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.