Chesswood Income Fund

2010 Annual Report

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TO OUR UNITHOLDERS

Our 2010 year marked a number of important milestones for Chesswood. At the start of the year, our convertible debenture holders converted the debentures to equity, eliminating the only corporate debt we had. In July, we raised $5.2 million in an over-subscribed rights offering. In September, Pawnee Leasing, our largest operating business, renewed an enhanced credit facility that added a strong new banking partner and increased capacity for the business. We increased our monthly distributions three times during 2010. As of January 1, 2011, Chesswood Income Fund became Chesswood Group Limited.

Lastly, and most importantly, Chesswood had a record year of profitability, with net income of $7.0 million.

In the year, Pawnee Leasing, our largest business, completed its return to the profitability levels generally experienced prior to the financial crisis. While our earnings were enhanced by a significant recovery of our allowance for bad debts at Pawnee, we generated excellent results before factoring in this recovery. We saw a steady downward trend in delinquencies during 2010, which translated into lower charge-offs and strong operating results for Pawnee.

Our dealership posted another year of excellent returns in a difficult industry climate, while the wind-down of Lease-Win Limited continued on target.

Beginning in 2011, we must report our financial results in accordance with new accounting standards – International Financial Reporting Standards, or "IFRS". This year's report includes commentary on some of the effects on the results of 2010, had IFRS been applied, in order to have comparative IFRS figures for 2010, available for reporting in 2011.

Less than two years ago our units were traded at around the $1.00 level despite the fact that the operating earnings of each of our subsidiaries never entered a loss position. I am thankful to all of our dedicated staff, who never stopped believing in the strength of our business and grateful to our very experienced Board, who encouraged and supported us throughout those challenging times.

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 in 2006 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).

In May 2010, the Fund obtained unitholder and court approval for conversion into a dividend-paying corporation, Chesswood Group Limited ("Chesswood Group"), which became effective on January 1, 2011. Since the conversion, Chesswood Group has paid monthly dividends of $0.05 per share, an increase of $0.005 per share over the $0.045 per unit distributions being made by the Fund at the end of 2010. The amount of any dividends payable by Chesswood Group will be at the discretion of the board of directors of Chesswood Group and will be evaluated on an ongoing basis, and may be revised subject to business circumstances and expected capital requirements depending on, among other things, Chesswood Group's earnings, financial requirements for its operating entities, growth opportunities, the satisfaction of applicable solvency tests for the declaration and payment of dividends and other conditions existing from time to time. See "Distribution Policy."

Through its interest in Pawnee, the Fund was (and Chesswood Group 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 was (and Chesswood Group 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 had (and Chesswood Group has) a portfolio of automobile leases under administration.

The Fund's annual report and annual information form for the year-ended December 31, 2010, are available on SEDAR at www.sedar.com, and provide additional information on the Fund and its operating companies.

Our units were listed on the Toronto Stock Exchange under the symbol CHW.UN. Chesswood Group shares are listed on the Toronto Stock Exchange under the symbol CHW.

BUSINESS OF PAWNEE

Pawnee is an equipment finance company that provides lease financing on micro and small-ticket business equipment. Pawnee focuses on small businesses (with a particular focus in the start-up and "B" credit segment of the U.S. equipment finance market), servicing the lower 48 states through a network of approximately 550 independent brokers. As of December 31, 2010, Pawnee administered 7,436 leases in its portfolio, with remaining scheduled lease payments of approximately U.S.$107.5 million over the next five years.

Pawnee finances equipment where generally:

(i) the equipment is fundamental to the core operations of the lessee's business;
(ii) the cost of the equipment usually does not exceed U.S.$50,000;
(iii) a personal guarantee of at least the major shareholder/owner is obtained; and
(iv) all scheduled lease payments are required to be paid by direct debit out of the lessee's account.

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

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

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

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

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

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

Assessed as lower risk business than Pawnee's traditional "B" business, "B+" lessees receive funding based on rates that typically range from 14-26%. At December 31, 2010, approximately 23% of Pawnee's lease receivables consisted of the "B+" product. Pawnee expects its "B+" product to continue to grow.

As the U.S. economy continues to recover slowly, fewer new businesses are being started and many existing businesses are hesitant to acquire new equipment and thus require less funding. Pawnee has, as a result, experienced weaker demand for its core leasing product in 2010 while Pawnee's lease originations for the newer "B+" product have been increasing.

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

- Pawnee does not sell its leases, but rather retains its leases for their full term,
- Pawnee's revenues are derived directly from its leases and are not derived from (and therefore, and more importantly, Pawnee's revenues are not dependent upon) fees from the sale of its portfolio of leases, and
- not only is there significant geographic diversification (within the United States) within Pawnee's portfolio of leases, there is also significant diversification in terms of the equipment funded and the industries in which Pawnee's lessees operate. At December 31, 2010:
    - no state represented more than 9.7% 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 computer equipment, which combined accounted for 56.9% of the number of active leases;
    - its lessees operated in over 85 different industry segments, with no industry concentration accounting for more than 15.1% 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% of its leases in the year-ended December 31, 2010, and its ten largest origination sources accounted for 42.8% of its leases.

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

As of December 31, 2010, Pawnee employed approximately 40 full-time equivalent employees, over one-third of whom are dedicated to collection and default remediation.

SHERWAY LP AND LEASE-WIN

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

Lease-Win had 529 leases in its portfolio under administration with remaining scheduled lease payments totaling approximately $10.2 million as at December 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 (and now Chesswood Group'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 year ended December 31, 2010. This discussion should be read in conjunction with the consolidated financial statements and accompanying notes of the Fund for the year-ended December 31, 2010, set forth in the Fund's 2010 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 March 11, 2011.

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, 2010 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.

Effective as of January 1, 2011, the Fund was converted into Chesswood Group Limited ("Chesswood Group"), a dividend-paying corporation. The Fund's businesses described in this MD&A are now the businesses of Chesswood Group.

2010 EVENTS

In January 2010, the holders of all of the Fund's $3.5 million of convertible debentures elected to exercise their conversion rights and were issued an aggregate of 999,997 trust units of the Fund ("Fund Units"), in accordance with the conversion price of $3.50 per unit provided by the convertible debentures. On conversion, the equity amount of the convertible debentures was also transferred to Fund Unit capital. Debentures with a principal amount of $2.8 million (out of the $3.5 million convertible debentures) were held by directors of Chesswood GP Limited, which is a wholly-owned subsidiary of the Fund, and were converted to 787,141 Fund Units.

In June 2010, Pawnee paid, U.S.$3.59 million, followed by an additional U.S.$1.65 million in mid-September, for income tax installments, as the bonus depreciation tax incentive in the U.S. Creating Small Business Jobs Act of 2010 had not yet been passed in Congress. On September 27, 2010, that Act was passed with retroactive bonus depreciation to January 1, 2010, thus Pawnee expects to receive a refund of the U.S.$5.24 million installments paid when the 2010 tax return is filed and processed in 2011.

In July 2010, the Fund raised $5.28 million through the issuance of 1,320,799 Fund Units under a rights offering. The net proceeds from the offering are being used to support the growth of Pawnee as well as general corporate purposes.

In September 2010, Pawnee renewed and expanded its credit facility, which was due to mature in May 2011. The credit facility limit has been increased by U.S.$2.5 million to U.S.$55 million, while the accordion feature of the loan agreement has been increased to U.S.$85 million from U.S.$65 million. As of December 31, 2010, U.S.$38.9 million was outstanding under the facility and Pawnee had capacity to draw up to and in excess of the U.S.$55.0 million commitment and remain within the borrowing base under the facility. The Fund contributed U.S.$2 million to Pawnee in conjunction with the new credit facility to support Pawnee's growth. Legal and other financing costs totaling U.S.$504,000 were incurred and will be amortized over the term of the facility. Legal and other financing costs totaling U.S.$75,000 relating to the former facility were expensed during the third quarter of 2010.

In September 2010, Sherway LP extended its lease for its premises until June 30, 2017 with an option for an additional five years. As part of this lease extension, approximately $201,000 in total leasehold improvements were completed, of which the landlord paid for half. In accordance with accounting rules, $201,000 was capitalized to property and equipment and will be amortized over the remaining term of the lease, and the $100,000 paid by the landlord will be credited against rent expense over the same term.

During the year-ended December 31, 2010, Lease-Win paid $784,000 in income taxes relating to 2009, which was included in accounts payable at December 31, 2009; and $960,000 in tax installments relating to 2010 which is included in accounts payable.

Pawnee experienced a significant drop in delinquent leases and net charge-offs throughout 2010. In the year-ended December 31, 2010, Pawnee's actual net charge-offs totaled U.S.$7.7 million compared to U.S.$11.7 million in the prior year, a decrease of U.S.$4.0 million year-over-year. Pawnee's gross lease receivable for leases with payments over 30 days delinquent at December 31, 2009 totaled 6.23%

compared to 3.39% at December 31, 2010, a decrease of 2.84%. For the year-ended December 31, 2010, Pawnee's non-cash decrease in allowance for doubtful accounts totaled U.S.$4.0 million compared to a non-cash increase of U.S.$513,200 in the allowance for doubtful accounts in 2009. During the year ended December 31, 2010, the provision for credit losses totaled U.S.$3.6 million compared to U.S.$12.2 million in the same period in the prior year, a decrease of U.S.$8.6 million year-over-year or 70.5%. This decrease in the provision for credit losses was the predominant reason for the increase in operating income year-over-year.

	For the year-ended	
	December 31, 2010	December 31, 2009
	(U.S.$ thousands)	
Pawnee's net charge-offs	**$7,655**	$11,663
(Decrease) increase in allowance for doubtful accounts	**(4,021)**	513
Pawnee's provision for credit losses	**$3,634**	$12,176

INTER-COMPANY DEBT EXCHANGED FOR EQUITY IN 2009

Pawnee is a wholly-owned subsidiary of Chesswood U.S. Acquisition Co Ltd. ("U.S. Acquisitionco"). The Fund held (and Chesswood Group now holds) its economic interests in U.S. Acquisitionco (and thereby, its economic interests in Pawnee) through the ownership (by Chesswood Holdings Ltd., a wholly-owned subsidiary of the Fund) of all of the Class A common shares of U.S. Acquisitionco.

Prior to December 30, 2009 the Fund held its economic interests in U.S. Acquisitionco (and thereby, its economic interests in Pawnee) through (i) the ownership (by Chesswood Holdings Ltd.) of all of the Class A common shares of U.S. Acquisitionco and (ii) a U.S.$33.5 million subordinated promissory note issued by U.S. Acquisitionco to Chesswood Holding Limited Partnership (the "Holding LP") (the sole limited partner of which is wholly-owned by the Fund) (the "Note"). As such, to the extent that the covenants under Pawnee's credit facility allowed, profits of Pawnee prior to January 1, 2010 were paid to the Fund through interest payments on the Note and (in periods where further funds could be paid) through dividends paid on the Class A common shares of U.S. Acquisitionco. Amounts available to flow up to the Fund (and now Chesswood Group) from Pawnee are limited by various covenants in Pawnee's senior credit facility, and compliance with such covenants is determined in accordance with U.S. GAAP. As the Note was subordinated to such senior credit facility, and given the importance of the credit facility to Pawnee's ongoing operations, it was in the best interests of the Fund and its subsidiaries that the obligations of U.S. Acquisitionco under the Note not result in any non-compliance by Pawnee (which is consolidated with U.S. Acquisitionco for purposes of Pawnee's senior credit facility covenants) of its financial covenants under its senior credit facility.

As previously announced by the Fund, and as described above, the amounts which could be paid to the Fund from Pawnee in 2008 and 2009 were reduced due to lower net income in those years, compared to 2007, resulting in decreased distributions to the Fund's unitholders. In order to ensure that the terms of the Note allowed for compliance with Pawnee's covenants under its senior credit facility, the Holding LP provided waivers to U.S. Acquisitionco as to payment of interest under the Note in respect of 2008 and 2009 in excess of levels permitted to be paid under Pawnee's senior lending facility covenants. The waivers, therefore, provided consistency of the interest obligations under the Note with the amounts of interest which could actually be paid.

The waiver and adjusted resultant interest paid required U.S. Acquistionco to make large adjustments to the interest expense and principal amount of the Note on its financial statements, in order to comply with the requirements of U.S. GAAP. These large U.S. GAAP adjustments on the year-end financial statements were of a non-cash nature and eliminated in the Fund's consolidated financial statements. These adjustments also required the waiver of U.S. Acquisitionco's lenders and an amendment to the credit facility, as reported previously. As a result of this and primarily due to the pressure these adjustments exerted on U.S. Acquisitionco's EBIT to interest bank covenant, the Note was exchanged for equity on December 30, 2009.

More specifically, the Note, issued by U.S. Acquisitionco to the Holding LP, was transferred by the Holding LP to its subsidiary Chesswood Holdings Ltd. on December 30, 2009. Chesswood Holdings Ltd. in turn converted the Note to paid-in-capital of U.S. Acquisitionco, also on December 30, 2009, thereby exchanging the debt for equity before year-end.

In 2010, to the extent that the covenants under Pawnee's credit facility allowed, profits of Pawnee were paid to the Fund through dividends paid on the Class A common shares of U.S. Acquisitionco.

When the note was exchanged for equity on December 30, 2009, 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 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 2008 and the remaining $625,000 related to reduced tax expense reported in the first nine-months of 2009.

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 (and Chesswood Group) 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 operated (and Chesswood Group continues to operate) in a dynamic environment that involves various risks and uncertainties, many of which are beyond the Fund's (and now Chesswood Group's) control and which could have an effect on the Fund's (and now Chesswood Group'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 described under "Risk Factors" below and the risk factors described 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

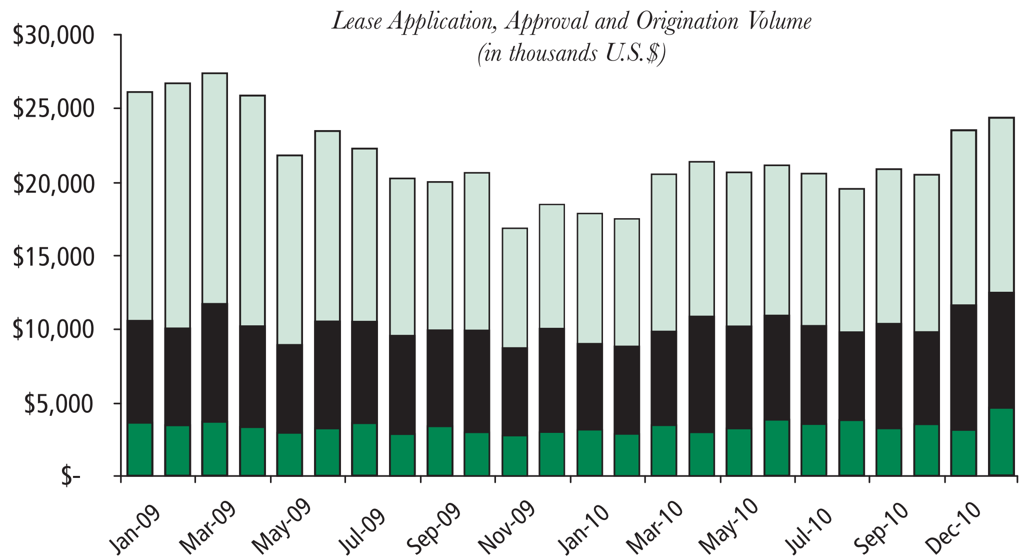
Management regularly evaluates and analyzes key performance indicators, including the following, to more effectively operate Pawnee's business:

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

	Dec 31 2008	Mar 31 2009	Jun 30 2009	Sep 30 2009	Dec 31 2009	Mar 31 2010	June 30 2010	Sep 30 2010	Dec 31 2010
Number of leases outstanding (#)	6,980	7,059	7,021	7,134	7,092	7,079	7,191	7,363	7,436
Gross lease receivable ("GLR") *(1)*	$101,324	$104,037	$103,896	$105,225	$104,156	$103,742	$104,541	$105,908	$107,498
Residual receivable	$13,066	$13,261	$13,035	$13,018	$12,914	$12,931	$13,104	$13,416	$13,677
Net investment in leases, before allowance	$78,558	$80,620	$80,631	$81,283	$80,637	$80,605	$81,709	$83,484	$85,613
Security deposits	$9,022	$9,142	$9,038	$9,223	$9,192	$9,204	$9,332	$9,615	$9,830
Allowance for doubtful accounts	$11,150	$11,461	$11,658	$11,688	$11,674	$11,145	$10,099	$8,829	$7,653
Over 31 days delinquency (% of GLR) *(2)*	6.90%	6.34%	5.88%	6.44%	6.23%	4.54%	3.79%	3.58%	3.39%
Net charge-offs for the three months ended	$2,827	$3,091	$3,083	$2,695	$2,793	$2,576	$2,030	$1,428	$1,620
Provision for credit losses for the three months ended	$3,373	$3,402	$3,275	$2,720	$2,779	$2,047	$984	$158	$445

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.



From September 2008 through March 2009, Pawnee's application flow was higher 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 portfolio performance.

Asset Quality

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

Risk management begins with carefully selecting which independent brokers Pawnee does business with. 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, in addition to other tools, a comprehensive budgetary review process. Included in this review are line-item-level comparisons of revenues and expenses to budget and trend data for the period then ended. If management finds there is a significant or unusual variance from budget or expectations, management will review the variance in detail and take corrective action, if necessary. Management focuses its attention on significant changes from projections and takes appropriate action, as necessary.

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

Collections

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

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

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

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

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

KEY PERFORMANCE INDICATORS – SHERWAY LP

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

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 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. 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 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 calculated distributable cash, using an operations approach, as the aggregate amount the Fund's subsidiaries could distribute up to the Fund in compliance with their bank covenants, is based on GAAP (or U.S. GAAP) net income with a few adjustments. Management believes that cash flows from operations was 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 provided the most transparent evaluation of the Fund's performance, being the income generated by the Fund's operating entities which could actually be used for distribution. Our method of calculating distributable cash may not be comparable to similarly titled items reported by many other issuers but is intended to provide greater transparency in the circumstances of the Fund.

	For the three-months ended				
($ thousands except per unit amounts)	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010	**For the year-ended Dec. 31, 2010**
Net Income	$825	$1,455	$2,419	$2,278	$6,977
Interest expense	695	704	872	791	3,062
Income tax provision	896	1,022	1,173	2,364	5,455
Amortization expense	186	184	185	255	810
EBITDA (1)	**2,602**	**3,365**	**4,649**	**5,688**	**16,304**
Foreign exchange (gain) loss	(9)	4	77	46	118
Interest rate swap mark-to-market loss (gain)	259	841	558	(763)	895
Unit-based compensation expense	109	302	250	254	915
Elimination of AcG-12 in Lease-Win	22	61	(57)	(76)	(50)
Interest on leasing lines	(695)	(704)	(872)	(791)	(3,062)
Adjusted EBITDA (1)	**2,288**	**3,869**	**4,605**	**4,358**	**15,120**
Income Taxes – Pawnee	(879)	(1,085)	(1,235)	(2,131)	(5,330)
Amortization expense – Pawnee	(22)	(23)	(23)	(89)	(157)
Capital expenditures	(3)	(2)	(104)	(11)	(120)
Distributable Cash (1)	**$1,384**	**$2,759**	**$3,243**	**$2,127**	**$9,513**
Total distributions declared to unitholders	$971	$976	$1,293	$1,464	$4,704
Distributions declared per unit	$0.105	$0.105	$0.12	$0.135	$0.465

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

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

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

Cash Flow Available for Distribution *($ thousands)*	For the three-months ended December 31,		For the year ended December 31,	
	2010	2009	2010	2009
Cash provided by operating activities	$6,167	$2,980	$15,361	$27,439
Less: Non-cash items added back to cash provided by operating activities due to bank covenant restrictions (a):				
Accretion expense on lease financing (a)	(42)	(27)	(213)	(142)
Gain on sale of leased vehicles	27	107	140	408
Provision for credit losses (a)	(1,020)	(3,558)	(6,596)	(16,809)
Provision for income taxes (a)	(1,220)	(242)	(4,311)	(1,286)
Provision for income taxes – exclude non-cash taxes relating to Canadian automotive operations	233	(122)	125	(122)
Amortization relating to Pawnee (a)	(89)	(25)	(157)	(88)
Subtotal	**$4,056**	**($887)**	**$4,349**	**$9,400**
Less: Non-cash items adjusted for in cash provided by operating activities relating to AcG-12 at Lease-Win (b):				
Impairments of retained interest in securitizations (b)	184	108	343	418
Amortization of securitization servicing liability (b)	19	34	107	159
AcG-12 impact (b)	(76)	63	(50)	302
	127	205	400	879
Subtotal	**$4,183**	**($682)**	**$4,749**	**$10,279**
Less: Changes in non-cash working capital items relating to operations (c)				
Accounts receivable (d)	(163)	(337)	(164)	(260)
Inventories (e)	(818)	2,154	(468)	(1,368)
Prepaid and other assets (f)	281	(40)	186	(214)
Income tax receivable (f)	(427)	(824)	5,438	(4,128)
Accounts payable and accrued liabilities (f)	(918)	524	(108)	(31)
Non-cash working capital items sub-total	(2,045)	1,477	4,884	(6,001)
Subtotal	**$2,138**	**$795**	**$9,633**	**$4,278**
Capital expenditures (g)	(11)	(47)	(120)	(412)
Cash flow available for distribution	**$2,127**	**$748**	**$9,513**	**$3,866**

(a) Pawnee's dividends paid to the Fund (and now Chesswood Group) are subject to compliance with all bank covenants and may not exceed 95% of Pawnee's consolidated net income, as determined in accordance with U.S. GAAP, excluding mark-to-market adjustments for interest rate swaps. Under the new loan agreement entered into on September 24, 2010, Pawnee's permitted dividends issued up to the Fund (and now Chesswood Group) would be reduced to 90% of consolidated net income, as determined in accordance with U.S. GAAP, excluding mark-to-market adjustments for interest rate swaps, should Pawnee's leverage rise to a specified level. 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 (and now Chesswood Group). 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 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 subsidiaries' credit facilities.

(g) The Fund's (and now Chesswood Group'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 September 2010, Acura Sherway performed leasehold improvements of $101,000 generating the majority of the capital expenditures noted above (in July 2009, Pawnee converted to a new management operating system).

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 December 31,		For the year ended December 31,	
	2010	2009	2010	2009
	($ thousands)		*($ thousands)*	
Cash provided by operating activities	$6,167	$2,980	$15,361	$27,439
Net income	$2,278	($324)	$6,977	$3,065
Distributions paid to unitholders	$1,405	$732	$4,462	$2,729
Excess of cash provided by operating activities over distributions paid to unitholders	$4,762	$2,248	$10,899	$24,710
Excess of (shortfall of) net income over distributions paid to unitholders	$873	($1,056)	$2,515	$336

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

SELECTED QUARTERLY FINANCIAL INFORMATION

Fiscal 2010	For the three-months ended				For the year ended
($ thousands except per unit figures)	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010	December 31, 2010
Revenue	$18,257	$20,442	$20,140	$20,246	$79,085
Gross profit	8,833	8,963	9,173	9,194	36,163
Income before tax, and gain (loss) on foreign exchange and interest rate swaps	1,971	3,322	4,227	3,925	13,445
Income before tax	1,721	2,477	3,592	4,642	12,432
Income tax provision	896	1,022	1,173	2,364	5,455
Net income	825	1,455	2,419	2,278	6,977
Basic income per unit	$0.09	$0.16	$0.22	$0.21	$0.69
Diluted income per unit	$0.09	$0.15	$0.21	$0.20	$0.67
Total assets	118,729	127,839	133,542	131,181	131,181
Total long-term financial liabilities	57,416	65,317	66,656	65,005	65,005
Other Data					
Adjusted EBITDA (1)	$2,288	$3,869	$4,605	$4,358	$15,120
Distributable cash	1,384	2,759	3,243	2,127	9,513
Distributions declared	971	976	1,293	1,464	4,704
Distributions declared per unit (1)(2)	$0.105	$0.105	$0.12	$0.135	$0.465

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	$0.090	$0.330

(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 "Inter-Company Debt Exchanged for Equity in 2009" above), 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 YEAR-ENDED DECEMBER 31, 2010 AND 2009

Pawnee's U.S. dollar results for the year-ended December 31, 2010 were converted at approximately 1.0299, which was the average exchange rate for the year. The U.S. dollar results for the year-ended December 31, 2009 were converted at approximately 1.142 which was the average exchange rate for the corresponding period.

Revenue from automotive operations totaled $49.8 million in the year-ended December 31, 2010 compared to $47.6 million for the prior year; an increase of $2.2 million or 4.6% year-over-year. Vehicle sales at Acura Sherway decreased by 29 vehicles during the year compared to the prior year, however the average sales price was $3,000 higher and these differences were the predominant reason for the increase of $2.2 million in revenue.

The automotive operations generated $6.9 million in gross profit for the year-ended December 31, 2010 compared to $7.4 million in the prior year, a decrease of $497,000 or 6.7%. Gross profit at Acura Sherway decreased by $197,000 in the year-ended compared to the prior year as the average cost of sale per vehicle increased more than the increase in average sales price, coupled with a decrease in gross profit from service and parts of $135,000. Gross profit from Lease-Win decreased by $300,000 in the year-ended December 31, 2010 compared to the prior year predominantly from the decrease in income resulting from fewer leases outstanding and ancillary income earned when leases terminate.

In U.S. dollars, Pawnee's direct financing lease income totalled U.S.$23.8 million in the year-ended December 31, 2010 compared to U.S.$22.2 million in the prior year, an increase of approximately U.S.$1.6 million compared to the prior year.

Direct financing lease income for Chesswood totalled $25.0 million in the year-ended December 31, 2010 compared to $25.9 million in the prior year; a decrease of approximately $894,000 year-over-year predominantly due to a decrease of $2.7 million from the change in the foreign exchange rates and an increase of $1.8 million in direct financing lease income.

Ancillary lease and other income totaled $4.3 million in the year-ended December 31, 2010 compared to $4.5 million in the prior year, a decrease of $262,000 year-over-year predominantly due to foreign exchange. In U.S. dollars, Pawnee's ancillary lease and other income increased approximately U.S.$171,000 compared to the prior year.

Salaries, commissions and benefits totaled $8.1 million in the year-ended December 31, 2010 compared to $7.4 million in the prior year, an increase of $753,000. Compensation expense at the Fund increased by approximately $687,000 predominantly due to the non-cash unit based compensation for trustees, directors and certain senior management. In U.S. dollars, Pawnee's salaries and benefits increased by approximately U.S.$267,000, however with the effect of foreign exchange, Pawnee's salaries and benefits decreased, in Canadian dollars, by approximately U.S.$72,000. Salaries, commissions and related benefits at the Canadian automotive operations decreased by approximately $41,000 year-over-year.

During the year-ended December 31, 2010, the provision for credit losses totaled $3.9 million compared to $14.1 million in the prior year; a decrease of $10.2 million year-over-year. The $10.2 million year-over-year decrease is comprised of a decrease of $407,000 due to the change in foreign exchange rates and a decrease of $9.8 million in the provision for credit losses. During 2010, Pawnee's actual net charge-offs decreased by U.S.$4.0 million year-over-year. For the year-ended December 31, 2010, Pawnee's non-cash decrease in allowance for doubtful accounts totaled U.S.$4.0 million compared to a non-cash increase of U.S.$513,200 in the allowance for doubtful accounts in 2009.

	For the year-ended December 31, 2010	December 31, 2009
	(U.S.$ thousands)	
Pawnee's net charge-offs	**$7,655**	$11,663
Decrease (increase) in allowance for doubtful accounts	**(4,021)**	513
Pawnee's provision for credit losses	**$3,634**	$12,176

General and administrative expenses totaled $6.8 million for the year-ended December 31, 2010 compared to $6.4 million in the prior year, an increase of $400,000. The change year-over-year is predominantly due to the recognition of $350,000 relating to the conversion of the Fund to a corporation on January 1, 2011. As well, the withholding taxes on dividends from Pawnee increased by $302,000 in the year-ended December 31, 2010 compared to the prior year due to increased dividends from Pawnee year-over-year. In U.S. dollars, Pawnee's general and administrative expenses increased by approximately $60,000; however, with the effect of foreign exchange, Pawnee's general and administrative expenses decreased, in Canadian dollars, by approximately $186,000. General and administrative expenses at the Canadian automotive operations decreased by approximately $127,300 year-over-year.

Interest expense on long-term debt totaled approximately $2.8 million in the year-ended December 31, 2010 compared to $3.7 million in the prior year, a decrease of $846,000 year-over-year. Pawnee's interest expense, on its lease financing, decreased by approximately $449,000 year-over-year. $283,000 of the decrease related to the change in foreign exchange rates. Interest expense at the Fund decreased by $347,000 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 $50,000 year-over-year due to the decrease in lease financing debt outstanding.

Income before gains and losses on foreign exchange and interest rate swaps totaled $13.4 million for the year-ended December 31, 2010 compared to $5.2 million in the prior year, an increase of $8.2 million.

The $8.2 million increase in income is mostly the result of a $9.7 million increase in operating income from Pawnee, predominantly from a decrease in provision for credit losses; offset by $263,100 decrease in income from the Canadian automotive operations (mainly at Lease-Win); and $687,000 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 $895,000 in the year-ended December 31, 2010 compared to a non-cash gain of $732,000 in the prior year, a decrease of $1.6 million in income before taxes year-over-year.

The provision for income taxes for the year-ended December 31, 2010 totaled $5.4 million compared to $3.2 million in the prior year, an increase of $2.2 million. Prior to December 30, 2009, the Fund had reduced its taxable income and, therefore, its calculation of income tax expense by the tax effect of interest expense on intercompany note that was eliminated on consolidation. The intercompany note was exchanged for equity on December 30, 2009, thus the Fund's taxable income is no longer reduced by this intercompany interest expense (see "Inter-Company Debt Exchanged for Equity in 2009" above for further discussion). Approximately $485,000 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 due to the year-over-year increase in income before taxes.

For the year-ended December 31, 2010, the Fund reported consolidated net income of $7.0 million or $0.69 income per Fund Unit, compared to net income of $3.1 million or $0.36 per Fund Unit in the year-ended December 31, 2009, an increase of $3.9 million year-over-year. The $3.9 million increase in net income year-over-year is predominantly from the decrease in provision for credit losses of $10.2 million as a result of the reduction in allowance for doubtful accounts due to the decrease in net charge-offs year-over-year. The major items offsetting this increase in income included the $1.6 million non-cash interest rate swap loss due to mark-to-market valuation and the increase in income tax provision of $2.2 million year-over-year.

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

Pawnee's U.S. dollar results for the three-months ended December 31, 2010 were converted at approximately 1.0128, which was the average exchange rate for the three-month period. The U.S. dollar results for the three-months December 31, 2009 were converted at approximately 1.0562, which was the average exchange rate for the corresponding period.

Revenue from automotive operations totaled $13.0 million in the three-months ended December 31, 2010 compared to $11.9 million for the same period in the prior year, an increase of $1.1 million or 9.2% year-over-year. Vehicle sales at Acura Sherway increased by 16 vehicles during the three-month period compared to the same period in the prior year; and was the predominant reason for the increase in revenue.

The automotive operations generated $1.9 million in gross profit for the three-months ended December 31, 2010 compared to $1.8 million in the same period in the prior year, an increase of $85,000 or 4.6%. Gross profit at Acura Sherway increased in the three-months compared to the same period in the prior year due to more vehicles being sold in the period.

In U.S. dollars, Pawnee's direct financing lease income totalled $6.1 million in the three-months ended December 31, 2010 compared to U.S.$5.8 million in the same period in the prior year, an increase of approximately U.S.$264,000 in the three-month period compared to the same period in the prior year due to more leases outstanding during the period. Direct financing lease income totalled $6.3 million in the three-months ended December 31, 2010 an increase of approximately $8,000 year-over-year, predominantly due to a decrease of $322,000 from the change in the foreign exchange rates and an increase of $330,000 in direct financing lease income. Ancillary lease and other income totaled $1.0 million in the three-months ended December 31, 2010 relatively unchanged to the same period in the prior year. In U.S. dollars, Pawnee's ancillary lease and other income increased approximately $78,000 in the three-month period compared to the same period in the prior year due to more leases outstanding.

Salaries, commissions and benefits totaled $2.2 million in the three-months ended December 31, 2010 compared to $1.8 million in the same period in the prior year, an increase of $380,000. Compensation expense at the Fund increased by $290,000 in the three month period year-over-year; due to the increases in incentive compensation and non-cash unit based compensation for trustees, directors and certain senior management.

During the three-month period ended December 31, 2010, the provision for credit losses totaled $444,000 compared to $3.0 million in the same period in the prior year, a decrease of $2.5 million year-over-year. The $2.5 million year-over-year decrease is comprised of an increase of $196,000 due to the change in foreign exchange rates and a decrease of $2.7 million in the provision for credit losses. In the three-month period, Pawnee's actual net charge-offs decreased by U.S.$1.2 million year-over-year. Pawnee's non-cash decrease in allowance for doubtful accounts totaled U.S.$1.2 million compared to a non-cash decrease of U.S.$14,000 in the allowance for doubtful accounts in the same period in 2009.

Interest expense on long-term debt totaled approximately $737,000 in the three-months ended December 31, 2010 compared to $758,000 in the same period in the prior year, a decrease of $21,000 year-over-year. Pawnee's interest expense on its lease financing increased by approximately $75,000 year-over-year in the three-month period. Interest expense at the Fund decreased by $87,600 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 $8,800 year-over-year due to the decrease in lease financing debt outstanding.

Income before gains and losses on foreign exchange and interest rate swaps totaled $3.9 million for the three-months ended December 31, 2010 compared to $1.8 million in the same period of the prior year, an increase of $2.1 million. The $2.1 million increase in income is predominantly the result of the $2.4 million increase in Pawnee's income which was driven primarily by the decrease in provision for credit losses; $91,400 increase in income from the Canadian automotive operations; offset by a $285,000 decrease in income as a result of the increase in 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 gain of $763,000 in the three-months ended December 31, 2010 compared to $222,000 in the same period of the prior year, an increase of $541,000 in income before taxes year-over-year.

The provision for income taxes for the three-months ended December 31, 2010 totaled $2.4 million relatively unchanged from the same period of the prior year. The $2.4 million provision for income taxes for the three-months ended December 31, 2009 included $1.8 million related to the conversion of inter-company debt to equity (see Inter-Company Debt Exchanged for Equity in 2009" above for further discussion). Of the $1.8 million provision for income taxes, $1.2 million relates to reversal of the future tax asset recorded in Q4 2008 and $625,000 relates to reduced tax expense reported in the first nine-months of 2009.

For the three-months ended December 31, 2010, the Fund reported consolidated net income of $2.3 million, or $0.21 income per Fund Unit, compared to a net loss of $324,000, or $0.04 per Fund Unit in the three-months ended December 31, 2009, an increase of $2.6 million year-over-year.

The $2.6 million increase in net income year-over-year in the three month period was predominantly as a result of the reduction in allowance for doubtful accounts due to the decrease in net charge-offs year-over-year and the $439,000 increase in the non-cash interest rate swap mark-to-market valuation and foreign exchange amounts.

BALANCE SHEET

Total consolidated assets of the Fund at December 31, 2010 were $131.2 million, an increase of $12.4 million from December 31, 2009. Over sixty percent of the total assets were represented by Pawnee's and Lease-Win's net investments in direct financing lease receivables. The exchange rate on December 31, 2010 was 0.9946 compared to 1.0466 at December 31, 2009. The change in the foreign exchange rates decreased assets by $4.6 million, thus total assets excluding the foreign exchange impact increased by $17.0 million from December 31, 2009. Income tax installment payments of $5.3 million, a $5.3 million increase in cash, and a $3.7 million increase in net investment in leases accounted for the majority of the increase in assets.

Cash totaled $12.9 million at December 31, 2010 compared to $7.6 million at December 31, 2009, an increase of approximately $5.3 million. The Fund successfully completed a rights-offering raising $5.1 million, net of costs, through the issuance on July 2, 2010 of 1,320,799 Fund Units at $4.00 per unit. The net proceeds from that offering are being used to support the growth of Pawnee and for general corporate purposes. 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. During the year, Lease-Win has paid $784,000 in income taxes relating to 2009 and $960,000 in taxes relating to 2010. At December 31, 2010, $1.5 million (December 31, 2009 - $2.6 million) of the Fund's consolidated cash balance represents funds on hand at Lease-Win.

During the fourth quarter of 2010, $3.5 million was invested into a one year cashable guaranteed investment certificate that earns interest at 1.5% per annum.

Accounts receivable totaled $766,000 at December 31, 2010 compared to $930,000 at December 31, 2009. The accounts receivable balance principally relates to the Acura Sherway dealership and includes amounts due from the manufacturer for financing contracts in transit, which are typically collected within seven to ten days, and are usually at their highest levels at month end. Vehicle receivable balances fluctuate throughout the year based on seasonality, and sales volumes of the industry.

Inventory totaled $6.8 million at December 31, 2010 compared to $7.2 million at December 31, 2009, a decrease of $468,000. Vehicle inventory balances at dealerships fluctuate throughout the year based on seasonality, sales volumes and market conditions.

Prepaid expenses and other assets totaled $1.8 million at December 31, 2010. Prepaid personal property taxes paid on behalf of Pawnee's lessees of approximately $793,000 comprise the majority of the prepaid expenses balance. The majority of the increase in prepaid expenses and other assets from December 31, 2009 relates to the legal and other financing costs totaling U.S.$504,000 that were incurred as part of renewing and expanding Pawnee's credit facility and will be amortized over the term of the facility. On December 16, 2010, Pawnee signed a contract to acquire a new phone system totaling US$145,152. The payable amount was set up and the asset was recorded to other assets as the phone system had not been delivered or installed.

In June 2010, Pawnee paid U.S.$3.59 million, followed by an additional U.S.$1.65 million in mid-September, for income tax installments as the bonus depreciation tax incentive in the U.S. Creating Small Business Jobs Act of 2010 had not yet been passed in Congress. On September 27, 2010, that Act was passed with retroactive bonus depreciation to January 1, 2010, thus Pawnee expects to receive a refund of the U.S.$5.24 million installments paid once the 2010 tax return is filed and processed in 2011.

As at December 31, 2010, net investment in leases totaled $81.9 million compared to $78.2 million at December 31, 2009, an increase of $3.7 million; the increase was comprised of:

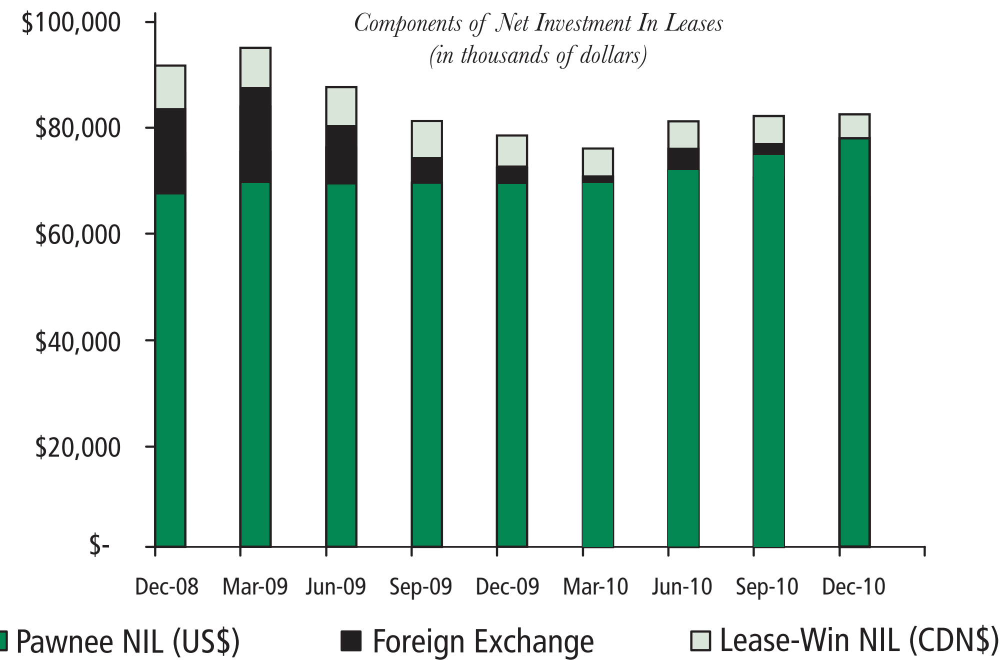
	($ thousands)
Decrease in allowance for doubtful accounts	$3,999
Increase of 344 leases since December 31, 2009 at Pawnee	3,939
Increase of U.S.$143.20 per lease in the average book value of net investment in leases	1,011
Decrease in net investment in leases from change in foreign exchange	(3,586)
Net decrease in net investment in leases on-balance sheet at Lease-Win	(1,663)
Total increase in net investment in leases	$3,700

The gross lease receivable of leases under administration as at December 31, 2010 was approximately $117.1 million, compared to $129.2 million at December 31, 2009. Pawnee's gross lease receivable represented $106.9 million (U.S.$107.5 million) of the total gross lease receivable outstanding at December 31, 2010, compared to $109.0 million (U.S.$104.2 million) at December 31, 2009.

Lease-Win's gross lease receivable under administration totaled $10.2 million at December 31, 2010 down from $20.2 million at December 31, 2009, a decrease of $10.0 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 $81.9 million in net investment in leases is net of $7.8 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.$7.6 million represents 10.1% of the net investment in lease receivables less security deposits on hand at December 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.



Pawnee NIL = Pawnee's net investment in leases, net of allowance for doubtful accounts in thousands of U.S.$.
Foreign Exchange = foreign exchange impact of converting Pawnee's U.S.$ net investment in leases to Canadian $. The foreign exchange component for 12/31/2010 is negative $421,000 and falls below the line and is so small it does not show on the graph.
LW NIL = Lease-Win's on-balance sheet net investment in leases in thousands of Canadian $.

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

Included in the net investment in lease receivables is $462,000 in securitized lease receivables at Lease-Win, relating to $5.5 million in assets under administration. At December 31, 2009 Lease-Win's assets under administration totaled $13.1 million. At December 31, 2010, 57.6% 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 totaled $7.4 million at December 31, 2010 compared to $8.4 million at December 31, 2009. The $965,000 decrease in intangible assets is comprised of $610,000 in amortization of broker relationships and back-end systems and a $355,000 decrease as the result of the change in foreign exchange rates. The significant intangible assets of broker relationships and customer relationships do not require any outlay of cash to be maintained, as the creation of lease receivables does not require an outlay of cash, other than commissions, which are separately expensed.

Goodwill totaled $13.2 million at December 31, 2010, compared to $13.8 million at December 31, 2009. The $559,000 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**
Foreign exchange adjustment	(5,147)
Goodwill, December 31, 2009	**$13,776**
Foreign exchange adjustment	(559)
Goodwill, December 31, 2010	**$13,217**

Vehicle inventory is financed through vehicle financing credit facilities, of which $5.5 million was outstanding at December 31, 2010 compared to $6.1 million at December 31, 2009, leaving $1.2 million of inventory that was self-financed as at December 31, 2010 compared to $1.1 million of inventory self-financed at December 31, 2009.

Lease financing of $38.7 million at December 31, 2010 is comprised of:

($ thousands)	December 31, 2010	December 31, 2009
Pawnee's credit facility	$38,671	$36,186
Lease-Win's credit facility	-	1,083
	$38,671	$37,269
Pawnee's credit facility (U.S.$)	$38,881	$34,574

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

Lease-Win's floating rate lease financing was the amount financed through a Canadian chartered bank and not securitized. Many of the leases that were financed through the bank had certain characteristics that made them ineligible for securitization, such as: age of vehicle, length of term, or concentration of leases from certain customers. Lease-Win's lease financing was to be repaid over the term of the corresponding leases. Lease-Win's credit facility was 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. In November 2010, the decision was made to pay-off the remaining $687,000 relating to Lease-Win's credit facility to save on the interest costs as there was no penalty for early termination. During 2010, the effective interest rate on Lease-Win's credit facility was 4.37% based on the average of the month-end debt levels.

The majority of the $9.9 million in customer security deposits relates to security deposits held by Pawnee. Pawnee's primary lease contract requires that the lessee provide two payments as security deposit (not advance payments), which are held for the full term of the lease and then returned or applied to the purchase option of the equipment at the lessee's request, unless the lessee has previously defaulted (in which case the deposit is applied against the lease receivable). Historically, a very high percentage of lessees' deposits are either applied to the purchase option of the leased equipment at the end of the lease term or used to offset charge-offs. The approximate $100,000 increase in the security deposit balance from December 31, 2009 is due to a $629,000 increase in security deposits at Pawnee, $480,000 decrease as a result of foreign exchange conversion and $49,000 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 December 31, 2010, the servicing liability totaled $80,000 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 exchange for a LIBOR based floating rate amount. Pawnee's bank has the option to terminate the swaps typically one year prior to the maturity date. The interest rate swaps are intended to offset a portion of the variable interest rate risk on the credit facility. At December 31, 2010, the mark-to-market adjustment is a loss of approximately $2.5 million compared to a loss of approximately $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 December 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") in 2009 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 December 31, 2010 totaled $16.4 million compared to $12.9 million at December 31, 2009, an increase of $3.5 million. The increase in future income taxes payable is the result of a future income tax provision of approximately $4.2 million and $648,000 decrease as a result of the change in foreign exchange rates.

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 December 31, 2010, the $83.0 million Fund Units balance in the Unitholder Equity section of the balance sheet is comprised of 9,400,354 Fund Units, 1,274,601 Class B common shares and 203,936 Class C common shares of "U.S. Acquisitionco" outstanding. The Class B and C common shares of U.S. Acquisitionco were issued as partial consideration for the acquisition of Pawnee and are fully exchangeable at any time for Fund Units (and now common shares of Chesswood Group), on a one-to-one basis, through a series of steps.

During 2010, options to acquire 142,500 Fund Units were exercised and options to acquire 225,000 Fund Units were granted, leaving options to acquire 712,500 Fund Units outstanding at December 31, 2010. As of December 31, 2010, unrecognized non-cash compensation expense related to non-vested options was $246,000, which is expected to be recognized over the three-year vesting period.

During 2010, 175,000 restricted units were exercised and 195,000 were granted, leaving 195,000 restricted units outstanding at December 31, 2010. As of December 31, 2010, unrecognized non-cash compensation expense related to non-vested restricted units granted was $247,000. The Fund expects to recognize this expense over the next three months.

The Fund successfully completed a rights offering raising $5.1 million, net of costs, through the issuance on July 2, 2010 of 1,320,799 Fund Units at $4.00 per unit. The net proceeds from the offering are being used to support the growth of Pawnee and for general corporate purposes.

At December 31, 2010, the Fund deficit is comprised of a cumulative net loss of $2.0 million (December 31, 2009 - $8.98 million) and cumulative distributions to Unitholders of $26.0 million (December 31, 2009 - $21.3 million). The Fund's cumulative net loss of $2.0 million at December 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 $30.4 million (December 31, 2009 - $23.4 million) compared to cumulative distributions to Unitholders of $26.0 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 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 December 31, 2010, the Fund's operating units had $17.0 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).

The contractual payments and maturities of the financial liabilities at December 31, 2010 are as follows:

($ thousands)	2011	2012	2013	2014	2015	2016	Total
Distributions payable	$490	$ -	$ -	$ -	$ -	$ -	$490
Accounts payable and accrued liabilities	5,187	-	-	-	-	-	5,187
Vehicle financing	5,544	-	-	-	-	-	5,544
Interest rate swaps	114	824	785	741	-	-	2,464
Lease financing	-	-	38,671	-	-	-	38,671
Customer security deposits *(i)*	2,471	3,060	2,731	1,078	538	6	9,884
	$13,806	$3,884	$42,187	$1,819	$538	$6	$62,240

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

Cash Sources and Uses

For the year-ended December 31, 2010

The Fund's operations generated net cash flow from operations of $15.4 million during the year-ended December 31, 2010 compared to net cash flow generated from operations of $27.4 million in the year-ended December 31, 2009, a decrease of $12.0 million compared to the prior year. Cash flow generated from operations during the year-ended December 31, 2010 includes the cash inflow from the decrease in inventory of $468,000 but excludes the $582,000 cash outflow from the decrease in short-term vehicle financing. Cash flow generated from operations during the year-ended December 31, 2009 includes the cash inflow from the decrease in inventory of $1.4 million but excludes the $1.5 million cash outflow from the decrease in short-term vehicle financing.

Thus, cash flow from operations after considering the movement in these short-term working capital items was $14.8 million in the year-ended December 31, 2010 compared to $26.0 million in the prior year, a decrease of $11.2 million or approximately 43.1% compared to the prior year. The change in income tax receivable accounts for $9.6 million of the $11.2 million decrease in cash flow from operations, which relates to $5.4 million in income tax payments at Pawnee in 2010 compared to an income tax refund of $4.1 million received in 2009.

During the year-ended December 31, 2010, investment in net direct financing leases of $14.6 million (2009 – $16.4 million) was offset by financing of $8.9 million (2009 - $2.5 million) from proceeds from lease financing and securitization, cash received from residual interest in securitizations, and security deposits, resulting in a net usage of $5.7 million (2009 - $14.0 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 $9.1 million in the year-ended December 31, 2010 compared to $12.0 million in the prior year, a decrease of $2.9 million.

During the year-ended December 31, 2010, cash payments applied to lease financing credit facilities totalled $4.0 million compared to $6.5 million during the year-ended December 31, 2009. Of the $4.0 million cash payments toward lease financing credit facilities during the year-ended December 31,2010 U.S.$2.0 million reflects the additional investment in Pawnee in conjunction with the renewed and expanded credit facility, $800,000 of excess cash was applied against Pawnee's line-of-credit and $1.1 million (2009 - $2.0 million) were payments at Lease-Win.

Cash flow from operations after considering the vehicle financing, leasing transactions and lease financing payments was $5.1 million in the year-ended December 31, 2010 compared to $5.5 million in the prior year. The $5.1 million cash inflow in 2010 includes net income tax payments of $7.1 million ($5.4 million will be refunded in early 2011), thus cash flow from operations in 2010 before those tax payments was $12.2 million. The $5.5 million cash inflow in 2009 includes a tax refund from of $4.1 million, thus cash flow from operations before tax cash flows totalled an inflow of $1.4 million. Thus cash inflow from leasing and automotive operations totalled $12.2 million in the year-ended December 31, 2010 compared $1.4 million in 2009, an increase of $10.8 million.

Capital expenditures totalled $120,000 (2009 – $412,000) during the year-ended December 31, 2010. During the third quarter of 2010, Sherway LP extended its lease for its premises until June 30, 2017 with an option for an additional five years. As part of this lease extension, approximately $201,000 in leasehold improvements were completed, of which the landlord paid for half. In accordance with accounting rules, $201,000 was capitalized to property and equipment and will be amortized over the remaining term of the lease, and the $100,000 paid by the landlord will be credited against rent expense over the same term.

The Fund successfully completed a rights-offering raising $5.1 million, net of costs, through the issuance on July 2, 2010 of 1,320,799 Fund Units at $4.00 per unit. The net proceeds from the offering are being used to support the growth of Pawnee and for general corporate purposes.

The Fund paid distributions to unitholders in the amount of $4.5 million during the year-ended December 31, 2010 compared to $2.7 million in the prior year; an increase of $1.8 million due to the increase in distributions per Fund Unit and an increase in the number of Fund Units outstanding.

In total, in the year-ended December 31, 2010, there was an increase in cash of $5.3 million compared to an increase of $1.9 million in the prior year, an increase of $3.4 million.

For the three-months ended December 31, 2010

The Fund's operations generated net cash flow from operations of $6.2 million during the three-months ended December 31, 2010 compared to net cash flow generated from operations of $3.0 million in the three-months ended December 31, 2009, an increase of $3.2 million compared to the same period in the prior year.

Cash flow generated from operations during the three-months ended December 31, 2010 includes the cash inflow from the decrease in inventory of $818,000 but excludes the $668,000 cash outflow from the decrease in short-term vehicle financing. Cash flow generated from operations during the three-months ended December 31, 2009 includes the cash outflow from the increase in inventory of $2.2 million but excludes the $2.4 million 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 $5.5 million in the three-months ended December 31, 2010 compared to $5.4 million in the same period in the prior year, an increase of $120,000 or approximately 2.2% compared to the same period in the prior year.

During the three-months ended December 31, 2010, investment in net direct financing leases of $3.6 million (2009 – $2.0 million) was offset by financing of $1.6 million (2009 - $288,000) from proceeds from lease financing and securitization, cash received from residual interest in securitizations, and security deposits, resulting in a net usage of cash of $2.0 million (2009 – $1.7 million) in the investment of leases prior to payments against lease financing credit facilities.

Cash flow from operations after considering the vehicle financing and leasing transactions was $3.5 million in the three-months ended December 31, 2010 compared to $3.6 million in the same period of the prior year, a decrease of $119,000 (an increase of $972,000 if the tax instalments paid in 2010 are excluded).

During the three-months ended December 31, 2010, cash payments applied to lease financing credit facilities totalled $1.6 million. Of the lease financing payments during the three-months ended December 31,2010, $710,000 (2009 - $116,000) related to Lease-Win's payments.

Capital expenditures totaled $11,000 (2009 – $47,000) during the three-months ended December 31, 2010.

The Fund paid distributions to unitholders in the amount of $1.4 million during the three-months ended December 31, 2010 compared to $732,000 in the same period in the prior year; an increase of $673,000 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 December 31, 2010, there was an increase in cash of $594,000 compared to $1.6 million in the same period in the prior year.

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

Chesswood Group 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. Chesswood Group 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, was 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 (and now Chesswood Group's) operating subsidiaries is subject to bank and/or manufacturer covenants relative to leverage and/or working capital, other than Lease-Win, which no longer has or needs a banking facility.

Pawnee funds its business primarily through variable rate borrowings and has a revolving credit facility for up to U.S.$55 million which can, subject to certain conditions, be extended to U.S.$85 million. As of December 31, 2010, Pawnee had used approximately U.S.$38.9 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 outstanding commitment under its credit facility, and as of December 31, 2010 Pawnee has hedged U.S.$30.0 million, representing approximately 77.1% of the U.S.$38.9 million outstanding under the credit facility.

Pawnee's secured borrowing agreement has financial covenants and other restrictions with which it must comply in order to obtain continued funding and avoid default. Events of default under these arrangements include a change in control without lender approval. Advances on the revolving facility may be drawn at any time, subject to compliance with borrowing base calculations and compliance with the covenants set out therein. As of December 31, 2010, U.S.$38.9 million was outstanding under the facility and Pawnee had capacity to draw up to and in excess of the U.S.$55.0 million commitment and remain within the borrowing base under the facility.

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

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

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

Distribution to Unitholders

The Fund declared cash distributions during the year-ended December 31, 2010 as follows:

Unitholder Record Date	Per Unit
January 31, 2010	$0.035
February 28, 2010	$0.035
March 31, 2010	$0.035
April 30, 2010	$0.035
May 31, 2010	$0.035
June 30, 2010	$0.035
July 31, 2010	$0.040
August 31, 2010	$0.040
September 30, 2010	$0.040
October 31, 2010	$0.045
November 30, 2010	$0.045
December 31, 2010	$0.045
	$0.465

Distribution Policy

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

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

On January 18, 2011, Chesswood Group announced the monthly dividends starting in January 2011 were increasing to $0.05 per share from $0.045 per Fund Unit.

OUTLOOK

Chesswood Group is well positioned for the future, with more than $10 million in available cash surplus as of December 31, 2010 and no corporate debt. Our largest subsidiary has seen its portfolio's key performance indicators return to a range that has in the past always been associated with strong earnings.

We would like to deploy our financial and management resources, ideally in another specialty finance opportunity. Chesswood is looking at opportunities and will continue to be selective in pursuing businesses that offer long-term potential for strong returns on equity and growth.

Organically, Chesswood anticipates portfolio growth from Pawnee in 2011, from core originations in the start-up and B micro-ticket markets, as well as in our B+ product, launched back in September, 2008. Given the current state of economic trends in the United States, our core segment of business will see growth that is "slow and steady" as small business start-ups in the U.S. continue to recover slowly.

RISK FACTORS

An investment in Fund Units, and now shares of Chesswood Group, entails certain risk factors that should be considered carefully.

The Fund, and now Chesswood Group, operates in a dynamic environment that involves various risks and uncertainities, many of which are beyond our control and which could have an effect on our business, revenues, operating results, cash flow, 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.

These risk factors which applied to the Fund now apply to Chesswood Group as the successor to the Fund's businesses. As such, references below applicable to the Fund's income trust structure can also be read as references to Chesswood Group's corporate structure, such that references to distributions to unitholders of the Fund (by way of example) are equally applicable in respect of dividends to shareholders of Chesswood Group.

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; Impact of Significant Events and Circumstances

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 to maintain new lease origination volumes and the credit quality of new leases at levels previously attained. Unfavourable economic conditions could also increase funding costs or operating cost structures, limit access to credit facilities, securitizations and other capital markets or result in a decision by lenders not to extend further credit. Sherway LP, as the operator of a premium brand, new car dealership, could also be negatively affected by deteriorating economic conditions which result in reduced new car sales.

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

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

Losses from Leases

Losses from leases in excess of Pawnee's or Lease-Win's expectations could 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 depends and will continue to depend on the availability of credit from external financing sources to continue to finance new leases and satisfy their other working capital needs. Pawnee may be unable to obtain additional financing on acceptable terms or at all. If any or all of its funding sources become unavailable on acceptable terms or at all, or if any of its credit facilities are not renewed or re-negotiated upon expiration of their terms, Pawnee may not have access to the financing necessary to conduct its respective business, which would limit its ability to finance its operations.

Although Pawnee's relationship with its lenders is excellent, the current challenges facing financial institutions has resulted in an increased risk that such lenders may elect not to renew credit facilities for reasons which may be unrelated to Pawnee.

"Characterization" Risks

If an applicable court or regulatory authority were to make an adverse finding, or take an adverse action on the basis that one of Pawnee's form of lease is not a true lease for commercial law, tax law, or other legal purposes, adverse consequences could result with respect to leases entered into in such form including the loss of preferred creditor status (which would impact upon Pawnee's rights to recover on its claim), limitations on finance 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) for Pawnee's core leasing product and U.S.$35,000 for the"B+" product, Pawnee's practice of requiring only a verbal confirmation that the leased property has been delivered and irrevocably accepted under the subject lease, and/or inspecting the leased property to confirm the same, could make Pawnee vulnerable to certain defenses. By way of example, Pawnee's deemed failure to deliver conforming property under the lease documents could be a defense to a lessee's "unconditional" obligation to pay the rents and certain other amounts under the related lease. Pawnee has not suffered any material losses relating to these practices, however, there can be no assurance that it would not in the future.

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

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

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

Competition in the Automobile Retailing Industry

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

Manufacturers' Control Over Dealerships and the Acura Framework Agreement

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

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

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.

The implications of the recent earthquake in Japan, whether in terms of supply of vehicles and parts to our Acura dealership or otherwise, are not yet determinable.

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 are in U.S. dollars. Changes in the value of the U.S. dollar could have a negative impact on the amount in Canadian dollars available for 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.

The Income Tax Act (Canada) contains rules that tax certain publicly-traded trusts in the same manner as corporations and tax distributions of such taxed income as taxable dividends from a Canadian corporation. For trusts existing on October 31, 2006, this tax will generally apply beginning in 2011. Generally, these rules will have the effect of reducing the amount of cash available for distribution to our unitholders. As described above, the Fund has received the approval of its unitholders for a proposed "conversion" into a dividend paying corporation, with such conversion expected to be made effective on January 1, 2011.

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 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 December 31, 2010, the minimum lease payments are U.S.$202,261 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, 2010. 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, transferred or sold 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 were sold to the Securitization Trust which resulted in the sale of the leases. Lease-Win removed the leases from its balance sheet and recorded 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 long-lived 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 maturity. Nonetheless, the interest rate swaps do not qualify as a hedge for accounting purposes, and are therefore recorded as separate derivative financial instruments. Accordingly, the estimated fair value of the interest rate swaps 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 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 December 31, 2010 that will remain outstanding as of January 1, 2011 is approximately $1.2 million resulting in a future tax asset of $319,000, based on an effective tax rate of 26.0%. 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

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").

Chesswood Group's first full 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 or Chesswood Group; and determining the resource and training requirements. An IFRS Transition Plan based on the results was established.

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

During fiscal 2009, the Fund established, and Chesswood Group (as successor to the Fund) 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 – Chesswood Group (as successor to the Fund) is in the process of integrating the necessary procedures underlying financial system and processes that are required for the changeover to IFRS.

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. While the IFRS transition project is substantially complete management continues to monitor these regulatory developments in the run-up to the issuance of the first interim IFRS financial statements. In particular, we expect that there may be additional new or revised IFRSs issued during 2011 in relation to consolidation, discontinued operations, financial instruments, fair value measurement, leases, revenue recognition, employee benefits and joint ventures.

IFRS are premised on a conceptual framework somewhat similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. The 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 reported 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.

IMPACT OF IFRS ADOPTION

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. It is intended to highlight those areas we believe to be most significant; quantitative impacts of certain differences are still being reviewed. Moreover, until we have prepared a full set of annual financial statements under IFRS, we will not be able to determine or precisely quantify all of the impacts that will result from converting to IFRS.

1. Securitization

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

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

It is anticipated that this change will not cause a tax impact as the calculation of Lease-Win future taxes payable already considers these balance sheet timing differences.

As of September 1, 2008, Lease-Win ceased originating new leases other than extensions with existing customers. 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.

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

2. Allowance for Doubtful Accounts

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

Under IFRS, incurred losses require objective evidence of impairment that is to be supported by currently observable data. IAS 39 states that an allowance can be set up, if and only if, there is objective evidence that the impairment has already occurred and potential losses expected as a result of future events, no matter how likely based on past historical evidence, are not allowed to be recognized under IFRS. IAS 39 does not permit loan loss models that produce unallocated general allowances and does not permit establishment of an allowance on the day a loan is originated. No deviation from these strict provisions is possible, despite the very wide variations that exist in underlying loan quality, structure and relevant historical experience, from one company to another and from one sector of the finance industry to another.

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

For the consolidated financial statements under IFRS, we will maintain an allowance for doubtful accounts for Pawnee to cover leases in its portfolio that show observable signs of impairment at the balance sheet date. Management is in the process of finalizing the effect on our consolidated financial statements of applying these rules.

Thus, under IFRS there could be a reduction of the allowance for doubtful accounts on the balance sheet and an offsetting increase in retained earnings on our consolidated financial statements.

These adjustments will increase the future taxes payable outstanding at January 1, 2010 and December 31, 2010 and lower the future income tax expense for 2010. Pawnee's effective tax rate of 39.4% will be applied to the adjustments required under IFRS.

In response to financial reporting issues emerging from the global financial crisis, the IASB plans to make revisions to or to replace existing IFRS standards. On November 5, 2010, the IASB issued an exposure draft on the measurement and impairment of amortized cost financial instruments and on January 31, 2011 issued a supplemental document to that exposure draft Financial Instrument: Impairment. Financial instruments recorded at amortized cost include net investment in leases. Based on the Exposure Draft issued by the IASB, significant changes to the existing IFRS standard are anticipated; however, the IASB indicated that the new standard is unlikely to require adoption until at least 2014. These anticipated changes will therefore be in effect subsequent to the date of transition to IFRS on January 1, 2010, with the result that the impact of adopting IFRS will extend beyond the transitional year of 2011.

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

3. Future Tax Asset

Canadian GAAP required the Fund to recognize future income tax assets and liabilities based on estimated temporary differences, measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under Canadian GAAP income taxes were not provided for by the Fund, as the policy of the Fund was to distribute all taxable income to its Unitholders. The Fund will adopt IAS 12 Income Taxes on transition to IFRS at January 1, 2010, under which, in circumstances where the tax rate varies depending on whether net income is distributed to Unitholders or is retained within the entity the rate to be used is the rate applicable to undistributed earnings.

Management is in the process of finalizing the effect on the Fund's 2010 consolidated financial statements of applying these rules.

Furthermore, Chesswood Group will adopt SIC 25 Income Taxes – Changes in the Tax Status of an Entity or its Shareholders on January 1, 2011, the date of conversion to a dividend-paying corporation.

Management is in the process of finalizing the effect on the Chesswood Group's 2011 consolidated financial statements of applying these rules.

The IASB issued a limited scope amendment to IAS 12 Income Taxes on December 31, 2010. Management is in the process of determining the effect on the consolidated financial statements.

4. 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 had considered the options available to the Fund to allow it to continue accounting for Fund Units as equity, and as a result at the annual and special meeting of the Fund's Unitholders on May 13, 2010 Unitholder approval was obtained for an amendment to the Declaration of Trust to permit greater discretion in making future distributions. At the 2010 annual and special meeting of the Fund's Unitholders approval was also obtained to convert the Fund to a dividend-paying corporation. The conversion took effect on January 1, 2011.

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

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

At January 1, 2010, the Fund Units had a fair value of $28.5 million (liability value), with the $31.3 million valuation adjustment, being the cumulative impact to net income on that date, included in retained earnings.

The Fund Units were redeemable at any time on demand by the holders for cash by following specified steps. Such puttable financial instruments are considered liabilities because of the contractual obligation for the issuer to deliver cash in exchange for the financial instrument, unless the conditions specified in IAS 32 Financial Instruments: Presentation are met. Management is in the process of finalizing its analysis of these conditions and the effect on the classification of the Fund Units. If the conditions for equity classification are met, then on May 13, 2010, the date the Fund's Declaration of Trust was changed, the Fund Units will be reclassified to the Equity section at their fair value on that date which becomes the new carrying amount.

5. Presentation of Exchangeable Securities

As partial consideration for the acquisition of Pawnee in May 2006, 1,274,601 Class B shares and 203,936 Class C shares of a Fund subsidiary ("Exchangeable Securities), U.S. Acquisitionco, were issued. The Exchangeable Securities were non-voting shares of U.S. Acquisitionco. These Exchangeable Securities were fully exchangeable for Fund Units, on a one-for-one basis, for no additional consideration, through a series of steps. The Exchangeable Securities entitled the holders to receive the same distributions as the Fund Units. Attached to the Exchangeable Securities were Special Voting Units of the Fund, in order to provide the holders of the Exchangeable Securities voting equivalency to holders of Fund Units. Under Canadian GAAP, the Exchangeable Securities were classified as Fund Units in the Unitholder Equity section of the balance sheet and the value was determined on the date of issue and was never changed.

Under IFRS, the basic Fund Units can be shown in the Equity section after May 13, 2010 as discussed in #4 above. However, items convertible/exchangeable into Fund Units or settled by issuing Fund Units cannot be shown in the Equity section under IFRS. These items must be shown as liabilities under IFRS as the Fund Units give the holders the right to put the instrument (Fund Units) back to the issuer for cash. Therefore, even though the Exchangeable Securities were fully exchangeable for Fund Units, on a one-for-one basis, for no additional consideration; entitled the holders receive the same distributions as the Fund Units; and have the same voting equivalency to the holders Fund Units, for IFRS they have to be classified as a liability and must be measured at fair value at each reporting period. As the Exchangeable Securities were fully exchangeable for Fund Units, on a one-for-one basis for no additional consideration, and entitled to the same distributions as the holders of the Fund Units, the trading price of the Fund Units on the Toronto Stock Exchange represents the best method for valuing the Exchangeable Securities each reporting period. The non-cash mark-to-market adjustment will flow through the income statement.

After conversion to a corporation on January 1, 2011, the Exchangeable Securities are now exchangeable for shares of Chesswood Group on a one-for-one basis, for no additional consideration, through a series of steps. The Exchangeable Securities entitle the holders to receive the same dividends that are paid on as the Chesswood Group common shares. The holders of the Exchangeable Securities now hold the Special Voting Shares of Chesswood Group and have the same voting privileges as the common shareholders of Chesswood Group. Under IAS 27, the Exchangeable Securities must be shown as non-controlling interest because they are equity in a subsidiary not attributable, directly or indirectly, to the parent (even though they have no voting powers in the subsidiary only in the parent company). On conversion to a corporation on January 1, 2011, the Exchangeable Securities will be moved from liabilities to non-controlling interest in the Equity Section at the market price of the Fund Units at December 31, 2010 and remain at that price. The value of the non-controlling interest will fluctuate each reporting period with their portion of the net income.

6. Conversion Option on Convertible Debentures

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

Under Canadian GAAP, on August 10, 2008, the fair value of the change in the conversion option on the convertible debentures was estimated to be valued at $80,170 using the Black-Scholes option-pricing model with the following assumptions for the conversion option:

Expected annual dividend yield	19.3%
Expected volatility	62.3%
Risk-free interest rate	2.8%
Expected life	2.5 years

Under Canadian GAAP, the conversion option was shown in the Equity section of the balance sheet and the value did not change from the value determined on August 10, 2008.

Under IFRS, as the conversion option on the convertible debenture was to be settled with Fund Units, the conversion option must be treated as a liability. As the conversion option will be classified as a liability, it must be measured at fair value at each reporting period using an option-pricing model. The mark to market adjustments will flow through the income statement until the convertible debenture is converted into Fund Units.

7. Restricted Units

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

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

8. Unit Options

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

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

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

9. Direct Finance Lease Income on Impaired Leases

Pawnee ceases to accrue direct finance lease income on leases after they become 94 days contractually past due unless information indicates that an earlier cessation of income is warranted. IFRS requres that direct finance lease income continue to be recognized on leases after they are identified as being impaired. Thus, the Fund will have to recognize direct finance lease income on impaired leases under IFRS. As these leases were eventually charged-off no more than 60 days later, the increase in revenue recognized under IFRS would need to be charged-off as well, thus the charge-offs under IFRS will increase by the same amount. In 2010, the direct finance income is expected to be U.S.$62,000 higher and the provision for credit losses will be U.S.$62,000 higher as well.

10. 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 allows limited optional exemptions from this general requirement in specified areas of certain standards.

i. 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 to be completed on or after January 1, 2010, if any, will be accounted for in accordance with IFRS 3.

ii. 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.

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

11. Earnings Per Unit ("EPS")

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. Due to the continued uncertainty with the impact of IFRS on the Fund's consolidated financial statements, the impact to the EPS calculation will be determined once these adjustments can be quantified with greater certainty.

12. Presentation & Disclosures

Under IFRS, presentation of the financial statements will change and disclosure requirements will increase significantly in comparison to Canadian GAAP. In addition, additional required disclosures will be made in Chesswood Group in its first IFRS compliant consolidated financial statements.

We have determined that (a) the transition to IFRS from existing Canadian GAAP will have essentially no impact on our existing internal controls over financial reporting (ICFR) and disclosed controls and procedures (DC&P), and (b) there is no need to establish new or modify existing ICFR and DC&P in relation to the IFRS transition process to provide reasonable assurances regarding the preparation of the opening IFRS statement of financial position and ongoing IFRS financial statements, the reliability of financial reporting and the accuracy and completeness of information required to be disclosed in our filings.

CONTROLS & PROCEDURES

Chesswood's Chief Executive Officer and Director of Finance evaluated, or caused an evaluation under their supervision, of the design and operating effectiveness of the Fund's disclosure controls and procedures (as defined in National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 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 supervision, of the design and operating effectiveness of the Fund's ICFR as at December 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 have 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 GAAP and did not note any material exceptions based on these additional procedures.

3) Anti-fraud Controls

As a result of the lack of segregation of duties at the 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 December 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 were traded on the Toronto Stock Exchange under the symbol CHW.UN (and Chesswood Group's common shares have been traded on that Exchange under the symbol CHW since the Fund's conversion into Chesswood Group). 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 year-ended December 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
April	$4.60	$4.35	11,390
May	$4.50	$4.12	4,805
June	$4.40	$4.17	10,501
July	$4.78	$4.11	4,340
August	$4.85	$4.61	5,013
September	$5.15	$4.66	10,145
October	$6.30	$5.08	6,577
November	$6.28	$5.75	8,164
December	$6.25	$5.79	10,946
	$6.30	$3.87	7,701

ADDITIONAL INFORMATION

Additional information about the Chesswood Group is available:

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

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

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

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

B. Shafran

Barry Shafran
President & CEO
March 11, 2011

INDEPENDENT AUDITORS' REPORT

To the Unitholders of
Chesswood Income Fund

We have audited the accompanying consolidated financial statements of Chesswood Income Fund, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income, comprehensive income (loss), unitholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Chesswood Income Fund as at December 31, 2010 and 2009, and its results of operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario
March 11, 2011

CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

	December 31, 2010	December 31, 2009
ASSETS		
Cash and cash equivalents *(Note 2)*	**$ 12,863**	$ 7,585
Accounts receivable *(Note 3)*	**766**	930
Inventories *(Note 4)*	**6,754**	7,222
Prepaid expenses and other assets	**1,824**	1,414
Income tax receivable	**5,251**	-
Net investment in leases *(Note 5)*	**81,938**	78,237
Future income tax asset *(Note 6)*	**319**	433
Property and equipment *(Note 7)*	**829**	809
	110,544	96,630
Intangible assets *(Note 8)*	**7,420**	8,385
Goodwill *(Note 9)*	**13,217**	13,776
TOTAL ASSETS	**$ $131,181**	$ 118,791
LIABILITIES		
Distributions payable	**$ 490**	$ 248
Accounts payable and accrued liabilities	**5,187**	5,176
Vehicle financing *(Note 10)*	**5,544**	6,127
Convertible debentures *(Note 11)*	**-**	3,465
Interest rate swaps *(Note 12)*	**2,464**	1,683
Lease financing *(Note 13)*	**38,671**	37,269
Customer security deposits *(Note 14)*	**9,884**	9,784
Future income taxes *(Note 16)*	**16,450**	12,920
	78,690	76,672
UNITHOLDERS' EQUITY		
Fund units *(Note 17)*	**83,006**	73,621
Conversion option *(Note 11)*	**-**	80
Contributed surplus *(Note 18)*	**2,564**	2,076
Accumulated other comprehensive loss	**(5,085)**	(3,391)
Deficit	**(27,994)**	(30,267)
	52,491	42,119
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY	**$ 131,181**	$ 118,791

Approved by the Board of Trustees:

Ed Sonshine, Trustee

Fred Steiner, Trustee

Please see notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEAR-ENDED DECEMBER 31, 2010 AND 2009

(in thousands of dollars, except per unit amounts)

	2010	2009
REVENUE		
Revenue - automotive operations	**$ 49,821**	$ 47,579
Direct financing lease income	**24,987**	25,881
Ancillary lease and other income	**4,277**	4,539
	79,085	77,999
COST OF SALES - automotive operations	**42,922**	40,183
GROSS PROFIT	**36,163**	37,816
EXPENSES		
Salaries and commissions	**8,139**	7,386
Provision for credit losses	**3,875**	14,119
General and administrative	**6,832**	6,432
Interest on long-term debt	**2,843**	3,689
Other interest	**219**	181
Amortization - property and equipment	**200**	236
Amortization - intangible assets	**610**	601
	22,718	32,644
INCOME BEFORE ITEMS BELOW	**13,445**	5,172
Unrealized gain (loss) on interest rate swaps	**(895)**	732
Net gain (loss) on foreign exchange	**(118)**	405
	(1,013)	1,137
INCOME BEFORE INCOME TAXES	**12,432**	6,309
Provision for income taxes	**5,455**	3,244
NET INCOME	**$ 6,977**	$ 3,065
Basic income per unit *(note 20)*	**$0.69**	$0.36
Diluted income per unit *(note 20)*	**$0.67**	$0.36

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEAR-ENDED DECEMBER 31, 2010 AND 2009

(in thousands of dollars)

	2010	2009
Net income	**$ 6,977**	$ 3,065
Other comprehensive income:		
Unrealized (loss) gain on translation of self-sustaining foreign operations	**(1,694)**	(9,235)
Comprehensive income (loss) for the year	**$ 5,283**	$ (6,170)

Please see notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY
FOR THE YEAR-ENDED DECEMBER 31, 2010 AND 2009

(in thousands of dollars)

		2010		2009
Fund Units				
Balance, beginning of year	**$**	**73,621**	$	76,141
Units issued under rights offering *(Note 17)*		**5,121**	$	-
Units issued on conversion of debentures *(Note 11)*		**3,545**		-
Restricted units issued *(Note 18(b)(ii))*		**361**		-
Unit options exercised *(Note 18(b)(i))*		**358**		-
Units purchased under normal course issuer bid		**-**		(2,520)
Balance, end of year	**$**	**83,006**	$	73,621
Contributed Surplus				
Balance, beginning of year	**$**	**2,076**	$	74
Unit-based compensation expense		**915**		225
Restricted units issued *(Note 18(b)(ii))*		**(361)**		-
Unit options exercised *(Note 18(b)(i))*		**(66)**		-
Excess of book value over purchase price of Fund Units purchased under normal course issuer bid		**-**		1,777
Balance, end of year	**$**	**2,564**	$	2,076
Accumulated other comprehensive income (loss), beginning of year	**$**	**(3,391)**	$	5,844
Other comprehensive income (loss) for the year		**(1,694)**		(9,235)
Accumulated other comprehensive income (loss), end of year	**$**	**(5,085)**	$	(3,391)
Cumulative net income (loss)				
Balance, beginning of year	**$**	**(8,975)**	$	(12,040)
Net income		**6,977**		3,065
Balance, end of year	**$**	**(1,998)**	$	(8,975)
Cumulative distributions to unitholders				
Balance, beginning of year	**$**	**(21,292)**	$	(18,528)
Distributions to unitholders		**(4,704)**		(2,764)
Balance, end of year	**$**	**(25,996)**	$	(21,292)
Deficit				
Deficit, balance at beginning of year	**$**	**(30,267)**	$	(30,568)
Net income		**6,977**		3,065
Distributions		**(4,704)**		(2,764)
Deficit, balance at end of year	**$**	**(27,994)**	$	(30,267)

Please see notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR-ENDED DECEMBER 31, 2010 AND 2009

(in thousands of dollars)

	2010	2009
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net income	**$ 6,977**	$ 3,065
Add (deduct) items not involving cash:		
Amortization	**810**	837
Accretion expense on lease financing	**213**	142
Gain on sale of leased vehicles	**(140)**	(408)
Unrealized (gain) loss on interest rate swaps	**895**	(732)
Impairments of retained interest in securitizations	**(343)**	(418)
Amortization of securitization servicing liability	**(107)**	(159)
Provision for credit losses	**6,596**	16,809
Unit-based compensation expense	**915**	228
Provision for income taxes	**4,311**	2,447
Net loss (gain) on foreign exchange	**118**	(405)
	20,245	21,406
Changes in non-cash working capital items relating to operations		
Accounts receivable	**164**	260
Inventories	**468**	1,368
Prepaid and other assets	**(186)**	214
Income tax receivable	**(5,438)**	4,128
Accounts payable and accrued liabilities	**108**	63
	(4,884)	6,033
Cash provided by operating activities	**15,361**	27,439
INVESTING ACTIVITIES		
Purchase of property and equipment	**(120)**	(412)
Cash received from residual interest in securitization	**876**	1,615
Increase in net investment in leases	**(14,594)**	(16,439)
Increase in security deposits	**603**	130
Cash used in investing activities	**(13,235)**	(15,106)
FINANCING ACTIVITIES		
Issuance of units under rights offering	**5,121**	-
Proceeds from securitization of leases	**-**	137
Vehicle financing	**(582)**	(1,456)
Proceeds from lease financing	**7,385**	605
Lease financing payments	**(4,033)**	(6,471)
Proceeds from exercise of options	**294**	-
Payment of financing costs	**(519)**	(91)
Proceeds from sale of foreign exchange forward contracts	**-**	391
Units repurchased under normal course issuer bid	**-**	(744)
Cash distributions paid	**(4,462)**	(2,729)
Cash provided by (used in) financing activities	**3,204**	(10,358)
Unrealized foreign exchange loss on cash	**(52)**	(65)
Net increase in cash and cash equivalents	**5,278**	1,910
Cash and cash equivalents, beginning of year	**7,585**	5,675
Cash and cash equivalents, end of year	**$ 12,863**	$ 7,585

Please see notes to consolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

References in this report to "we" and "our" are to Chesswood Income Fund (the "Fund") or its subsidiaries, as applicable.

Chesswood Income Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario pursuant to its Declaration of Trust dated February 16, 2006. The Fund is authorized to issue an unlimited number of trust units ("Fund Units"). The Fund was created to invest in the financial services industry in Canada and the United States. Each holder of Fund Units participates pro rata in any distributions from the Fund. Income tax obligations related to the distributions of the Fund are the obligations of its Unitholders.

The Fund holds a 100% interest in Chesswood Holding Trust, which in turn holds all of the limited partnership units of Chesswood Holding LP (the "Holding LP"). The Holding LP holds a 100% interest in Chesswood Holdings Ltd. and all of the limited partnership units of Sherway LP ("Sherway"). Chesswood Holdings Ltd. owns 100% of the shares of the operating company Lease-Win Limited ("Lease-Win") as well as 100% of the shares of Chesswood U.S. Acquisition Co Ltd. ("U.S. Acquisitionco"), a corporation which owns 100% of the shares of the operating company Pawnee Leasing Corporation ("Pawnee").

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, 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.

Basis of Presentation
These consolidated financial statements of the Fund have been prepared by management in accordance with Canadian generally accepted accounting principles.

Principles of Consolidation
The consolidated financial statements include the financial statements of the Fund, and its subsidiaries as noted above.

Inter-company balances and transactions have been eliminated.

Financial Statements
The consolidated financial statements contained in this report are for the years ended December 31, 2010 and 2009. All financial information is presented in Canadian dollars, unless otherwise noted.

Revenue Recognition

The Fund's leasing operations have standard lease contracts which are non-cancelable direct financing leases and provide for monthly lease payments for periods of one to five years. The non-securitized leases are accounted for as direct financing leases (for the revenue recognition policy on securitized leases, refer to "Transfer of receivables" below). The total value of the present value of the minimum lease payments to be received under the lease terms is recorded at the commencement of the lease. The difference between this total value, net of executory costs, and the cost of the leased asset is deferred income and is recorded as a reduction of the asset, with the net result shown as net investment in leases. The deferred income is then recognized over the life of the lease using the effective interest method, which provides a constant rate of return on the net investment throughout the lease term. Direct lease acquisition costs are expensed in the year incurred and an equal portion of the deferred income is recognized in the same year. Indirect costs are expensed as incurred.

The Fund's revenue from the sale of automobiles is recognized when the automobiles are delivered and ownership passes to the customers and ultimate collection of revenue is reasonably assured.

The Fund's revenue generated through the cars4U.com web-site is recorded on a net basis and represents the commissions earned on the transaction when the vehicle is sold to the customer.

All other revenue is recorded when goods are delivered or services are completed and ultimate collection of revenue is reasonably assured.

Allowance for Doubtful Accounts
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, 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.

Management's periodic evaluation of the adequacy of the allowance at Pawnee 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. The projections of probable net credit losses are inherently uncertain, and as a result we cannot predict with certainty the amount of such losses. Changes in economic and other conditions may necessitate revisions in future years.

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

Transfer of Receivables
For its automotive leasing operations, the Fund securitizes a portion of its finance receivables by selling the receivables to a qualifying special purpose entity in which the Fund or its subsidiaries are not beneficiaries. The purchase and sale agreement requires the provision of finance receivables in excess of the initial proceeds received and a cash reserve account, which are classified as retained interest in finance receivables securitized. Upon completion of the sale, the finance receivables and the related credit allowance are de-recognized, all assets obtained in consideration as proceeds of the sale are recognized, transaction and servicing liabilities incurred are deducted and any gain or loss on the sale is recognized.

The gain or loss on the sale is recognized at the time of the securitization. The gain or loss on sale depends in part on the previous carrying amount of the receivables involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. Fair value is estimated based on the present value of future expected cash flows using management's best estimates of certain key assumptions: credit losses, prepayment rates and discount rates commensurate with the risks involved.

The finance 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.

Retained Interests in Finance Receivables Securitized
The retained interest in automotive finance receivables securitized represents the Fund's automotive leasing operation's retained interest in the discounted residual cash flow of the finance receivables in excess of the amounts payable to the qualified special purpose entity and the discounted cash flows of the cash reserve deposit maintained with the qualified special purpose entities at predetermined limits.

The retained interest in automotive finance receivables securitized is increased by the interest accretion, which is recorded on a constant yield basis. The retained interest is reduced only as cash is received by the automotive leasing operations, which is after obligations to the qualifying special purpose entity are satisfied. The retained interest represents the maximum exposure to losses on the securitized receivables. On a quarterly basis, the carrying value of the retained interest in finance receivables securitized is reviewed for impairment based on its fair value. Fair value is subject to credit, prepayment and interest rate risks.

Deferred Servicing Revenue

The finance receivables are sold on a fully serviced basis. The contractual servicing revenue is not at fair value. Accordingly, upon each securitization deferred servicing revenue is recorded based on the estimated fees that would otherwise be payable to an arm's length servicer with an adjustment against the gain or loss recognized at the time of the securitization.

The deferred servicing revenue is amortized into income over the life of the securitized assets on a yield basis and is recorded as part of income from securitized assets. However, if subsequent events have increased the fair value of the liability above the carrying amount, the increased obligation is estimated and recognized as a loss in income.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and highly liquid investments.

Inventories

Inventories are valued at the lower of cost and net realizable value. The cost of new and used vehicles is determined using the specific item method. Automobile parts are recorded at purchased cost determined using the first-in, first-out method.

Property and Equipment

Property and equipment are stated at cost less accumulated amortization, and provision for impairment, if any. Amortization has been provided for at the following annual rates:

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

Intangibles

Intangible assets are stated at cost, being the fair value of the assets upon acquisition, less accumulated amortization and provision for impairment, if any. Amortization has been provided for at the following annual rates:

Broker relationships	straight-line basis over seven years
Back-end systems software	straight-line basis over seven years

Impairment of Long-lived Assets

Management reviews the carrying amount of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any impairment determined by a comparison of the estimated undiscounted future operating cash flows to be generated by the asset with its net carrying value is written off at the time of impairment.

Goodwill and Intangible Assets not Subject to Amortization

Goodwill represents the price paid for an acquisition in excess of the fair market value of net tangible assets and identifiable intangible assets acquired. Intangible assets not subject to amortization represent the fair value, on the date of acquisition, of Pawnee's trade name and Sherway's framework agreement.

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.

In 2007 and 2008, the Fund 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 long-lived 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.

Income Taxes

Income taxes are not provided for by the Fund, as the policy of the Fund is to distribute all available cash to unitholders to the maximum extent possible. Income taxes in the Fund's subsidiaries, where the subsidiary's structure requires income taxes to be provided for, are accounted for using the asset and liability method. Under the asset and liability method, future 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. Future 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 future 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 future tax assets is reduced, if necessary, by a valuation allowance for future tax benefits for which realization is not considered more likely than not.

Unit Based Compensation Incentive Plans

The Fund accounts for its unit based compensation using the fair value method, under which compensation expense is measured at the grant date and recognized over the vesting period.

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

The fair-value of restricted unit grants are calculated based on market price of the Fund Unit's on the day of the grant. Restricted units granted are considered to be in respect of future services and are recognized as compensation expense over the vesting period with a corresponding adjustment credited to contributed surplus in Unitholders' Equity. On exercise of the restricted units the amounts previously credited to contributed surplus is credited to Fund Units.

Exchangeable Securities

The Fund has applied the recommendations of the Emerging Issues Committee (EIC) of the Canadian Institute of Chartered Accountants which issued EIC-151, Exchangeable Securities Issued by Subsidiaries of Income Trusts (EIC-151), which provides guidance on the presentation of exchangeable securities issued by a subsidiary of an income trust. In order to be presented as equity, the exchangeable securities must have distributions that are economically equivalent to distributions on units issued directly by the Fund and the exchangeable securities must also ultimately be exchanged for units of the Fund. The Class C shares issued by a subsidiary of the Fund meet the above criteria and, accordingly, have been presented as equity. The Class B shares issued by a subsidiary of the Fund did not meet the above criteria and have been presented as non-controlling interest.

Earnings Per Unit

The earnings per unit are based on the weighted average number of units outstanding during the period. Diluted earnings per unit are calculated to reflect the dilutive effect, if any, of any other commitments or instruments. Units are excluded from the computation of diluted earnings per unit if their effect is anti-dilutive.

Foreign Currency Transactions

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.

Use of Accounting Estimates

Management makes estimates and assumptions when preparing financial statements under accounting principles generally accepted in Canada that affects:

- reported amounts of assets and liabilities at the date of the consolidated financial statements,
- disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and
- reported amounts of revenues and expenses during the reporting period.

These estimates involve judgments with respect to, among other things, future economic factors that are difficult to predict and are beyond management's control. Significant areas requiring the use of management estimates relate to amortization, assessments of impairment, allowance on doubtful accounts, valuation of residual interests, provision on financing leases, prepayment rates, discount rates, deferred servicing revenue and the fair value of the interest rate swaps. As a result, actual amounts could differ from these estimates.

Financial Instruments

Financial assets and liabilities are initially recognized at fair value. Measurement in subsequent periods is dependent upon the classification of each instrument. Financial instruments are classified as financial assets and financial liabilities held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities.

Financial Assets and Liabilities Held for Trading

Financial assets and liabilities held for trading are accounted for at fair value with the change in fair value recognized in earnings.

Held-to-maturity Investments

Held-to-maturity investments are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. These financial instruments are written down to fair value by a charge to earnings when impaired.

Loans and Receivables

Loans and receivables are initially recognized at fair value with any premium or discount from face value being amortized to earnings using the effective interest rate method. These financial instruments are written down to fair value by a charge to earnings when impaired.

Available-for-sale Financial Assets

Available-for-sale financial assets are accounted for at fair value with the change in fair value recorded in other comprehensive income. When there has been an other than temporary decline in fair value, the cumulative loss that had been recognized in other comprehensive income is charged to earnings.

Other Financial Liabilities

Other financial liabilities are initially recognized at cost or amortized cost depending on the nature of the financial instrument with any premium or discount from face value being amortized to earnings using the effective interest method.

Transaction Costs

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

Comprehensive Income and Equity

Comprehensive income is comprised of net income and other comprehensive income ("OCI"), which represents changes in unitholders' equity during a period arising from transactions and other events with non-owner sources. OCI generally would include unrealized gains and losses on financial assets classified as available-for-sale and unrealized foreign currency translation adjustments arising from self-sustaining foreign operations. Accumulated OCI is shown on the consolidated Statements of Unitholders' Equity.

Fair Value

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument, without modification or on a valuation technique using market based inputs.

In June 2009, the CICA amended Section 3862 to improve fair value and liquidity risk disclosures. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

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

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. These observable inputs reflect the entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances (which might include the reporting entity's own data).

The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The additional disclosures required as a result of the adoption of these standards are included in the notes to the consolidated financial statements, in particular see note 23.

Future Accounting Changes

International Financial Reporting Standards ("IFRS")

The Accounting Standards Board ("AcSB") confirmed in February 2008 that IFRS will replace Canadian GAAP for publicly accountable enterprises for financial periods beginning on or after January 1, 2011. The Fund will prepare its consolidated financial statements in accordance with IFRS beginning January 1, 2011 and is in the process of finalizing the effect on the consolidated financial statements.

2. CASH AND CASH EQUIVALENTS

	December 31, 2010	December 31, 2009
	($ thousands)	
Cash	**$9,363**	$7,585
Cashable guaranteed investment certificate	**3,500**	-
	$12,863	$7,585

The guaranteed investment certificate is a one year cashable GIC that earns interest at 1.5% per annum and matures on November 21, 2011.

Operating Lines of Credit
At December 31, 2010 and 2009, Sherway had an authorized line of credit of $1,500,000. The line of credit was not utilized at December 31, 2010. The line of credit is secured by assignments of the book debts and a general security agreement over the assets of the dealership. There was no balance outstanding at December 31, 2010 and 2009. See notes 10 and 13 for additional credit facilities available to Sherway, and Pawnee.

3. ACCOUNTS RECEIVABLE

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

	December 31, 2010	December 31, 2009
	($ thousands)	
Current	**$643**	$881
31 – 60 days	**83**	34
61 – 90 days	**19**	24
More than 90 days	**21**	9
	$766	$948
Allowance for doubtful accounts	**-**	(18)
	$766	$930

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

	For the year-ended	
	December 31, 2010	December 31, 2009
	($ thousands)	
Balance, beginning of year	**$18**	$6
Provision for credit losses	**(17)**	12
Amounts written-off	**(1)**	-
Balance, end of year	**$-**	$18

4. INVENTORIES

	December 31, 2010	December 31, 2009
	($ thousands)	
New and demonstrator vehicles	**$5,034**	$5,672
Used vehicles	**1,552**	1,385
Parts and other	**168**	165
	$6,754	$7,222

The majority of the new and demonstrator vehicles are pledged as security for the vehicle financing floor plan facility. If the new and demonstrator vehicles are not specifically pledged under the floor plan facility they are pledged under a general security agreement over the dealership's other assets for the lines of credit. The lines of credit were not utilized at December 31, 2010 and 2009.

During the year-ended December 31, 2010, demonstrator vehicles were written down by $87,426 (2009 - $105,454) based on the utilization of the vehicles. This cost is included in general and administrative expenses. Used vehicles were written down by $17,977 (2009 - $26,395) during the year, which is included in cost of sales. There was no reversal of any write-downs of inventory during the year or prior year. The provisions for valuation and usage included in inventory total $100,327 (2009 – $184,752).

5. NET INVESTMENT IN LEASES

The Fund's leasing operations have standard lease contracts which are non-cancelable direct financing leases and provide for monthly lease payments for periods of one to five years. Each lease contract is collateralized by the underlying equipment or vehicle. In addition to the equipment collateral, Pawnee's primary lease contracts generally 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). See note 14 for further information on the Customer Security Deposits.

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

	December 31, 2010	December 31, 2009
	($ thousands)	
Total minimum lease payments for non-securitized leases	**$108,979**	$111,920
Residual values of leased equipment	**16,010**	16,498
	124,989	128,418
Initial direct costs of lease acquisition	**6,361**	6,578
Unearned income	**(42,042)**	(45,172)
Net investment in leases before allowance for doubtful accounts	**$89,308**	$89,824
Allowance for doubtful accounts	**(7,832)**	(12,449)
	81,476	77,375
Securitized lease receivable	**462**	862
Net investment in leases	**$81,938**	$78,237
Less: Current portion	**(27,527)**	(21,001)
Net investment in leases - long-term portion	**$54,411**	$57,236

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

	For the year-ended December 31, 2010		
	Pawnee Equipment leases	**Canadian Automotive leases (*)**	**Total**
		($ thousands)	
Balance, beginning of year	**$12,218**	**$231**	**$12,449**
Provision for credit losses	**3,743**	**132**	**3,875**
Impact of change in foreign exchange rates over year	**(465)**	**-**	**(465)**
Charge-offs	**(10,594)**	**(154)**	**(10,748)**
Recoveries	**2,710**	**11**	**2,721**
Balance, end of year	**$7,612**	**$220**	**$7,832**

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

	For the year-ended December 31, 2009		
	Pawnee Equipment leases	Canadian Automotive leases (*)	Total
		($ thousands)	
Balance, beginning of year	$13,654	$378	$14,032
Provision for credit losses	13,905	214	14,119
Impact of change in foreign exchange rates over year	(2,034)	-	(2,034)
Charge-offs	(15,970)	(388)	(16,358)
Recoveries	2,663	27	2,690
Balance, end of year	$12,218	$231	$12,449

The Fund's experience has shown that the actual contractual payment stream will vary depending on a number of variables including: prepayment rates, charge-offs and modifications. Accordingly, the scheduled collections of minimum lease payments as at December 31, 2010 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 December 31, 2010:

	Pawnee Equipment leases	Canadian Automotive leases (*)	2010 Total
		($ thousands)	
2011	$48,870	$3,249	$52,119
2012	33,659	913	34,572
2013	17,035	306	17,341
2014	6,069	-	6,069
2015	1,282	-	1,282
2016 and thereafter	3	-	3
Total minimum lease payments for non-securitized leases	$106,918	$4,468	$111,386
Residual values of leased equipment (*)	13,603	-(*)	13,603
Sub-total	$120,521	$4,468	$124,989
Unearned income, net of initial direct costs of lease origination	(35,371)	(310)	(35,681)
Net investment in leases before allowance for doubtful accounts.	$85,150	$4,158	$89,308
Direct finance lease income as a percent of average net investment in leases before allowance	28.99%	12.56%	

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

Lease Receivables Past Due

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

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

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 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 rates in remedying leases that initially go past due. Therefore, leases that are not on non-accrual status are not considered impaired.

The table below does not include the $9.9 million (2009 - $9.8 million) in security deposits from lessees (see note 14), 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 following aging of net investment in leases before allowance for doubtful accounts represents the full carrying value of the leases not just the lease payments.

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

	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 December 31, 2010 is $3.8 million (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 2010 had a total net investment in lease balance at the time of modification of $8.8 million (2009 - $21.8 million). These amounts reflect the net investment in lease balances prior to payments collected since modification, or leases that terminated early after modifications or leases charged-off after modification.

Collateral

Pawnee and Lease-Win are entitled to repossess leased equipment and vehicles if the lessees default on their lease contracts. At Pawnee, when a lease is charged-off, the related equipment no longer has a carrying value on the financial statements. If any amounts are recovered from the sale of equipment after a charge-off, the recovered amount is credited to the allowance for doubtful accounts when received; in the year-ended December 31, 2010, the proceeds from the disposal of repossessed equipment that was charged-off totaled $1.1 million (2009 - $1.5 million). Repossessed equipment is held at various warehouses throughout the U.S. owned by a company contracted to repossess and remarket the equipment. As Pawnee leases a wide range of small equipment with a cost that does not typically exceed U.S.$50,000 at the start of the lease, it is difficult to estimate the fair value of the repossessed equipment.

At Lease-Win, the estimated fair value of collateral (repossessed vehicles) received for net investment in leases on which impairment losses were recognized totaled $82,559 (2009 - $107,046) during the year. 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 (2009 - $20,849). Vehicles in inventory are valued at the lower of cost and net realizable value.

Securitization Lease Receivable

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

	December 31, 2010	December 31, 2009
	($ thousands)	
Assets under administration from the securitization of leases	**$5,482**	$13,075
Weighted average effective interest rate earned	**11.12%**	10.93%
Weighted average effective interest rate paid to securitization company	**5.95%**	5.81%

During the year, the Fund recognized pre-tax gains of $nil (2009 - $7,713), which is net of estimated servicing liabilities of $nil (2009 - $2,359) on the securitization of the financing leases. Deferred servicing revenue of $107,166 (2009 - $158,708) was amortized into revenue from automotive operations.

The following table outlines the key economic assumptions used in measuring the fair value of retained interests and the sensitivity of the current fair value of residual cash flows as at December 31, 2010 and 2009 to immediate 10% and 20% adverse changes in those assumptions. The sensitivity analysis is hypothetical and changes in each key assumption may not be linear. The sensitivities in each key variable have been calculated independently of changes in other key variables. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities.

	December 31, 2010	December 31, 2009
	($ thousands)	
Carrying amount of retained interests	**$461**	$1,082
Fair value of retained interests	**$501**	$1,177
Weighted average lease term (in years)	**2.56**	2.56
Expected credit losses (annual rate)	**1.09%**	1.09%
Impact on fair value of a 10% adverse change	**$6**	$14
Impact on fair value of a 20% adverse change	**$11**	$27
Residual cash flows discount rate (annual)	**6.50%**	6.50%
Impact on fair value of a 10% adverse change	**$2**	$7
Impact on fair value of a 20% adverse change	**$4**	$14

6. FUTURE INCOME TAX ASSET

On October 31, 2006, the Minister of Finance for Canada ("Finance") announced proposed changes to the Income Tax Act (Canada) which modify the taxation of certain flow-through entities including mutual fund trusts and their unitholders. On June 22, 2007, this legislation received royal assent and applies a tax at the trust level on distributions of certain income from a "specified investment flow through" ("SIFT") trust and treats such distributions as dividends to unitholders. The legislation 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. Canadian 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. Canadian GAAP does not permit the Fund to consider future changes to its structure. See Subsequent Events - Note 31(b).

Most of the Fund's future income tax assets and liabilities are already recorded in these consolidated financial statements as substantially all operating assets are held by Pawnee and Lease-Win which are taxable corporations.

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

	December 31, 2010	December 31, 2009
	($ thousands)	
Goodwill and intangible assets	**$320**	$320
Property and equipment	**(1)**	60
Unit issuance costs	**-**	53
	$319	$433

7. PROPERTY AND EQUIPMENT

In September 2010, Sherway LP extended its lease for its premises until June 30, 2017 with an option for an additional five years. As part of this lease extension $201,352 in total leasehold improvements were completed, of which the landlord paid for approximately half. The $100,000 lease incentive paid by the landlord is included in accounts payable and will be amortized against rent expense over the lease term.

	Cost	Accumulated Amortization	**December 31, 2010 Net**
		($ thousands)	
Leasehold improvements	$719	($407)	**$312**
Service equipment	189	(96)	**93**
Furniture and equipment	324	(170)	**154**
Service vehicles	15	(11)	**4**
Computer hardware and software	479	(213)	**266**
	$1,726	($897)	**$829**

	Cost	Accumulated Amortization	December 31, 2009 Net
		($ thousands)	
Leasehold improvements	$518	($311)	$207
Service equipment	189	(75)	114
Furniture and equipment	384	(235)	149
Service vehicles	15	(10)	5
Computer hardware and software	461	(127)	334
	$1,567	($758)	$809

Equipment with a net book value of $32,247 was written-off to the income statement during the year-ended December 31, 2009 and is included in amortization.

8. INTANGIBLE ASSETS

Listed below are the identifiable intangible assets recognized upon the acquisition by the Fund of Pawnee and the cars4U group of companies. Trade names and the framework agreement are indefinite-lived assets and are not amortized, but rather are evaluated for impairment at least annually.

	Cost	Cumulative Foreign Exchange Adjustment	Accumulated Amortization	Accumulated Impairment	**December 31, 2010 Net**
			($ thousands)		
Trade names	$6,445	($620)	$-	($454)	**$5,371**
Broker relationships	3,883	(134)	(2,589)	-	**1,160**
Framework agreement	889		-	-	**889**
Back-end systems software	222	(16)	(206)	-	-
	$11,439	($770)	($2,795)	($454)	**$7,420**

	Cost	Cumulative Foreign Exchange Adjustment	Accumulated Amortization	Accumulated Impairment	December 31, 2009 Net
			($ thousands)		
Trade names	$6,445	($339)	$-	($454)	**$5,652**
Broker relationships	3,883	(105)	(2,034)	-	**1,744**
Framework agreement	889		-		**889**
Back-end systems software	222	(12)	(110)		**100**
	$11,439	($456)	($2,144)	($454)	**$8,385**

As a result of the 2010 and 2009 annual test for impairment of trade names and other intangible assets, the Fund determined that there was no impairment in the carrying value of the intangible assets.

9. GOODWILL

The Fund completed its annual goodwill impairment test as at December 31, 2010 and 2009 and determined that no impairment had occurred. Movements in goodwill consist of the following:

Goodwill continuity	*($ thousands)*
Goodwill, December 31, 2008	**$18,923**
Cumulative foreign exchange adjustment	(5,147)
Goodwill, December 31, 2009	**$13,776**
Cumulative foreign exchange adjustment	(559)
Goodwill, December 31, 2010	**$13,217**

10. VEHICLE FINANCING

	December 31, 2010	December 31, 2009
	($ thousands)	
Sherway floor plan facilities	**$5,544**	$6,127

Sherway has an $8.5 million floor plan facility available, bearing interest at the bank's prime rate plus 1.375% (2009 – 1.375%) or the Canadian Dollar Offering Rate ("CDOR") plus 2.475% (2009 – 2.475%), secured by the related vehicles and a general security agreement over the dealership's other assets. Advances under the floor plan are due on the earlier of the date of sale of the related vehicle and 12 months after the receipt of the loan. The repayment terms of 12 months may be extended for an additional 90 days, subject to an immediate repayment of 10% of the principal amount. Under the facility, repayment may be extended for a second 90-day term subject to a further 20% repayment. Based on monthly average debt levels, the effective interest rate paid during the year was 3.11% (2009 - 2.98%).

11. CONVERTIBLE DEBENTURES

In January 2010, the holders of the convertible debentures elected to exercise their conversion rights and were issued an aggregate of 999,997 Fund Units, in accordance with the conversion price of $3.50 per unit provided by the convertible debentures. On conversion, the equity amount of the convertible debentures was also transferred to Fund Unit capital.

Debentures in the principal amount of $2.8 million (out of the aggregate $3.5 million principal amount of the Fund Issued Debentures) were held by directors of Chesswood GP Limited, which is a 100% owned subsidiary of the Fund.

During the year ended December 31, 2010, interest of $nil (2009 - $347,370) was expensed relating to these Debentures of which $nil (2009 - $216,419) pertained to related parties.

12. INTEREST RATE SWAPS

Pawnee enters into interest rate swap agreements with its banking facility that provides for payment of an annual fixed rate, in exchange for a LIBOR based floating rate amount. Pawnee's bank has the option to terminate the swaps typically one year prior to the maturity date. The interest rate swaps are intended to offset a portion of the variable interest rate risk on the credit facility. At December 31, 2010, the mark-to-market adjustment is a loss of approximately $2.5 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 December 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 2011	15,000,000	3.12%	March 2014	n/a
March 2012	15,000,000	4.00%	March 2015	n/a

The Fund recognizes the fair value of all derivative instruments on the balance sheet as either assets or liabilities at the balance sheet date. Changes in the derivative's fair value are recognized in earnings unless specified hedge accounting criteria are met, in which case, gains and losses are recorded in either other comprehensive income or current earnings, depending on the nature and designation of the instrument. The interest rate swaps do not qualify as hedges for accounting purposes.

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

13. LEASE FINANCING

	December 31, 2010	December 31, 2009
	($ thousands)	
Pawnee credit facility	**$38,671**	$36,186
Lease-Win credit facility	-	1,083
Lease financing	**$38,671**	$37,269

Interest expense as a percent of average monthly debt levels (ii):

	For the year-ended December 31, 2010	For the year-ended December 31, 2009
	($ thousands)	
Pawnee credit facility (i)	7.05%	7.51%
Lease-Win credit facility	4.37%	4.66%

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

a) Pawnee's credit facility allows borrowings of up to U.S.$55.0 million (2009 - U.S.$52.5 million) subject to, among other things, certain percentages of eligible gross lease receivables, of which U.S.$38.9 million was utilized at December 31, 2010 (2009 U.S.$34.6 million). The facility can be extended, subject to certain conditions, to U.S.$85.0 million (2009 U.S.$65.0 million). This credit facility is secured by substantially all of Pawnee's assets, contains negative covenants including maintaining leverage and interest coverage ratios, requires Pawnee to mitigate its interest rate risk by entering interest rate swaps for a notional amount not less than 50% of the outstanding commitment, and matures on September 24, 2013. See note 12 for information relating to interest rate swaps affiliated with this credit facility.

At December 31, 2010, Pawnee was in compliance with all covenants. During the year ended December 31, 2009, upon Pawnee's recognition of a non-cash interest charge a temporary violation in the Interest Coverage covenant occurred. Management requested that its lender waive the technical violation of its loan agreement. The lender approved the waiver request.

b) At December 31, 2010, Lease-Win had no credit facilities outstanding with the bank.

In prior years, Lease-Win's financing was collateralized as follows:
i. Lien notes on specific leased vehicles and courtesy cars;
ii. A general assignment of its book debts, fire insurance and leases; and
iii. A demand debenture in the amount of $2.1 million and a general security agreement over all its assets.

Lease-Win had an authorized credit facility of $nil (2009 - $2.35 million) to be used for the purchase of assets for leasing. At the inception of each loan, Lease-Win had the right to fix the interest rate for the term. The floating rate loans bear interest at the bank's prime rate plus 1.625% (2009 - 1.625%). Lease-Win had the right to fix the rate on all its floating rate debt at the bank's prime rate plus 2.125% (2009 - 2.125%). The lease financing was scheduled to be repaid over a period not exceeding the term of the underlying leases, but is due on demand. During November 2010, Lease-Win chose to pay off the loans to save on interest costs.

A summary of the aggregate amount of minimum payments required on all debt is provided in note 15.

14. CUSTOMER SECURITY DEPOSITS

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

	December 31, 2010	December 31, 2009
	($ thousands)	
Security deposits that will be utilized within one year	**$2,471**	$1,855
Security deposits that will be utilized in future years	**7,413**	7,929
Customer security deposits	**$9,884**	$9,784

15. MINIMUM PAYMENTS

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

($ thousands)	2011	2012	2013	Total
Pawnee's lease financing credit facility (a)	$ -	$ -	$38,671	$38,671

(a) Pawnee's lease financing credit faculty is a line-of-credit, as such the balance can fluctuate.

16. INCOME TAXES

Income tax obligations relating to distributions from the Fund are the obligations of its unitholders and accordingly, no provision for income taxes on the income of the Fund have been made. A provision for income taxes is recognized for the Fund's subsidiaries that are subject to tax.

Income tax expense consists of the following:

	For the year-ended December 31, 2010	For the year-ended December 31, 2009
	($ thousands)	
Current income tax expense	$1,163	$795
Future income tax expense	4,292	2,449
Total income tax expense	$5,455	$3,244

The table below shows the reconciliation between income tax expense reported in the Statement of Income and the income tax expense that would have resulted from applying the combined Canadian federal and Ontario tax rate of 31.0% (2009 – 33.0%) to pre-tax income.

	For the year ended December 31, 2010	For the year ended December 31, 2009
	($ thousands)	
Income before income taxes	**$12,432**	$6,309
Less: Income of the Fund taxable to the recipient	**(4,321)**	(2,269)
Income before income taxes	**8,111**	4,040
Canadian income tax rate	**31%**	33%
Expected income tax expense (recovery)	**2,514**	1,333
Dividend income in recipient income above on which taxes were paid	**1,722**	695
Tax cost of non-deductible items		
Unrealized foreign exchange loss (gain)	**37**	(7)
Amortization and impairment of intangible assets	**160**	53
U.S. withholding taxes paid	**116**	27
Unit based compensation	**283**	68
Non-cash interest expense in subsidiary	**-**	1,108
Tax benefit of deductible items		
IPO costs	**(499)**	(539)
Alternative minimum tax credit utilized	**-**	(156)
Reduction in income taxes	**(31)**	(481)
Other timing differences	**(117)**	532
Higher effective income tax rates in foreign jurisdictions	**1,270**	611
Provision for income taxes	**$5,455**	$3,244

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

	December 31, 2010	December 31, 2009
	($ thousands)	
Future tax assets		
Leased assets	**$11,922**	$15,550
Allowance for doubtful accounts	**3,006**	4,825
Amount related to tax losses carried forward	**865**	1,837
Difference in goodwill and intangible asset base	**73**	82
Accrued liabilities	**1,376**	833
	$17,242	$23,127
Future tax liabilities		
Direct financing lease receivables	**$33,692**	$36,047
	$33,692	$36,047
Future income taxes payable	**$16,450**	$12,920

17. FUND UNITS

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

	Number of Fund Units # (000's)	Number of Class B & C US Acquisition Co Ltd. shares (000's)	Total ($000's)
At December 31, 2008	7,041	1,479	$76,141
Purchases under normal course issuer bid (b)	(279)	-	(2,520)
At December 31, 2009	**6,762**	**1,479**	**73,621**
Issued under rights offering (a)	1,321		5,121
Issued on conversion of debentures (Note 11)	1,000	-	3,545
Issued on exercise of restricted units (Note 18(b))	175	-	361
Issued on exercise of unit options (Note (18(a))	142	-	358
At December 31, 2010	**9,400**	**1,479**	**$83,006**

(a) Rights Offering
On July 2, 2010, the Fund successfully completed a rights offering raising gross proceeds of $5.28 million through the issuance of 1,320,799 units at $4.00 per unit. The net proceeds from the offering, after offsetting issue costs of $162,182, will be used to support the growth of Pawnee's business and for general corporate purposes.

(b) Normal Course Issuer Bids
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 twelve-month period ended on November 9, 2010. During the year-ended December 31, 2010, no Fund Units were repurchased under the normal course issuer bid. During the year-ended December 31, 2009, the Fund repurchased for cancellation 38,000 Fund Units, under this issuer bid, for a total cost of $133,220 or approximately

\$3.51 per unit. The book value of the Fund Units is \$9.05 per unit or \$343,900. The excess of book value over purchase price of \$210,680 has been credited to contributed surplus.

In November 2008, the Board of Trustees approved the repurchase and cancellation of up to 447,412 of the Fund's outstanding units for the period commencing November 6, 2008 and ending on November 5, 2009. During the year-ended December 31, 2009, under this issuer bid, the Fund repurchased for cancellation 240,500 Fund Units for a total cost of \$610,750 or approximately \$2.54 per unit. The book value of the Fund Units is \$9.05 per unit or \$2,176,525. The excess of book value over purchase price of \$1,565,775 has been credited to contributed surplus.

18. COMPENSATION PLANS

a) Long-term Incentive Plan

Senior management and key employees of the Fund and its subsidiaries (the "Fund Entities") are eligible to participate in the Fund's long-term incentive plan, or LTIP. The purpose of the LTIP is to provide eligible participants with compensation opportunities to attract, motivate and retain key personnel and reward senior management by making a significant portion of their incentive compensation directly dependant upon achieving key strategic, financial and operational objectives that are crucial to ongoing growth and profitability, strengthening the alignment of interests between employees of the Fund Entities and unitholders of the Fund.

Pursuant to the LTIP, the Fund will annually set aside (or cause a subsidiary to set aside) a pool of funds based upon the amount, if any, by which distributable cash of the Fund per Fund Unit (as measured on a fully-diluted basis) exceeds certain defined targets. It is expected that a plan trustee will use a portion of this pool of funds to purchase Fund Units in the market and will hold the remainder in cash or in cash equivalent investments.

The Compensation Committee of the Fund will have the power to, among other things: (i) determine those individuals who will participate in the LTIP; (ii) determine the level of participation of each participant; (iii) determine the time or times when LTIP awards are to be paid to each participant; (iv) the vesting period of the awards; and (v) the allocation between Units and cash of such awards.

Initially, the LTIP will provide for awards that may be earned based on the amount by which distributable cash per annum per Unit (as measured on a fully-diluted basis) exceeds a base threshold per annum equal to \$1.15, (the "Base Threshold"). The percentage amount of that excess which forms the LTIP incentive pool will be determined in accordance with the table below:

Percentage by which Distributable Cash per Unit exceeds the Base Threshold	Available for LTIP Payments (Proportion of Excess Distributable Cash)
5% or less	0%
Greater than 5% and up to 10%	10% of any excess over 5% to 10%
Greater than 10% and up to 15%	20% of any excess over 10% to 15%
Greater than 15%	25% of any excess over 15%

The Base Threshold will be subject to review and adjustment by the Compensation Committee of the Fund at least annually. It is expected that Fund Units awarded under the LTIP will initially vest equally over three years following the grant of awards. There have never been any amounts accrued for under the LTIP at any time.

(b) Equity Incentive Plan

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

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

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

The maximum number of Units issuable under the Incentive Plan is 15% of the issued and outstanding Units at any given time (including, for these purposes, the 1,478,537 Units issuable upon exchange of Class B and Class C common shares of Chesswood U.S. Acquisitionco Ltd.). Accordingly, options and restricted units relating to up to 1,631,834 (2009 - 1,277,864) Units can be issued pursuant to the Incentive Plan based on the currently outstanding Units.

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

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

	For the year-ended December 31, 2010	For the year-ended December 31, 2009
Balance, January 1	**630,000**	100,000
Granted	**225,000**	530,000
Exercised	**(142,500)**	-
Balance, at December 31	**712,500**	630,000
Exercisable	**116,500**	100,000

The options exercised during 2010 were for total cash consideration of $293,550 (2009 – $nil). On exercise, the fair value of options that had been expensed to date during the vesting period of $65,550 (2009 - $nil) was transferred from contributed surplus to Fund Unit Capital.

An analysis of the options outstanding at December 31, 2010 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	387,500	16,500	June 22, 2019	$2.06
April 13, 2010	225,000	-	April 12, 2020	$4.49

At December 31, 2010, the weighted average exercise price is $3.94 (December 31, 2009 - $3.32) and the weighted average remaining contractual life for all options outstanding is 8.29 years (December 31, 2009 – 8.98 years).

During the year-ended December 31, 2010, salaries and commission expense and contributed surplus included $112,692 (2009 - $38,009) relating to option expense. As of December 31, 2010, unrecognized non-cash compensation expense related to the outstanding options was $246,441 (2009 - $206,026), which is expected to be recognized over the remaining vesting period.

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

	For the year-ended December 31, 2010	For the year-ended December 31, 2009
Number of options granted during the year	225,000	530,000
Expected distribution yield	20%	20%
Expected volatility	77%	83%
Risk-free interest rate	3.1%	2.7%
Expected life	5 years	3 years
Fair value of the Options	$0.68	$0.46

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

(ii) Restricted Units

The Incentive Plan provides for the granting of awards of restricted Units to Participants. The holders 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.

An analysis of the restricted units outstanding at December 31, 2010 is as follows:

	For the year-ended December 31, 2010	For the year-ended December 31, 2009
Balance, January 1	**175,000**	-
Granted	**195,000**	175,000
Exercised	**(175,000)**	-
Balance, at December 31	**195,000**	175,000
Exercisable	**-**	-

Grant Date	Number of Options	Vested	Expiry Date	Exercise Price
April 13, 2010	195,000	-	April 12, 2020	$4.49

At December 31, 2010, salaries and commission expense and contributed surplus included $801,813 relating to restricted Units (December 31, 2009 – $187,200). On exercise during 2010, the value of the restricted units of $360,500 (2009 – nil) that had been expensed during the vesting period was transferred from contributed surplus to Fund Unit capital.

As of December 31, 2010, unrecognized non-cash compensation expense related to non-vested Units related to such restricted Units was $247,073 (2009 - $173,300), which is expected to be recognized over the next three and a half months.

19. DISTRIBUTIONS TO UNITHOLDERS

The Fund's Declaration of Trust requires it to distribute to its Unitholders in each year an amount not less than the Trust's income for the year, as calculated in accordance with the Income Tax Act (Canada) (the "Act") after all permitted deductions under the Act have been taken. The Fund's policy is to pay monthly distributions to Unitholders of record on the last business day of each month by the 15th of the following month (or the next business day thereafter if the 15th is not a business day). Unitholder distributions are subject to review and approval by the Board of Trustees of the Fund.

On May 13, 2010, the Fund received Unitholders approval for an amendment to the Declaration of Trust to permit greater discretion in making future distributions to allow the Fund to continue to account for the units as Equity under IFRS accounting rules instead of as Debt and the distributions as an adjustment to equity as opposed to interest expense on the income statement.

20. INCOME PER UNIT

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

	For the year-ended December 31, 2010	For the year-ended December 31, 2009
Weighted average number of Fund Units outstanding used in computing basic income per unit	**8,480,234**	6,912,018
Effect of rights issue (Note 17 (i))	**84,348**	71,066
Effect of share consolidation (Note 31(a))	**(2,808)**	(2,808)
Class B shares	**1,274,601**	1,274,601
Class C shares	**203,936**	203,936
Weighted average units outstanding used in computing basic income per unit	**10,040,311**	8,458,813
Dilutive effect of options	**232,945**	61,909
Dilutive effect of restricted units	**139,973**	91,575
Weighted average number of units outstanding used in computing diluted income per unit	**10,413,229**	8,612,297

Options to purchase 100,000 units (2009 - 100,000 units) and in 2009 a convertible debenture, convertible into 1,000,000 units were outstanding but were excluded from the calculations of diluted income per unit due to their exercise price (conversion price) being greater than the average Fund Unit price for 2010 and 2009.

21. SUPPLEMENTARY CASH FLOW INFORMATION

	For the year-ended December 31, 2010	For the year-ended December 31, 2009
	($ thousands)	
Interest paid	**$2,849**	$3,695
Income tax installments paid	**$7,807**	$468
Non-cash transactions		
Convertible debentures converted to Fund Units	**$3,465**	-
Conversion option on convertible debentures exercised	**80**	-
Restricted units issued	**361**	-
Increase in contributed surplus relating to the excess of book value over purchase price of Fund Units purchased under normal course issuer bid. (note 17(b))	**-**	$1,777

22. CAPITAL MANAGEMENT

The Fund's capital consists of unitholders' equity. 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 within financial covenants. The Fund's overall strategy with respect to management of capital remains unchanged from the prior year.

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 December 31, 2010, the Fund's operating units had $17.0 million in additional borrowings available under various credit facilities to fund business operations.

The Fund itself does not have a credit facility available. Credit facilities of its operating subsidiaries are used to provide funding for the respective subsidiary's operations (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.

	December 31, 2010	December 31, 2009
	($ thousands, except ratio)	
Debt	**$68,806**	$63,423
Equity	**$52,491**	$45,584
Debt/Equity	**1.31**	1.39

23. FINANCIAL INSTRUMENTS

Fair value

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument, without modification or on a valuation technique using market based inputs.

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

	December 31, 2010		December 31, 2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		($ thousands)		
Cash and cash equivalents	$12,863	$12,863	$7,585	$7,585
Accounts receivable	766	766	930	930
Net investment in leases (a)	81,938	n/a	78,237	n/a
Distributions payable	490	490	248	248
Accounts payable	5,187	5,187	5,176	5,176
Vehicle financing (b)	5,544	5,544	6,127	6,127
Convertible debentures	-	-	3,465	3,465
Interest rate swaps	2,464	2,464	1,683	1,683
Lease financing (b)	38,671	38,671	37,269	37,269
Customer security deposits	9,884	9,884	9,784	9,784

(a) 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.
(b) 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:

	December 31, 2010			December 31, 2009		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
			($ thousands)			
Interest rate swaps	**-**	**$2,464**	**-**	-	$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..

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.$55.0 million (2009 – U.S.$52.5 million) subject to, among other things, certain percentages of eligible gross lease receivables, of which U.S.$38.9 million was utilized at December 31, 2010 (2009 U.S.$34.6 million). The facility can be extended, subject to certain conditions, to U.S.$85.0 million (2009 U.S.$65.0 million). This credit facility is secured by substantially all of Pawnee's assets, contains negative covenants including maintaining leverage and interest coverage ratios, requires Pawnee to mitigate its interest rate risk by entering interest rate swaps for a notional amount not less than 50% of the outstanding commitment, and matures on September 24, 2013. 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.

The contractual payments and maturities of the financial liabilities at December 31, 2010 are as follows:

($ thousands)	2011	2012	2013	2014	2015	2016+	Total
Distributions payable	$490	$ -	$ -	$ -	$ -	$ -	$490
Accounts payable and accrued liabilities	5,187	-	-	-	-	-	5,187
Vehicle financing	5,544	-	-	-	-	-	5,544
Interest rate swaps	114	824	785	741	-	-	2,464
Lease financing	-	-	38,671	-	-	-	38,671
Customer security deposits (i)	2,471	3,060	2,731	1,078	538	6	9,884
	$13,806	$3,884	$42,187	$1,819	$538	$6	$62,240

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

c) 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. The Fund's excess cash is held in accounts with a major Canadian chartered bank. Management monitors changes in the status of any financial institution at which deposits are held to mitigate potential credit risk.

Accounts receivable principally relate 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 of their recognition. Credit risk is primarily limited to the concentration of the receivable with the automotive manufacturer. See note 3 for further disclosure related to aging and continuity of allowance for doubtful accounts.

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 U.S.$50,000, 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 5 for further disclosure related to aging and continuity of allowance for doubtful accounts.

At December 31, 2010:

- no state represented more than 9.7% 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 computer equipment which combined accounted for 56.9% of the number of active leases;
- its lessees operated in over 85 different industry segments, with no industry concentration accounting for more than 15.1% 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 20.0% of its leases in the year-ended December 31, 2010, and its ten largest origination sources accounted for 42.8% of its leases.

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 the lessees default on their lease contracts in order to minimize any credit losses. When an asset previously accepted as collateral is acquired, it undergoes a process of repossession and disposal in accordance with the legal provisions of the relevant market. Please see note 5 for a further discussion on the repossession of collateral during the years-ended 2010 and 2009. The credit risk associated with Lease-Win's leases receivables is also mitigated by liens placed against the vehicles, personal guarantees, and the ability to repossess vehicles for non-payment.

Pawnee's lease receivables consist of a large number of homogenous leases, with relatively small balances, and as such, the evaluation of the allowance for credit losses is performed collectively for the lease receivable portfolio. Pawnee's allowance for doubtful accounts policy is described in note 1.

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 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 5 for the effective interest rates earned 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 outstanding commitment. The interest rate swap agreements provide for payment of an annual fixed rate, in return, for a LIBOR based floating rate amount. The interest rate swaps are intended to offset a portion of the variable interest rate risk on the credit facility. See note 13 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. The leases financed through securitization can be financed at fixed or floating rate. As at December 31, 2010, approximately $416,000 (2009 - $755,000) of Lease-Win's $5.9 million (2009 - $14.6 million) securitized gross lease receivables were funded on a floating rate basis. See note 5 for the effective interest rate paid on securitization facilities and note 13 for the effective interest rates on the credit facilities.

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

	For the year-ended December 31, 2010		For the year-ended December 31, 2009	
	($ thousands)			
	+100 bps	**-100 bps**	+100 bps	-100 bps
Increase (decrease) in interest expense	**144**	**(144)**	158	(158)
Increase (decrease) in net income	**(117)**	**117**	(123)	123

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

($ thousands)	2011	2012	2013	Total
Pawnee's lease financing credit facility (a)	$ -	$ -	$38,671	$38,671

(a) 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 because 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.

The following table presents a sensitivity analysis for hypothectical changes in the U.S. dollar exchange rate and their potential impact on the Fund for the years-ended December 31, 2010 and 2009:

U.S. Denominated Balances	**December 31, 2010**	December 31, 2009
Foreign exchange risk to balance sheet	*($ thousands)*	
Year-end exchange rate	**0.9946**	1.0466
U.S. denominated assets in U.S.$	**$104,003**	$89,303
Effect of a 10% increase or decrease in the Cdn/U.S. dollar on assets	**$10,344**	$9,346
U.S. denominated liabilities in U.S.$	**$68,904**	$57,073
Effect of a 10% increase or decrease in the Cdn/U.S. dollar on liabilities	**$6,853**	$5,973
U.S. denominated net assets in U.S.$	**$35,099**	$32,230
U.S. denominated net assets in CDN$	**$34,909**	$33,732
Effect of a 10% increase or decrease in the Cdn/U.S. dollar on U.S. denominated net assets	**$3,491**	$3,373

Foreign exchange risk to income statement		
Net income from U.S. in U.S.$ for year-ended	**$8,504**	$2,278
Average exchange rate	**1.0299**	1.142
Net income from US in Cdn$	**8,758**	2,602
Effect of a 10% increase or decrease in the Cdn/U.S. dollar on U.S. denominated net loss	**$876**	$260

24. GUARANTEES

In the normal course of operations, the Fund has entered into agreements that contain certain features which meet the definition of a guarantee under the guidance provided by CICA Accounting Guideline 14, Disclosure of Guarantees. The use of such guarantees which are customary in the industry is in the normal course of operations.

25. CONTINGENCIES AND COMMITMENTS

Contingencies
In the normal course of business, the subsidiary operating entities of the Fund are subject to a number of claims and legal actions that may be made by customers, suppliers and others in respect of which no material liability is expected.
Commitments
The Fund is committed to aggregate minimum rental payments under leases for premises, excluding occupancy costs and property tax, expiring in 2011 and 2017 as follows:

	December 31, 2010
	($ thousands)
2011	$458
2012	384
2013	384
2014	384
2015	384
thereafter	576
Total	$ 2,570

See note 26(b) Related Party Transactions.

26. RELATED PARTY TRANSACTIONS

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

During the year ended December 31, 2010, interest of $nil (2009 - $347,370) was expensed relating to these Debentures of which $nil (2009 - $216,419) pertained to related parties.

b) Pawnee leases a 10,800 square foot office facility from a related party due to common ownership between itself and the holders of the Class B and C shares of U.S. Acquisitionco. The minimum lease payments are U.S. $202,261 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.

27. ECONOMIC DEPENDENCE

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

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

28. SIGNIFICANT ESTIMATES

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

Goodwill and Intangible Assets not Subject to Amortization
The impairment test of the goodwill and intangible assets (not subject to amortization) is subject to significant judgment in determining the fair value of the subsidiaries, including 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 impairment of goodwill and intangible assets not subject to amortization.

Unit Based Compensation Incentive Plans and Conversion Option on Debentures
The Fund accounts for its unit based compensation using the fair value method, under which compensation expense is measured at the grant date and recognized over the vesting period. The fair value of option grants in particular are calculated using the Black-Scholes option pricing model.

The fair value of the conversion option on the convertible debentures was estimated using the Black-Scholes option pricing model in 2008.

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

Intercompany Interest Expense
Prior to December 30, 2009, the structure of the Fund, similar to other income fund and corporate structures, included U.S.$33.5 million intercompany debt that generated intercompany interest expense. We reduced our taxable income in our Consolidated Statements of Income and, therefore, our calculation of income tax expense by this interest expense.

The interest expense on these notes was U.S.$1,256,250 for the year-ended December 31, 2009 and U.S.$893,332 for the year-ended December 31, 2008. The reduced interest expense from prior years for both 2009 and 2008 was the result of a temporary waiver by the holder of the note in respect of these years. The intercompany note was exchanged for equity on December 30, 2009, at which time deferred interest payable required by GAAP (which was eliminated on consolidation) was reversed and so was the future tax asset, resulting in an increase in the income tax provision and future taxes payable on December 30, 2009, at Pawnee. The resulting increase in the income tax provision and future taxes payable totaled $1.8 million; of which $1.2 million related to 2008 and the remaining $625,000 related to reduced tax expense reported in the first nine-months of 2009.

If United States tax authorities were to challenge our treatment of the former intercompany notes or the amount of our interest expense, or if they were to implement retroactively-applied changes to the tax laws or their interpretation, and these changes did not allow us to reduce our taxable income and our calculations of income tax expense by all or a portion of this interest expense for the prior periods, we may be required to pay additional income tax and our cash distributions could be adversely affected.

U.S. Income Tax

U.S. federal tax legislation was enacted in 2004 to address perceived U.S. tax concerns in "corporate inversion" transactions. A "corporate inversion" generally occurs when a non-U.S. corporation acquires "substantially all" of the equity interests in, or the assets of, a U.S. corporation or partnership, if, after the acquisition, former equity holders of the U.S. corporation or partnership own a specified level of stock in the non-U.S. corporation. The tax consequences of these rules depend upon the resulting percentage identity of stock ownership. Generally, in the "80-percent identity" transactions, i.e. former equity holders of the U.S. corporation owns 80% or more of the equity of the non-U.S. acquiring entity (excluding equity interests acquired in the acquiring entity in public offerings associated with the acquisition), the tax benefits of the inversion are limited by treating the non-U.S. acquiring entity as a domestic entity for U.S. tax purposes. In the "60-80 percent identity" transactions, the benefits of the inversion are limited by barring certain corporate-level "toll charges" from being offset by certain tax attributes of the U.S. corporation (e.g. loss carryforwards), and imposing excise taxes on certain stock based compensation held by "insiders" of the U.S. corporation.

These rules will not apply to the acquisition of Pawnee if the active Canadian business operations conducted by cars4U and its Canadian subsidiaries prior to the acquisition of Pawnee are deemed to be "substantial" in relation to the U.S. activities to be conducted by U.S. Acquisitionco and Pawnee after the acquisition. Because the IRS has not yet defined the term "substantial", it is not certain whether the prior Canadian active business operations of cars4U and its Canadian subsidiaries will meet this substantiality test.

If the substantiality test is not met, and the "identity of stock ownership" test becomes relevant, the "80 percent or more" rules should not apply because the former shareholders of Pawnee should not be considered as owning 80% or more of the equity of the Fund after the acquisition. The 60-80 percent rules may or may not apply, depending on the level of equity that the former shareholders of Pawnee will be considered as owning after the acquisition. If such rules apply, the corporate toll-charges rules should not trigger any material adverse U.S. tax consequences so long as either (a) Pawnee does not sell or license any of its assets as part of its acquisition by the Fund, or license any assets to a related non-U.S. entity during the subsequent 10 years or (b) if it does sell or license any such assets, it does not offset its U.S. tax arising from such sales or licenses with loss carryforwards, foreign tax credits or certain other similar tax attributes.

29. COMPARATIVE FIGURES

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

30. 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: automotive operations are located in Canada and the equipment leasing is located in the United States.

Segmented information in Canadian dollars is as follows:

	For the Year-Ended December 31, 2010			
($ thousands)	Automotive Operations Canada	Equipment Finance U.S.	Corporate Overhead Canada	Total
Revenue	$50,313	$28,772	$ -	$79,085
Gross profit	7,391	28,772	-	36,163
Provision for credit losses	132	3,743	-	3,875
Interest expense	251	2,811	-	3,062
Amortization – property and equipment	65	126	9	200
Amortization – intangible assets	-	610	-	610
Unit-based compensation	102	51	762	915
Corporate overhead	-	-	2,209	2,209
Income before other items	**1,442**	**14,983**	**(2,980)**	**13,445**
Unrealized loss on interest rate swaps	-	(895)	-	(895)
Unrealized loss on foreign exchange	-	-	(118)	(118)
Income before income taxes	**1,442**	**14,088**	**(3,098)**	**12,432**
Provision for income taxes	12	5,330	113	5,455
Net income	**1,430**	**8,758**	**(3,211)**	**6,977**
Total assets	18,303	103,441	9,437	131,181
Net investment in leases	4,399	77,539	-	81,938
Goodwill	2,520	10,697	-	13,217
Intangible assets	889	6,531	-	7,420
Property and equipment expenditures	19	101	-	120

	For the Year-Ended December 31, 2009			
($ thousands)	Automotive Operations Canada	Equipment Finance U.S.	Corporate Overhead Canada	Total
Revenue	$48,128	$29,871	$ -	$77,999
Gross profit	7,945	29,871	-	37,816
Provision for credit losses	214	13,905	-	14,119
Interest expense	262	3,261	347	3,870
Amortization – property and equipment	168	58	10	236
Amortization – intangible assets	-	601	-	601
Unit-based compensation	28	23	177	228
Corporate overhead	-	-	1,325	1,325
Income before other items	**1,795**	**5,236**	**(1,859)**	**5,172**
Unrealized gain on interest rate swaps	-	732	-	732
Unrealized gain on foreign exchange	-	-	405	405
Income before income taxes	**1,795**	**5,968**	**(1,454)**	**6,309**
Provision for (recovery of) income taxes	(604)	3,366	482	3,244
Net income	**2,399**	**2,602**	**(1,936)**	**3,065**
Total assets	21,933	92,844	4,014	118,791
Net investment in leases	6,060	72,177	-	78,237
Goodwill	2,520	11,256	-	13,776
Intangible assets	889	7,496	-	8,385
Property and equipment expenditures	96	315	1	412

31. SUBSEQUENT EVENTS

a) Consolidation of units

On January 1, 2011, prior to the conversion to a corporation, the Fund consolidated its Fund Units on a 1 for 100 basis. The Fund paid out any unitholders with less than one Fund Unit after the consolidation (and who had filed the necessary paperwork with the transfer agent) based on the average trading price five days prior to the consolidation which was $6.05. The unit consolidation eliminated 2,808 Fund Units and approximately 291 registered unitholders for a total cost of $26,988.

In conjunction with the unit consolidation mentioned above, the Fund split its Fund Units on a '100 for 1 basis' on January 1, 2011. The unit split returned the units outstanding back to original levels for unitholders who owned more than 100 Fund Units.

b) Conversion to a corporation

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

The Arrangement was accounted for as a change in business form using the continuity of interests method of accounting in accordance with Emerging Issues Committee abstract 170 "Conversion of an Unincorporated Entity to an Incorporated Entity". Under the continuity of interests method of accounting, the transfer of the assets, liabilities and equity of the Fund to Chesswood Group is recorded at the net book value as at the effective date of transaction. As a result, for accounting purposes, the transaction is required to be accounted for as though Chesswood Group was a continuation of the Fund but with its capital reflecting the exchange of Fund units for Chesswood Group shares. Therefore, certain terms such as shareholder/unitholder, dividend/distribution and share/unit may be used interchangeably throughout these consolidated financial statements.

Chesswood Group is subject to federal and provincial corporate income tax on its taxable income for the period beginning on the effective date (January 1, 2011) of the Arrangement.

Fund Executive Team

Barry Shafran
President & C.E.O.

Lisa Stevenson
Director of Finance

Other Information

Auditors
BDO Canada LLP

Transfer Agent
Equity Investment Services Inc.
Corporate Counsel
McCarthy Tétrault LLP

Website
(see below)

Toronto Stock Exchange Symbol
(see below)

Effective January 1, 2011, Chesswood Income Fund was converted into Chesswood Group Limited ("CGL"). The individuals listed above have continued as the directors and the executive team of CGL. The common shares of CGL trade on the Toronto Stock Exchange under the symbol CHW. CGL's website is found at www.chesswoodgroup.com.

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

Chesswood
Income Fund

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Chesswood Income Fund

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