Win's lease portfolio gradually winds down as a result of ceasing to originate new leases after September 1, 2008, other than extensions with existing customers.

The majority of the $9.5 million in customer security deposits relates to security deposits held by Pawnee. Pawnee's primary lease contract requires that the lessee provide two payments as security deposit (not advance payments), which are held for the full term of the lease and then returned or applied to the purchase option of the equipment at the lessee's request, unless the lessee has previously defaulted (in which case the deposit is applied against the lease receivable). Historically, a very high percentage of lessees' deposits are either applied to the purchase option of the leased equipment at the end of the lease term or used to offset charge-offs. The approximate $292,000 decrease in the security deposit balance from December 31, 2009 is due to a $286,000 decrease as a result of foreign exchange conversion and $13,600 decrease in security deposits at Lease-Win.

The $199,000 servicing liability at December 31, 2009 has been reclassified to accounts payable. 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. At March 31, 2010, the servicing liability totaled $167,000 and 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 March 31, 2010, the mark-to-market adjustment is a loss of approximately $1.9 million compared to $1.7 million at December 31, 2009 and is shown as a liability on the balance sheet.

The following interest rate swaps were outstanding at March 31, 2010:

Effective Date	**Notional Amount U.S.$**	**Annual Fixed Rate**	**Maturity date**	**Bank Call Date**
July 2008	15,000,000	4.80%	March 2012	March 2010
November 2008	15,000,000	3.36%	March 2011	March 2010
March 28, 2011	15,000,000	3.12%	March 2014	n/a
March 28, 2012	15,000,000	4.00%	March 2015	n/a

Pawnee's interest rate swaps are not considered trading instruments as it intends to hold them until termination. Nonetheless, the interest rate swaps do not qualify as a hedge for accounting purposes, and are therefore recorded as a separate derivative financial instrument. Accordingly, the estimated fair value of the interest rate swaps is recorded as a liability on the accompanying consolidated 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") bore interest at the rate of 9% per annum, payable quarterly, and were to be due on January 31, 2011. The Debentures were convertible into Fund Units (at the holders' option) at a conversion price of $3.50 per Fund Unit. The Fund had the option to convert the Debentures into Fund Units (at the conversion price of $3.50 per Fund Unit) in the event that the 20-day average price for the Fund Units was 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) were held by trustees of the Fund and/or directors of Chesswood GP Limited, which is a 100% owned subsidiary of the Fund. The conversion option was valued at approximately $80,170. In January 2010, the holders of the Debentures elected to exercise their conversion rights and were issued an aggregate of 999,997 Fund Units, in accordance with the conversion price of $3.50 per unit provided in the Debentures.

Future income taxes payable at March 31, 2010 totalled $13.3 million compared to $12.9 million at December 31, 2009, an increase of $380,000. The increase in future income taxes payable is the result of future income tax provision of approximately $896,000 offset by $309,000 decrease as a result of the change in foreign exchange rates and $207,000 in taxes paid.

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, included inter-company debt that generated 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 March 31, 2010, there were 7,767,055 Fund Units, 1,274,601 Class B common shares and 203,936 Class C common shares of Chesswood US Acquisitionco Ltd. ("U.S. Acquisitionco") outstanding, totalling $77.2 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.

As of March 31, 2010, unrecognized non-cash compensation expense related to non-vested options granted on June 23, 2009 was $187,723, which is expected to be recognized over the three-year vesting period.

During the first quarter of 2010, 5,000 restricted units were issued. As of March 31, 2010, unrecognized non-cash compensation expense related to non-vested restricted units granted was $93,511. The Fund expects to recognize this expense over the next three-months.

At March 31, 2010, the Fund deficit is comprised of a cumulative net loss of $8.15 million (December 31, 2009 - $8.98 million) and cumulative distributions to Unitholders of $22.3 million (December 31, 2009 - $21.3 million). The Fund's cumulative net loss of $8.15 million at March 31, 2010 (December 31, 2009 - $8.98 million), as shown on the consolidated Statements of Unitholders' Equity, included $32.4 million in cumulative non-cash goodwill and intangible asset impairment (December 31, 2009 - $32.4 million); thus cumulative income before the cumulative goodwill and intangible asset impairment totals $24.25 million (December 31, 2009 - $23.4 million) compared to cumulative distributions to Unitholders of $22.3 million (December 31, 2009 - $21.3 million).

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. 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 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 March 31, 2010, the Fund's operating units had $20.6 million in additional borrowings available under various credit facilities to fund business operations.

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 three-months ended March 31, 2010

The Fund's operations used net cash flow in operations of $119,000 during the three-months ended March 31, 2010 compared to net cash flow generated from operations of $6.5 million in the three-months ended March 31, 2009, a decrease of $6.6 million compared to the same period in the prior year.

Cash flow generated from operations during the three-months ended March 31, 2010 includes the cash outflow from the increase in inventory of $3.8 million but excludes the $4.1 million cash inflow from the increase in short-term vehicle financing. Cash flow generated from operations during the three-months ended March 31, 2009 includes the cash outflow from the increase in inventory of $615,000 but excludes the $654,000 cash inflow from the increase in short-term vehicle financing.

Thus, cash flow from operations after considering the movement in these short-term working capital items was $3.95 million in the three-months ended March 31, 2010 compared to $7.2 million in the same period in the prior year, a decrease of $3.2 million or approximately 44.4% compared to the same period in the prior year. Of this $3.2 million decrease, $975,000 is from the decrease in cash flow from Sherway's accounts receivable which is short-term in nature and fluctuates between periods based on the number of cars sold just prior to month-end and $879,000 of the decrease relates to income tax payments at Lease-Win.

During the three-months ended March 31, 2010, investment in net direct financing leases of $2.95 million (2009 – $5.3 million) was offset by financing of $210,000 (2009 - $1.0 million) from proceeds from lease financing and securitization, cash received from residual interest in securitizations, and security deposits, resulting in a net usage of $2.7 million (2009 - $4.2 million) 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 $1.2 million in the three-months ended March 31, 2010 compared to $3.0 million in the same period of the prior year, a decrease of $1.8 million.

During the three-months ended March 31, 2010, cash payments applied to lease financing credit facilities totalled $1.6 million compared to $1.4 million during the three-months ended March 31, 2009. Of the $1.6 million cash payments toward lease financing credit facilities during the three-months ended March 31,2010 U.S.$1.4 million of excess cash was applied against Pawnee line-of-credit and $177,000 (2009 - $614,000) was required payments at Lease-Win.

Capital expenditures totalled $3,000 (2009 – $23,000) during the three-months ended March 31, 2010.

The Fund paid distributions to unitholders in the amount of $894,000 during the three-months ended March 31, 2010 compared to $646,000 in the same period in the prior year; an increase of $248,000 due to the increase in distributions per Fund Unit and an increase in the number of Fund Units outstanding.

In total, in the three-months ended March 31, 2010, there was a decrease in cash of $1.3 million compared to an increase of $786,000 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.

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

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).

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 March 31, 2010, Pawnee had used approximately U.S.$33.2 million of its available borrowing under this facility (U.S.$34.6 as of December 31, 2009). 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 March 31, 2010 Pawnee has hedged U.S.$30.0 million, representing approximately 90.4% of the U.S.$33.2 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 March 31, 2010, U.S.$33.2 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's current funding agreement expires on May 10, 2011.

Distribution to Unitholders

The Fund declared cash distributions during the three months ended March 31, 2010 as follows:

Unitholder Record Date	Per Unit
January 31, 2010	$0.035
February 28, 2010	$0.035
March 31, 2010	$0.035
	$0.105

Distribution Policy

The Fund's policy is to pay monthly distributions to unitholders of record on the last business day of each month by the 15^{th} of the following month (or the next business day thereafter if the 15^{th} 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.

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)	2010	2011	Total
Lease-Win's lease financing (1)	$906	$ -	$906
Pawnee's lease financing credit facility (2)	-	33,718	33,718
Total	$906	$33,718	$34,624

(1) $906,000 of the long-term debt would only be payable in 2010 if the bank called the loan, which is not anticipated. Otherwise the loan is payable over the term of the underlying leases.

(2) Pawnee's lease financing credit facility is a line-of-credit, as such the balance can fluctuate. The credit facility matures in May 2011. The Fund expects to extend the credit facility with the current lenders or alternative financing will be obtained.

OUTLOOK

The results for the first quarter, along with early portfolio metrics for the second quarter, suggest that Chesswood may post improved profitability for the first half of 2010, as compared to the same period in 2009. In the event that portfolio delinquencies maintain themselves at present levels for the balance of 2010, management would expect a significant improvement in profitability in fiscal 2010.

We continue to enjoy the strength that comes from maintaining a strong balance sheet. Whether we are in growth mode or in the face of an impaired leasing market, our balance sheet strength affords us the ability to manage successfully in either environment.

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.

As detailed in the information circular for the Fund's 2010 annual and special meeting of unitholders (to be held on May 13, 2010), the Fund is proposing a conversion of the Fund into a dividend paying corporation, likely at December 31, 2010. The result of such conversion would be that unitholders would exchange their Fund Units, on a one-for-one basis, for common shares of a newly created corporation, to be named Chesswood Group Limited. These common shares will be listed on the Toronto Stock Exchange concurrently with completion of the conversion.

Please see management's information circular available on SEDAR, at www.sedar.com for details.

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.

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

Defenses to Enforcement of a Significant Number of Leases

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

Origination, Funding and Administration of Transactions

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

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

In most circumstances where the leased equipment is less than U.S.$15,000 (or U.S.$10,000 if for a home business), 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, Rates and Charges

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

Pawnee 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 (and it has recently been doing on a limited basis, as described above under "Business of Pawnee") or if the creditworthiness of its potential customers increases for various external reasons, it can expect to face competition from more traditional financing sources as well, including: national, regional and local finance companies; captive finance and 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 (in the case of Pawnee) broker networks. If sustained or repeated, a system failure could negatively affect the operations of Pawnee and Lease-Win. Pawnee and Lease-Win maintain confidential information regarding lessees in their computer systems. This infrastructure may be subject to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. A security breach of computer systems could disrupt operations, damage reputation and result in liability.

Competition in the Automobile Retailing Industry

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

Manufacturers' Control Over Dealerships and the Acura Framework Agreement

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

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

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. As described above, the Fund is seeking approval of its unitholders for a proposed "conversion" into a dividend paying corporation (see "Outlook").

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 treated the U.S.$33.5 million subordinated note it had issued to a Canadian subsidiary of the Fund (the "Subordinated Acquisitionco Debt") as debt for all purposes, and claimed interest deductions with respect to the Subordinated Acquisitionco Debt in computing its income for U.S. federal income tax purposes. There is a risk that the U.S. Internal Revenue Service (the "IRS") could successfully argue that the Subordinated Acquisitionco Debt should have been treated as equity rather than debt for U.S. federal income tax purposes, however, in which case the otherwise deductible interest on such indebtedness would be treated as non-deductible 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 having been in excess of an arm's length rate. If the IRS were successful in challenging the interest rate, U.S. Acquisitionco would not be able to fully deduct interest paid on such indebtedness, and a dividend withholding tax may result, both of which could increase the U.S. federal income tax liability and thereby reduce cash flow of the Fund available for distribution to our unitholders.

Other limitations on the deductibility of interest under U.S. federal income tax laws, potentially including limitations applicable to certain high-yield debt obligations, could have applied under certain circumstances to defer and/or eliminate all or a portion of the interest deduction that U.S. Acquisitionco has otherwise entitled to with respect to interest on such indebtedness. Furthermore, if the payment were recharacterized as a dividend, the imposition of a dividend withholding tax with respect to the payments coupled with the increased U.S. federal income tax liability of U.S. Acquisitionco would reduce the cash flow of the 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 has taken 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) were held by trustees of the Fund and/or directors of Chesswood GP Limited, which is a 100% owned subsidiary of the Fund were converted to Fund Units in January 2010.

2) Pawnee leases a 10,800 square foot office facility. The lessor is a related party because of common ownership between itself and the holders of the Class B and C common shares of Chesswood U.S. Acquisitionco Ltd. (the subsidiary through which the Fund holds its interest in Pawnee). As of March 31, 2010, 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, 2009. 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 and Lease-Win determine and record a provision for credit losses in order to maintain an allowance for credit losses to cover, at a minimum, the estimated losses for all of the leases in their portfolio that show signs of impairment at the balance sheet date.

Pawnee's lease receivables are composed of a large number of homogenous leases, with relatively small balances. Thus, the evaluation of the allowance for credit losses is performed collectively for the lease receivable portfolio. Pawnee's 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 ceases to accrue interest income on leases after they become 94 days contractually past due unless information indicates that an earlier cessation of income is warranted, and charges off leases when they become 154 days contractually past due, unless information indicates that an earlier charge-off is warranted.

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.

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

Goodwill and other intangible assets (trade names and framework agreement) with indefinite useful lives are not amortized, but are evaluated for impairment on an annual basis, or more frequently if certain events or circumstances exist. The Fund performs its annual impairment test 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. If 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.

Management reviews goodwill and intangible assets not subject to amortization on an annual basis or at any other time when events or circumstances have occurred that might indicate an impairment of the carrying values. When the carrying amount of a reporting unit exceeds its fair value, then an impairment loss would be recognized in an amount equal to the excess, if any, of the carrying value of the reporting unit's goodwill and/or intangible assets not subject to amortization over their fair value.

For purposes of impairment testing, the fair values of the reporting units, Pawnee and Sherway, are derived from valuation models using an income approach. Under the income approach, the discounted future cash flows are estimated for the following five years and a terminal value is estimated for each of the reporting units. The discount rates used are based on an industry-weighted cost of capital and consider the risk-free rate, market equity risk premium, size premium and operational risk premium for possible variations from projections. The terminal value is the value attributed to the reporting unit's operations beyond the discrete projected period using a perpetuity growth rate based on industry, revenue and operating income trends and growth prospects.

The Fund has in 2007 and 2008 applied other approaches for testing goodwill impairment where the fair value using the income approach and the carrying value significantly exceeded the Fund's aggregate market capitalization. Although the Fund may again in the future consider the appropriateness of alternate approaches in performing additional impairment testing on goodwill and its longlived intangible assets, it is anticipated that, absent compelling reasons to do otherwise, the analysis will be weighted towards the income approach.

The fair value of Pawnee's trade name intangible asset (which is not subject to amortization) is estimated using a relief-from-royalty approach which takes the present value of expected after-tax royalty cash flows it might generate if it were licensed, in an arm's length transaction, to a third party. The key assumptions under this valuation approach are royalty rates, expected future revenues and discount rates.

The fair value of Sherway's framework agreement (which is not subject to amortization) is estimated using the income approach utilizing the excess-earnings methodology. Under this methodology, projected cash flows attributable to the framework agreement are identified and are reduced by contributory charges and discounted at an appropriate rate. The key assumptions under this valuation approach are expected future cash flows, the percentage applied to the projected cash flows that determines which cash flows are attributable to the framework agreement, contributory asset charges and discount rates.

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.

Intangible assets with a finite life which are broker relationships and back-end systems software, are stated at cost, being the fair value of the assets upon acquisition, less accumulated amortization and provision for impairment, if any. Broker relationships and back-end systems are being amortized on a straight-line basis over seven years.

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 relate to equity transactions, they did not qualify as a hedge for accounting purposes, and were therefore recorded as separate derivative financial instruments. The fair value was 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. 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 September 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 March 31, 2010 that will remain outstanding as of January 1, 2011 is approximately $2.4 million resulting in a future tax asset of $433,000, 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

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 will consider the impact of adopting this standard on its consolidated financial statements if there is a new business combination.

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 does not currently have any non-controlling interests. The Fund will consider the impact of adopting this standard on its consolidated financial statements if there is a new business combination which creates a non-controlling interest.

IFRS-IASB

In February 2008, Canada’s Accounting Standards Board (“AcSB”) confirmed that the changeover to International Financial Reporting Standards (“IFRS”) 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. IFRS are issued by the International Accounting Standards Board (“IASB”).

The Fund’s first IFRS reporting period is December 31, 2011 and this will require the restatement for comparative purposes of amounts reported by the Fund under Canadian GAAP for the year ended December 31, 2010. The implementation and transition to IFRS is being managed by the Director of Finance; third party advisors have been engaged to assist in the implementation and transition project.

The transition to IFRS consists of the following phases:

1) Initial impact assessment and scoping – This phase included the identification of the relevant differences between existing Canadian GAAP and the current state of IFRS and IFRS 1 elections, highlighting the areas that will affect the Fund; and determining the resource and training requirements. An IFRS Transition Plan based on the results was established.

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

   During fiscal 2009, the Fund established, and is currently in the process of executing, a formal IFRS Transition Plan. The Plan comprises:

   - an established project structure and governance practices;
   - detailed timetable for fiscal 2009 and 2010;
   - identification and allocation of both internal and external resources;
   - 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; and
   - assessment of impact on data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements.

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 changeover to IFRS.

The IASB currently has projects underway that are expected to result in new pronouncements. The continuing evolution of IFRS is likely to mean that the application of these standards will change and the 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 preparing interim disclosures for fiscal 2010 in accordance with IFRS. To accomplish this, in 2010 the Fund will effectively maintain two parallel books of account.

The Fund has completed the initial impact assessment and scoping phase. The Fund started working on the identification and selection phase during the second quarter of 2009. The integration phase started in the fourth quarter of 2009. The identification and selection, and integration phases were completed in the fourth quarter of 2009 but will be subject to ongoing assessment.

IFRS are premised on a conceptual framework similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. The Fund's analysis of IFRS and comparison with currently applied accounting principles has identified a number of differences, although management believes many of these differences will not have a material impact on the reporting results and financial position. However, there may be significant changes following from the IFRS accounting principles and provisions from first-time adoption of IFRS standards in certain areas.

Set out below are the key areas where changes in accounting policies are expected to impact the Fund's consolidated financial statements. The list of changes that will result from the transition to IFRS should not be considered comprehensive. The commentary highlights those areas the Fund expects to be the most significant, however, analysis of changes is still in progress and not all decisions have been made where choices of accounting policy are available. At this stage, the Fund is not able to quantify the expected impact on the consolidated financial statements.

IFRS 1
Adoption of IFRS will require the application of IFRS 1 First time Adoption of International Financial Reporting Standards ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 requires certain mandatory exceptions and allow limited optional exemptions from this general requirement in specified areas of certain standards.

- *Business combinations*
  IFRS 1 allows the guidance under IFRS 3 Business Combinations to be applied either retrospectively or prospectively. Retrospective application would require that all business combinations occurring before the date of transition to IFRS

(January 1, 2010) be restated. Management expects to adopt IFRS 3 prospectively; accordingly, all business combinations completed on or after January 1, 2010 would be accounted for in accordance with IFRS 3.

- *Cumulative translation difference*
  IAS 21 The Effects of Changes in Foreign Exchange Rates requires an entity to determine the translation differences in accordance with IFRS from the date on which a subsidiary was formed or acquired. IFRS 1 allows cumulative translation differences for all foreign operations to be deemed to be zero at the date of transition to IRFS. At December 31, 2009 the accumulated foreign translation unrealized loss was $3,391,000. Management expects to adopt this exemption which will increase the deficit by the same amount and the deficit will total $33,658,000. There will be no change however, to total Unitholders' Equity at December 31, 2009.

IFRS 1 allows for certain other optional exemptions; however, management does not expect such exemptions to be significant to IFRS adoption.

IMPACT OF IFRS ADOPTION

- Securitization
  On adopting IFRS, IAS 39 uses a risk and rewards model to determine whether the asset has been sold and derecognition is appropriate. Using the substance over form concept, IFRS does not require that there be a legal transfer to a third party but instead requires that substantially all of the risks and rewards of ownership transfer. As a result, management expects the derecognized leases to be recognized on the balance sheet and the separate recognition of the associated liabilities.

  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 the one remaining originator terminated in February 2009. Lease-Win is self-financing any extensions, thus the amount of leases securitized and the corresponding securitization debt is decreasing each month as a portion of the monthly payments and residuals from securitized leases are applied to the debt.

  As the securitized leases continue to wind-down, experience has shown that the actual contractual payment stream will vary depending on prepayment rates and charge-offs. Accordingly, the estimated March 31, 2011 value of net investment in leases securitized and the securitized loan, shown in the table below; that will be recognized on the balance sheet under IFRS, is just an estimate and the values could be materially lower.

  The increase in assets and liabilities relating to Lease-Win's securitized leases under IFRS are shown below:

	March 31, 2010 *(actual)*	March 31, 2011 *(estimated)*
	($thousands)	
Net investment in leases - pledged	$11,093	$5,383
Securitization loan	$11,093	$5,383

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

- Presentation of Fund Units
  A fund unit is a financial instrument for both Canadian GAAP and IFRS. Under IFRS, a liability arises where a financial instrument contains a contractual obligation to deliver cash or another financial asset to another entity. A mandatory requirement in the Fund's Declaration of Trust to distribute taxable income may be interpreted as a contractual obligation to deliver cash. Management is considering the options available to the Fund to allow it to continue accounting for fund units as equity, which includes, but is not limited to, proposing to unitholders at our Unitholder Annual and Special Meeting an amendment to the Declaration of Trust to permit greater discretion in making future distributions.

- Earnings Per Unit
  Under IFRS, an entity is required to present both basic earnings per unit and diluted earnings per unit. IAS 33 requires that the computation of diluted earnings per unit for year-to-date periods be based on the weighted average of the number of incremental units included in each interim period that makes up the year-to-date period being calculated. Canadian GAAP requires the denominator to be recalculated for an annual period using the incremental units for the year. The earnings per

unit calculated on adoption of IFRS may differ from the Canadian GAAP equivalent. The impact will be determined once the Fund can quantify these adjustments with greater certainty.

- Presentation & Disclosures
  Under IFRS, presentation of the financial statements will change and disclosure requirements will increase significantly in comparison to Canadian GAAP. In addition, the Fund will make additional required disclosures in its first IFRS compliant consolidated financial statements

In response to financial reporting issues emerging from the global financial crisis, the IASB plans to make revisions to or to replace existing IFRS standards. One such standard addresses impairment of financial instruments recorded at amortized cost, which includes net investment in leases. Based on the Exposure Draft issued by the IASB, significant changes to the existing standard are anticipated; however, the IASB indicated that the new standard is unlikely to require adoption until at least 2014. The changes will be in effect subsequent to the Fund's date of transition; with the result that the impact to the Fund of adopting IFRS will extend beyond its transitional year. At this time the Fund cannot reasonably determine the impact on the financial statements.

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 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 March 31, 2010 and have concluded that the disclosure controls and procedures were appropriately designed and have been effective, subject to the weaknesses described below.

Chesswood has also established internal controls over financial reporting (as defined in National Instrument 52-109) ("ICFR") to provide reasonable assurance regarding the reliability of the 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 March 31, 2010 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 and was effective with the below noted exceptions.

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

1) Segregation of Duties

Given the 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 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 has been undertaken where possible.

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.

4) Remediated Accounting Software

Management notes that as a result of a management software system conversion at Pawnee in July 2009 a discrepancy was detected in the accrual income calculation on certain leases that were modified from their original terms. This discrepancy resulted from the prior management software not correctly adjusting income in accordance with the modified lease terms. The Fund recorded the entire discrepancy in the quarter in which the discrepancy was detected, and the new software does adjust for modified lease terms.

No changes were made to the design of the Fund's ICFR during the quarter ended March 31, 2010 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 March 31, 2010, as reported by the Toronto Stock Exchange.

2010	High	Low	Average Daily Volume
January	$4.68	$3.87	9,960
February	$4.41	$4.01	5,353
March	$4.65	$4.25	5,573
	$4.68	$3.87	6,921

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)

	Note	March 31, 2010 (unaudited)	December 31, 2009 (audited)
ASSETS			
Cash		**$ 6,289**	$ 7,585
Accounts receivable		**1,469**	930
Inventories		**11,004**	7,222
Prepaid expenses and other assets		**1,315**	1,414
Net investment in leases	2	**75,981**	78,237
Future income tax asset		**433**	433
Property and equipment - net		**767**	809
		97,258	96,630
Intangible assets		**8,028**	8,385
Goodwill		**13,443**	13,776
TOTAL ASSETS		**$ 118,729**	$ 118,791
LIABILITIES			
Accounts payable and accrued liabilities	15	**$ 4,342**	$ 5,176
Distributions payable		**323**	248
Vehicle financing		**10,194**	6,127
Lease financing		**34,624**	37,269
Customer security deposits		**9,492**	9,784
Interest rate swaps	3	**1,886**	1,683
Convertible debentures	4	**-**	3,465
Future income taxes		**13,300**	12,920
		74,161	76,672
UNITHOLDERS' EQUITY			
Fund units	6	**77,176**	73,621
Conversion option	4	**-**	80
Contributed surplus		**2,174**	2,076
Accumulated other comprehensive loss		**(4,369)**	(3,391)
Deficit		**(30,413)**	(30,267)
		44,568	42,119
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY		**$ 118,729**	$ 118,791

Please see notes to consolidated financial statements.

CHESSWOOD INCOME FUND
INTERIM CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(in thousands of dollars, except per unit amounts)
(unaudited)

	FOR THE THREE MONTHS ENDED MARCH 31, 2010	2009
REVENUE		
Revenue - automotive operations	**$ 10,959**	$ 8,024
Direct financing lease income	**6,214**	7,081
Ancillary lease and other income	**1,084**	1,303
	18,257	16,408
COST OF SALES - automotive operations	**9,424**	6,478
GROSS PROFIT	**8,833**	9,930
EXPENSES		
Salaries and commissions	**1,776**	1,831
Provision for credit losses	**2,189**	4,293
General and administrative	**2,016**	1,677
Interest on long-term debt	**647**	1,148
Other interest	**48**	37
Amortization - property and equipment	**49**	59
Amortization - intangible assets	**137**	151
	6,862	9,196
INCOME BEFORE ITEMS BELOW	**1,971**	734
Unrealized gain (loss) on interest rate swaps	**(259)**	79
Unrealized loss on foreign exchange contracts	**-**	(104)
Net gain on foreign exchange	**9**	12
	(250)	(13)
INCOME BEFORE INCOME TAXES	**1,721**	721
Provision for income taxes	**896**	165
NET INCOME	**$ 825**	$ 556
Basic income per unit *(note 9)*	**$ 0.092**	$ 0.070
Diluted income per unit *(note 9)*	**$ 0.088**	$ 0.070

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(in thousands of dollars)

	FOR THE THREE MONTHS ENDED MARCH 31, 2010	2009
Net income	**$ 825**	$ 556
Other comprehensive income, net of tax		
Unrealized (loss) gain on translation of self-sustaining foreign operations	**(978)**	1,824
Comprehensive income (loss) for the period	**$ (153)**	$ 2,380

Please see notes to consolidated financial statements.

CHESSWOOD INCOME FUND
INTERIM CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(in thousands of dollars)
(unaudited)

	FOR THE THREE MONTHS ENDED MARCH 31, 2010	2009
Fund Units		
Balance, beginning of period	**$ 73,621**	$ 76,141
Units issued on conversion of debentures	**3,545**	
Restrictured units issued	**10**	-
Units purchased under normal course issuer bid		(561)
Balance, end of period	**$ 77,176**	$ 75,580
Contributed Surplus		
Balance, beginning of period	**$ 2,076**	$ 74
Excess of book value over purchase price of Fund Units purchased under normal course issuer bid	**-**	444
Unit-based compensation expense	**98**	-
Balance, end of period	**$ 2,174**	$ 518
Accumulated other comprehensive income (loss), beginning of period	**$ (3,391)**	$ 5,844
Other comprehensive income (loss) for the period	**(978)**	1,824
Accumulated other comprehensive loss, end of period	**$ (4,369)**	$ 7,668
Cumulative income (loss)		
Balance, beginning of period	**$ (8,975)**	$ (12,040)
Net income	**825**	556
Balance, end of period	**$ (8,150)**	$ (11,484)
Cumulative distributions to unitholders		
Balance, beginning of period	**$ (21,292)**	$ (18,528)
Distributions to unitholders	**(971)**	(635)
Balance, end of period	**$ (22,263)**	$ (19,163)
Deficit, balance at beginning of period	**$ (30,267)**	$ (30,568)
Net income	**825**	556
Distributions	**(971)**	(635)
Deficit, balance at end of period	**$ (30,413)**	$ (30,647)

Please see notes to consolidated financial statements.

CHESSWOOD INCOME FUND
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(in thousands of dollars)
(unaudited)

	FOR THE THREE MONTHS ENDED MARCH 31, 2010	2009
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net income	**$ 825**	$ 556
Add (deduct) items not involving cash:		
Amortization	**186**	210
Accretion expense on lease financing	**29**	57
Gain on sale of leased vehicles	**(36)**	(117)
Unrealized (gain) loss on interest rate swaps	**259**	(79)
Impairments of retained interest in securitizations	**(100)**	(136)
Amortization of securitization servicing liability	**(28)**	(43)
Provision for credit losses	**2,972**	5,127
Unit-based compensation expense	**109**	-
Provision for income taxes	**896**	587
Unrealized loss on foreign exchange contracts	**-**	104
Net gain on foreign exchange	**(9)**	(12)
	5,103	6,254
Changes in non-cash working capital items relating to operations		
Accounts receivable	**(539)**	436
Inventories	**(3,782)**	(615)
Prepaid and other assets	**35**	242
Prepaid income taxes	**-**	386
Accounts payable and accrued liabilities	**(936)**	(192)
	(5,222)	257
Cash provided by (used in) operating activities	**(119)**	6,511
INVESTING ACTIVITIES		
Purchase of property and equipment - net	**(3)**	(23)
Cash received from residual interest in securitization	**220**	379
Increase in net investment in leases	**(2,950)**	(5,254)
Decrease in security deposits	**(6)**	(36)
Cash used in investing activities	**(2,739)**	(4,934)
FINANCING ACTIVITIES		
Proceeds from securitization of leases	**-**	137
Vehicle financing	**4,067**	654
Proceeds from lease financing	**-**	578
Lease financing payments	**(1,607)**	(1,416)
Units repurchased under normal course issuer bid	**-**	(117)
Cash distributions paid	**(894)**	(646)
Cash provided by (used in) financing activities	**1,566**	(810)
Unrealized foreign exchange gain (loss) on cash	**(4)**	19
Net (decrease) increase in cash	**(1,296)**	786
Cash, beginning of period	**7,585**	5,675
Cash, end of period	**$ 6,289**	$ 6,461

Supplemental disclosures of cash flow information (see note 10)

1. SIGNIFICANT ACCOUNTING POLICIES

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 year-ended December 31, 2009. The unaudited interim consolidated financial statements are based upon accounting principles consistent with those used and described in the annual consolidated financial statements.

In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all adjustments which are necessary to present fairly the financial position of the Fund as of March 31, 2010 and the results of operations and cash flows for the three months ended March 31, 2010.

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

Future accounting changes

a) Section 1582 of the CICA Handbook, 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 will consider the impact of adopting this standard on its consolidated financial statements if there is a new business combination.

b) Section 1601 of the CICA Handbook, 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 which include uniform accounting policies to be consistent throughout all consolidated entities and the difference between reporting dates of a parent and a subsidiary to be no longer than three months. The Fund has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

c) Section 1602 of the CICA Handbook, 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 does not currently have any non-controlling interests. The Fund will consider the impact of adopting this standard on its consolidated financial statements if there is a new business combination which creates a non-controlling interest.

2. NET INVESTMENT IN LEASES

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

	March 31, 2010	December 31, 2009
	($ thousands)	
Total minimum lease payments for non-securitized leases	**$108,146**	$111,920
Residual values of leased equipment	**15,883**	16,498
	124,029	128,418
Initial direct costs of lease acquisition	**6,318**	6,578
Unearned income	**(43,438)**	(45,172)
Net investment in leases before allowance for doubtful accounts	**$86,909**	$89,824
Allowance for doubtful accounts	**(11,594)**	(12,449)
	75,315	77,375
Securitized lease receivable	**666**	862
Net investment in leases	**$75,981**	$78,237
Less: Current portion	**(21,461)**	(21,001)
Net investment in leases - long-term portion	**$54,520**	$57,236

The exchange rate on March 31, 2010 was 1.0156 compared to 1.0466 at December 31, 2009 and 1.2602 at March 31, 2009. As the majority of net investment in leases is based in the United States; the change in the foreign exchange rates accounted for $2.1 million of the decrease in net investment in leases from December 31, 2009 to March 31, 2010.

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

	For the three-months ended March 31, 2010		
	Pawnee Equipment leases	Canadian Automotive leases (*)	Total
		($ thousands)	
Opening balance	**$12,218**	**$231**	**$12,449**
Provision for credit losses	**2,129**	**60**	**2,189**
Impact of change in foreign exchange rates over year	**(349)**	**-**	**(349)**
Charge-offs	**(3,462)**	**(16)**	**(3,478)**
Recoveries	**783**	**-**	**783**
Ending balance	**$11,319**	**$275**	**$11,594**

	For the three-months ended March 31, 2009		
	Pawnee Equipment leases	Canadian Automotive leases (*)	Total
		($ thousands)	
Opening balance	$13,654	$378	$14,032
Provision for credit losses	4,238	55	4,293
Impact of change in foreign exchange rates over year	401	-	401
Charge-offs	(4,678)	(50)	(4,728)
Recoveries	828	6	834
Ending balance	$14,443	$389	$14,832

The Fund's experience has shown that the actual contractual payment stream will vary depending on a number of variables. These variables include prepayment rates, charge-offs and modifications. Accordingly, the maturities of net investment in leases shown in the table below are not to be regarded as a forecast of future cash collections.

Scheduled collections of minimum lease payments receivable are as follows at March 31, 2010:

	Pawnee Equipment leases	Canadian Automotive leases	Total
		($ thousands)	
2010 (April – December)	$36,188	$2,817	$39,005
2011	37,211	1,806	39,017
2012	21,409	617	22,026
2013	8,447	296	8,743
2014	2,074	-	2,074
2015 and thereafter	31		31
Total minimum lease payments for non-securitized leases	$105,360	$5,536	$110,896
Residual values of leased equipment (*)	13,133	(*)	13,133
Sub-total	$118,493	$5,536	$124,029
Unearned income, net of initial direct costs of lease origination	(36,631)	(489)	(37,120)
Net investment in leases before allowance for doubtful accounts.	$81,862	$5,047	$86,909
Direct finance lease income as a percent of average net investment in leases before allowance (annualized)	29.01%	12.94%	

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

<u>Lease receivables past due</u>

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

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

Pawnee ceases to accrue interest income on leases after they become 94 days contractually past due unless information indicates that earlier cessation of income is warranted. Pawnee charges-off leases against the allowance for doubtful accounts when they become 154 days contractually past due, unless information indicates that an earlier charge-off is warranted. Pawnee's historical trends reflect high success rate in remedying leases that go initially past due. Therefore, leases that are not on non-accrual status are not considered impaired.

The table below does not include the $9.5 million (December 31, 2009 - $9.8 million) in security deposits from lessees, potential proceeds from repossessed collateral in vehicles and equipment, and potential recoveries from personal guarantees that would offset any charge-offs. An estimate of the fair value for the collateral cannot reasonably be determined.

The aging of net investment in leases before allowance for doubtful accounts represents the full carrying value of the leases that have lease payments past due.

					As at March 31, 2010
($ thousands)	Current	1-30 days	31 - 60 days	61 - 90 days	Over 90 days
Equipment leases (Pawnee)	$74,363	$3,782	$1,555	$1,253	$909
Vehicle leases (Lease-Win)	3,678	846	208	157	158
	$78,041	$4,628	$1,763	$1,410	$1,067
Impaired	137	373	469	846	1,067
Past due but not impaired	$-	$4,255	$1,294	$564	$-

					As at December 31, 2009
($ thousands)	Current	1-30 days	31 - 60 days	61 - 90 days	Over 90 days
Equipment leases (Pawnee)	$75,196	$3,941	$2,337	$1,063	$1,857
Vehicle leases (Lease-Win)	3,929	850	493	37	121
	$79,125	4,791	$2,830	$1,100	$1,978
Impaired	172	134	574	513	1,978
Past due but not impaired	$-	$4,657	$2,256	$587	$-

The net investment in leases at Pawnee that have been modified (in 2010 or prior) and are current at March 31, 2010 is $5.0 million (December 31, 2009 - $5.6 million). On average the lease terms have been modified to extend the leases by approximately 2.7 months. Leases modified at Pawnee during the three-months ended March 31, 2010 had a total net investment in leases balance at the time of modification of $3.3 million (2009 - $7.9 million). These amounts reflect the net investment in lease balances prior to payments collected since modification, leases that terminated early after modifications or leases charged-off after modification.

Collateral

When a lease is charged-off, the related equipment no longer has a carrying value on the financial statements. If any amounts are recovered from the sale of equipment after a charge-off, the recovered amount is credited to the allowance for doubtful accounts when received; in the three-months ended March 31, 2010, the proceeds from the disposal of repossessed equipment that was charged-off totaled approximately $339,000 (2009 - $540,000). Repossessed equipment is held at various warehouses throughout the U.S. owned by a company contracted to repossess and remarket the equipment. As Pawnee leases a wide range of small equipment with a cost that does not typically exceed U.S.$35,000 at the start of the lease, it is difficult to estimate the fair value of the repossessed equipment on hand at any month-end. The repossessed equipment has a carrying value of nil.

At Lease-Win, the estimated fair value of collateral (repossessed vehicles) received for net investment in leases on which impairment losses were recognized totaled $6,500 (2009 - $6,000) during the three-months ended March 31, 2010. The carrying amount of collateral vehicles taken back as a result of payment default and that are still in Lease-Win's possession (and included in inventory) amounted to $nil (December 31, 2009 - $20,849). Vehicles in inventory are valued at the lower of cost and net realizable value.

Securitization lease receivable – Lease-Win

	March 31, 2010	December 31, 2009
	($ thousands)	
Assets under administration from the securitization of leases	**$11,093**	$13,075
Weighted average effective interest rate earned	**10.99%**	10.93%
Weighted average effective interest rate paid to securitization company (annualized)	**5.84%**	5.81%

3. INTEREST RATE SWAPS

During the three-months ended March 31, 2010, Pawnee entered into two interest rate swaps. The first interest rate swap is effective in March 2011 and entitles the subsidiary to receive a floating interest rate and requires the subsidiary to pay a fixed 3.12% interest rate on a notional amount of U.S.$15.0 million through March 2014. The second interest rate swap is effective in March 2012 and entitles the subsidiary to receive floating interest rate and requires the subsidiary to pay a fixed 4.00% interest rate on a notional amount of U.S.$15.0 million through March 2015.

Pawnee enters into interest rate swap agreements with 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 March 31, 2010, the mark-to-market adjustment is a loss of approximately $1.9 million compared to $1.7 million at December 31, 2009 and is shown as a liability on the balance sheet.

The following were the interest rate swaps outstanding at March 31, 2010:

Effective Date	Notional Amount U.S.$	Annual Fixed Rate	Maturity date	Bank Call Date
July 2009	15,000,000	4.80%	March 2012	March 2010
November 2009	15,000,000	3.36%	March 2011	March 2010
March 28, 2011	15,000,000	3.12%	March 2014	n/a
March 28,2012	15,000,000	4.00%	March 2015	n/a

4. CONVERTIBLE DEBENTURES

In January 2010, the holders of the convertible debentures elected to exercise their conversion rights and were issued an aggregate of 999,997 Fund Units, in accordance with the conversion price of $3.50 per unit provided in the convertible debentures.

5. MINIMUM PAYMENTS

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

($ thousands)	2010	2011	Total
Lease-Win's lease financing (a)	$906	$-	$906
Pawnee's lease financing credit facility (b)	-	33,718	33,718
Total	$906	$33,718	$34,624

(a) $906,000 of the lease financing would only be payable in 2010 if the bank called the loan, which is not anticipated, otherwise the loan is payable over the term of the underlying leases. See note 12(d) for anticipated principal payments.
(b) Pawnee's lease financing credit facility is a line-of-credit, as such the balance can fluctuate. The credit facility matures in 2011. The Fund expects to extend the credit facility with the current lenders or alternative financing will be obtained.

6. FUND UNITS

Trust units and transactions during the period were as follows:

	Number of Fund Units #	Number of Class B & C US Acquisition Co Ltd. shares #	Total
	(000's)	(000's)	($000's)
Fund Units – December 31, 2009	6,762	1,479	$73,621
Units issued on conversion of debentures	1,000	-	3,545
Units issued on exercise of restricted units	5	-	10
Fund Units – March 31, 2010	**7,767**	**1,479**	**$77,176**

In November 2009, the Board of Trustees approved the repurchase and cancellation of up to 518,624 of the Fund's outstanding units for the period commencing November 10, 2009 and ending on November 9, 2010. During the three-months ended March 31, 2010, no Fund Units were repurchased under the normal course issuer bid.

7. COMPENSATION PLANS

(i) Equity Unit Options

An analysis of the options outstanding at March 31, 2010 and December 31, 2009 is as follows:

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

The weighted average exercise price is $3.32 and the weighted average remaining contractual life, in years, for all options outstanding is 8.74 years.

During the three-months ended March 31, 2010, salaries and commission expense and contributed surplus included $18,303 (2009 - $nil) relating to option expense. As of March 31, 2010, unrecognized non-cash compensation expense was $187,723, which is expected to be recognized over the remaining vesting period.

(ii) Restricted Units

A summary of the restricted units outstanding is as follows:

	Restricted Units (#)
Balance at December 31, 2009	175,000
Redeemed	5,000
Balance at March 31, 2010	170,000

During the three-months ended March 31, 2010, salaries and commission expense and contributed surplus included $90,512 (2009 - $0) relating to the restricted units. As of March 31, 2010, unrecognized non-cash compensation expense related to non-vested Units related to such restricted Units was $82,788, expected to be recognized over the next three-months.

8. DISTRIBUTIONS TO UNITHOLDERS

The Fund has asked Unitholders for approval of an amendment to the Declaration of Trust, effective January 1, 2010, to permit greater discretion in making future distributions which will allow the Fund to continue to account for the units as Equity on conversion to IFRS, instead of as Debt and the distributions as an adjustment to equity as opposed to interest expense on the income statement.

9. INCOME PER UNIT

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

Weighted average:	**March 31, 2010**	March 31, 2009
Units outstanding	**7,514,556**	7,039,725
Class B shares	**1,274,601**	1,274,601
Class C shares	**203,936**	203,936
Weighted average Units outstanding	**8,993,093**	8,518,262

Options to purchase 100,000 units (2009 - 100,000 units) were outstanding during the period but were excluded from the calculations of diluted income per unit because the effect would be anti-dilutive. Options and restricted units outstanding had a diluted effect of 447,269 Fund Units in 2010 (2009 – nil).

10. CASH FLOW SUPPLEMENTARY DISCLOSURE

	For the three-months ended	
	March 31, 2010	March 31, 2009
	($ thousands)	
Interest paid	**$666**	$1,149
Income tax installments paid	**$1,001**	$-
Non-cash transactions		
Convertible debentures converted to Fund Units	**$3,465**	$-
Conversion option on convertible debentures exercised	**80**	-
Restricted units issued	**10**	-
Increase in contributed surplus relating to the excess of book value over purchase price of Fund Units purchased under normal course issuer bid.	**-**	444

11. 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 March 31, 2010, the Fund's operating units had $20.6 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.$33.2 million was utilized at March 31, 2010 (December 31, 2009 - U.S.$34.6 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 May 10, 2011.

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 debt. Below is the Fund's consolidated debt to equity analysis. There are no bank covenants relating to the consolidated debt to equity calculation.

	March 31, 2010	December 31, 2009
	($ thousands, except ratio)	
Debt	**$64,669**	$63,423
Equity	**$44,568**	$45,584
Debt/Equity	**1.45**	1.39

12. FINANCIAL INSTRUMENTS

Fair value

The following schedule represents the carrying values and the fair values of those financial instruments held at fair value:

	March 31, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash	$ 6,289	$ 6,289	$ 7,585	$ 7,585
Accounts receivable	1,469	1,469	930	930
Net investment in leases (i)	75,981	n/a	78,237	n/a
Accounts payable	4,342	4,342	5,176	5,176
Distributions payable	323	323	248	248
Vehicle financing (ii)	10,194	10,194	6,127	6,127
Lease financing (ii)	34,624	34,624	37,269	37,269
Customer security deposits	9,492	9,492	9,784	9,784
Interest rate swaps	1,886	1,886	1,683	1,683
Convertible debentures	-	-	3,465	3,465

(i) There is no organized market for valuing the net investment in lease receivables. The carrying value is the amortized cost using the effective interest rate method.

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

The following schedule represents the hierarchy of financial instruments measured at fair value on the balance sheet:

	March 31, 2010			December 31, 2009		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Interest rate swaps	-	$1,886	-	-	$1,683	-

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 and credit 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. There have been no significant changes to the Fund's risk exposures since December 31, 2009.

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's subsidiaries are 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 are 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.$33.2 million was utilized at March 31, 2010 (December 31, 2009 U.S.$34.6 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 May 10. 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 $1.5 million at March 31, 2010 (December 31, 2009 - $930,000), 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 typically less than $35,000, 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. See note 2 for further disclosure related to aging and continuity of allowance for doubtful accounts.

At March 31, 2010:

- no state represented more than 9.4% of the number of Pawnee's total active leases, with the exception of California which represented 11.6%;

- Pawnee financed over 70 equipment categories, with its five largest categories by volume, being restaurant, auto repair, titled trucks and trailers, beauty salon, and fitness equipment which combined accounted for 49.3% of the number of active leases;

- its lessees operated in over 85 different industry segments, with no industry concentration accounting for more than 15.6% 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 20.2% of its leases in the three-months ended March 31, 2010, and its ten largest origination sources accounted for 44.1% of its leases.

Pawnee added a new product offering to a limited number of its broker network in late 2008. This additional "B" market product complements Pawnee's long standing core B product, by offering funding to lessees that have stronger credit profiles than Pawnee has considered in the past. Assessed as lower risk business than Pawnee's traditional "B" business, these lessees receive funding based on rates that typically range from 15-25%. At March 31, 2010, less than 15% of Pawnee's lease receivables consisted of this new "mainstream B" product. The Company expects this additional B product to continue to gain market share.

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 and Lease-Win are entitled to repossess leased equipment and vehicles if they lessees default on their lease contracts to mitigate credit losses. When an asset previously accepted as collateral is acquired, it undergoes a process of repossession and disposal in accordance with the legal provisions of the relevant market. Please see note 2 for a further discussion on the repossession of collateral during the three months ended 2010 and 2009.

Pawnee's lease receivables are composed of a large number of homogenous leases, with relatively small balances, and as such, the evaluation of the allowance for credit losses is performed collectively for the lease receivable portfolio. 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 ceases to accrue interest income on leases after they become 94 days contractually past due unless information indicates that an earlier cessation of income is warranted, and charges off, against the allowance for doubtful accounts, leases when they become 154 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. See note 2 for effective interest rates on leases written.

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. See note 3 for more information relating to interest rate swaps associated with this credit facility.

Lease-Win finances its activities using both fixed rate and floating rate funds. All of Lease-Win's $906,000 lease financing is at the floating rate. Lease-Win has the right to fix the rate on all its floating rate debt at the bank's prime rate plus 2.125%. The leases financed through securitization can be financed at fixed or floating rate. As at March 31, 2010, approximately $533,000 of Lease-Win's $12.2 million securitized gross lease receivables were funded on a floating rate basis. See note 2 for effective interest rate on securitization facilities. The annualized effective interest rates on Pawnee's credit facilities for the three-months ended March 31, 2010 was 6.88% (2009 – 8.20%) based on the month-end average debt balance.

The following table presents a sensitivity analysis to hypothetical changes in market interest rates and their potential impact on the Fund for the three-months ended March 31, 2010:

	+100 bps	-100 bps
	($thousands)	
Increase (decrease) in interest expense	33	(33)
Increase (decrease) in net income	(28)	28

The following table presents a sensitivity analysis to hypothetical changes in market interest rates and their potential impact on the Fund for the three-months ended March 31, 2009:

	+100 bps	-100 bps
	($thousands)	
Increase (decrease) in interest expense	49	(49)
Increase (decrease) in net income	(38)	38

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

($ thousands)	2010	2011	2012	Total
Lease-Win's lease financing	$265	$401	$240	$906
Pawnee's lease financing credit facility (i)	-	33,718	-	33,718
Total	$265	$34,119	$240	$34,624

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

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	March 31, 2010	March 31, 2009
Foreign exchange risk to balance sheet	*($ thousands)*	
Year-end exchange rate	1.0156	1.0466
U.S. denominated assets in U.S.$	$88,821	$89,303
Effect of a 10% increase or decrease in the Cdn/U.S. dollar on assets	$9,021	$9,346
U.S. denominated liabilities in U.S.$	$56,852	$57,073
Effect of a 10% increase or decrease in the Cdn/U.S. dollar on liabilities	$5,774	$5,973
U.S. denominated net assets in U.S.$	$31,969	$32,230
U.S. denominated net assets in CDN$	$32,468	$33,732
Effect of a 10% increase or decrease in the Cdn/U.S. dollar on U.S. denominated net assets	$3,247	$3,373

Foreign exchange risk to income statement		
Net income (loss) from U.S. in U.S.$ for three-months ended	$1,378	$653
Average exchange rate	1.0401	1.2456
Net income (loss) from US in Cdn$	$1,433	$814
Effect of a 10% increase or decrease in the Cdn/U.S. dollar on U.S. denominated net loss	$143	$81
Foreign exchange risk to cash flows to the Fund		
Cash flow received from U.S. subsidiary – U.S.$ for three-months ended	$880	$1,061
Average exchange rate	1.0401	1.2456
Cash flow received from U.S. subsidiary – CDN$	$915	$1,322
Effect of a 10% increase or decrease in the Cdn/U.S. dollar on U.S. denominated cash flow	$92	$132

13. RELATED PARTY TRANSACTIONS

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

Pawnee leases a 10,800 square foot office facility. The lessor is owned and controlled by the holders of the Class B and C shares of U.S. Acquisitionco. 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.

These transactions are in the normal course of business and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

14. SEASONAL OPERATIONS

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.

15. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current year’s consolidated financial statements.

The servicing liability has been reclassified to accounts payable and accrued liabilities.

16. 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. The accounting policies of the segments are the same as those described in the significant accounting policies in Note 1 of the 2009 Annual Report. Segmented information is as follows:

	For the three-months ended March 31, 2010 ($ thousands)			
	Automotive operations - Canada	**Equipment leasing – U.S.**	**Corporate overhead - Canada**	**Total**
Revenue	$11,098	$7,159	$-	$18,257
Gross profit	1,674	7,159	-	8,833
Provision for credit losses	60	2,129	-	2,189
Interest expense	58	637	-	695
Amortization - property and equipment	30	16	3	49
Amortization - intangible assets	-	137	-	137
Corporate overhead	-	-	850	850
Income (loss) before other items	**253**	**2,571**	**(853)**	**1,971**
Unrealized loss on interest rate swaps	-	(259)		(259)
Unrealized gain on foreign exchange	-	-	9	9
Income (loss) before income taxes	**253**	**2,312**	**(844)**	**1,721**
Provision of income taxes	17	879		896
Net income	**236**	**1,433**	**(844)**	**825**
Total Assets	24,584	90,206	3,939	118,729
Net investment in leases	5,438	70,543	-	75,981
Goodwill	2,520	10,923	-	13,443
Intangible assets	889	7,139	-	8,028
Property and equipment expenditures	-	3	-	3

	For the three-months ended March 31, 2009 ($ thousands)			
	Automotive operations - Canada	**Equipment leasing – U.S.**	**Corporate overhead - Canada**	**Total**
Revenue	$8,171	$8,237	$-	$16,408
Gross profit	1,693	8,237	-	9,930
Provision for credit losses	55	4,238	-	4,293
Interest expense	180	1,027	-	1,207
Amortization - property and equipment	29	26	4	210
Amortization - intangible assets	-	151	-	151
Corporate overhead	-	-	399	399
Income (loss) before other items	**278**	**859**	**(403)**	**734**
Unrealized gain on interest rate swaps	-	79	-	79
Foreign exchange loss	-	-	(92)	(92)
Net income (loss) before income taxes	**278**	**938**	**(495)**	**721**
Provision for income taxes	41	124	-	165
Net income (loss)	**237**	**814**	**(495)**	**556**
Total Assets	25,794	119,925	3,655	149,374
Net investment in leases	7,788	87,154	-	94,942
Goodwill	2,520	17,052	-	19,572
Intangible assets	1,300	9,801	-	11,101
Property and equipment expenditures	12	11		23

17. SUBSEQUENT EVENTS

On April 13, 2010, options to purchase an aggregate of 225,000 Units were issued at an exercise price of $4.49. The options vest 30% at the end of the first year, another 35% at the end of the second year, and the remaining 35% at the end of the third year. The options exercise price is equal to the 10-day volume weighted average price of the Units at the date prior to the day such Options were granted. The options expire on the 10th anniversary of the respective grant dates. The Fund will record approximately $192,000 in non-cash compensation expense over the next three years related to these options.

On April 13, 2010, an aggregate of 195,000 restricted units were granted and expire in ten years. 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, which was $4.49. Thus, the Fund will record $877,500 in non-cash compensation expense over the next year.