Kilgour Advisory Group

Portfolio Manager Report

UWO Liquidating Trust – Quarter Ending 31 December 2010

Preamble

The University of Western Ontario Liquidating Trust ('UWO LT') holds a portfolio of Restructured Asset Backed Notes ('AB Notes') that resulted from the restructuring of Non-Bank Asset Backed Commercial Paper ('ABCP') that was completed in January 2009. The Kilgour Advisory Group is a specialist risk management firm retained by UWO to provide portfolio valuation, risk management and reporting, and market liaison. KAG reports quarterly with commentary on credit markets, description of the margin triggers and reference indices, discussion of events affecting UWO LT's holdings, summary of secondary markets, and valuation of the portfolio. This is the fifth quarterly report to date in respect of this portfolio.

Credit Markets

Global credit markets were generally stronger through the fourth quarter of 2010, although residual economic concerns continued to add volatility. In particular, risk of sovereign debt defaults were realized with the bail-out of Ireland announced in November. This followed a similar assistance to Greece in May and concerns about other weak EU economies persist.

The US and global economic recovery appeared to gain momentum, which was reflected in strong equity market performance and tightening of spreads in the credit markets. Although not unanimous, there were some positive indicators for the US economy, including surprise corporate earnings growth and upticks in US employment levels, construction spending, and retail sales.

The broad corporate credit markets tracked these sentiments. Credit spreads tightened through October and the beginning of November, at which time the Ireland bail-out caused credit spreads to widen through to the end of November. In December, credit spreads resumed their tightening trend and ended the quarter significantly tighter than at the beginning.

The movements in bond yields and credit default swap premiums over time and during Q4 are tracked in the charts below. The upper charts show the Credit Default Swap Index for Investment Grade rated US corporations ('CDX IG')[1]. The lower charts track corporate bond yields by S&P ratings cohorts. Bond yields showed volatility during November similar to that of the credit default swap spreads. These yields were also influenced by the increase in longer-term interest rates, which – absent other effects – would have caused bond yields to increase.

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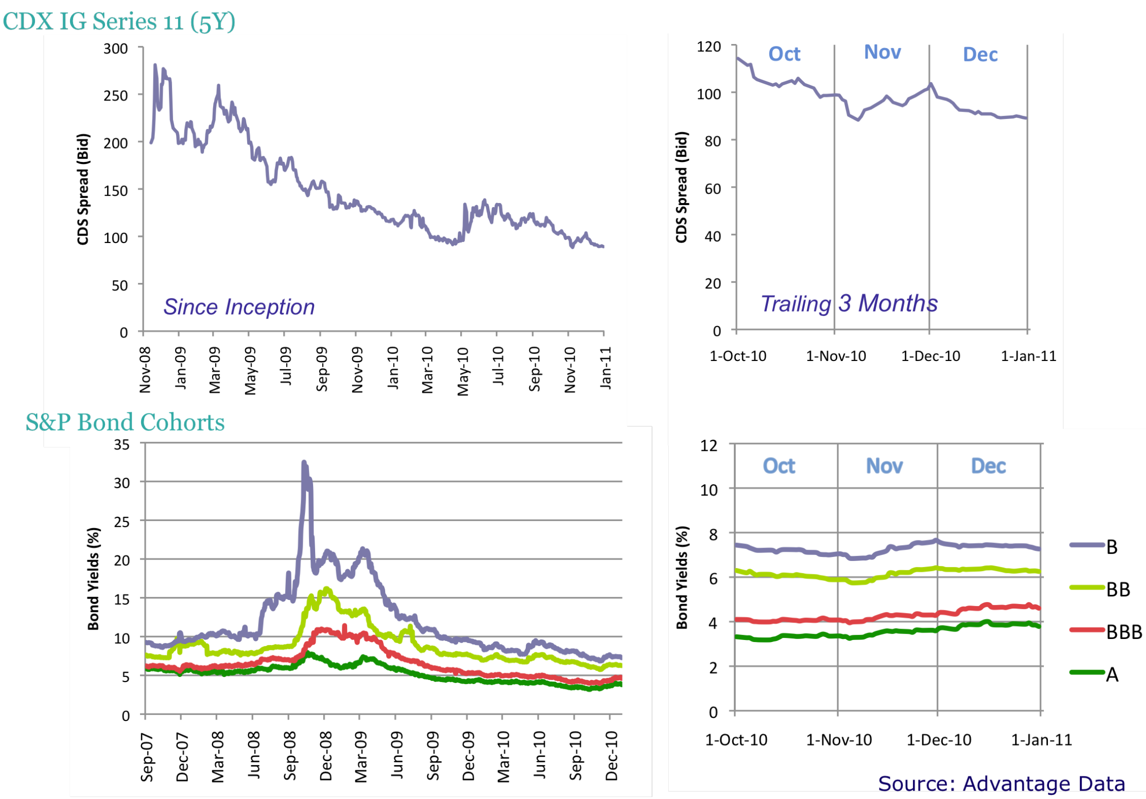
[1] Series 11 is shown as this was the on-the-run (i.e. current) index at the time of the ABCP restructuring.

The offsetting effects of credit spread tightening and interest rate increases caused bond yields to end the quarter close to where they began it in October.



Risk Assessment – MAV2 Pooled Notes

In evaluating UWO LT's MAV2 Pooled Note holdings (~$18.3 mm par value)_KAG uses a risk assessment framework that tracks credit risk, margin trigger risk, collateral risk, and structuring risk. Our analysis of each element of this framework forms our view on the overall risk facing the notes in the portfolio.

Credit Risk

The assessment of credit risk focuses on the potential for losses within the portfolio of Leveraged Super Senior ('LSS') credit default swaps that underlie the MAV2 Pool. Recall that when the original non-bank asset-backed commercial paper was restructured, all eligible LSS trades and their collateral were pooled. At this time, there are 69 LSS trades with a total notional value at risk of $73 Bn; these are collateralized by the $9.8 Bn of assets in the collateral pool.

The broad credit markets give a general indication of the credit risk in this large and diversified pool of US and European corporate credit risk. At a high level, the general and continued improvement in corporate credit during Q4 indicates a reduction in credit risk and is beneficial to the value of the MAV2 Pooled notes.

In addition to considering the general state of the credit markets, it is necessary to look at the risk of each individual LSS deal when assessing credit risk. And for the LSS deals that are closest to incurring losses, it is informative to look at the individual corporate names in those portfolios.

During the quarter, there were two corporations that defaulted that are found as reference entities among the credit default swap portfolios underlying the AB Notes. Takefuji Corporation and Ambac Financial Group ('ABK') experienced 'credit events' with low recovery rates on their corporate debt.

KAG maintains a segmentation of the LSS pool whereby each individual trade is categorized as Severe, High, Elevated, Guarded, or Low risk. At the end of September 2010, there were only two LSS trades – Trades #1 and #7 – that were identified as of Severe risk; at the end of December 2010, only these same two trades were categorized at Severe risk. The Takefuji default caused some deterioration amongst the trades that were previously classified in the neutral 'Elevated' category, but none were downgraded to 'High' or 'Severe' risk. The rest of the 69 LSS deals were continued to be in the 'Guarded' or 'Low' risk categories.

Therefore, Trades #1 and #7 continue to be the most immediate source of credit risk for the MAV2 Pooled notes. Trades #1 and #7 are two Leveraged Super Senior trades with Deutsche Bank as the asset provider. They contain portfolios that are identical in composition and allocation and have the same leverage (2.5X). Trades #1 and Trade #7 together have levered amounts at risk of $324 million. Together, these trades represent about 3% of the MAV2 Pool.

Trade #1 and #7 further deteriorated as the result of the ABK default (Takefuji was not in these portfolios and so had no effect). These trades are at risk of loss with the current 'attachment point' being only 1.45%. This means that if there are further defaults among the corporate entities in the portfolios that cause losses equal to 1.45% of the portfolio notional value, then the MAV2 Pool will realize losses. Among the corporate credits in these portfolios, MBIA Insurance Corp stands out as both the highest risk and is also over-weight in terms of percentage of notional (see table below). If MBIA Insurance Corp defaults with a loss rate similar to that of ABK, then the MAV2 Class C notes held by UWO LT would become worthless and the Class B notes would have a reduction in principal redemption value to approximately 95% of par. One or two additional losses would cause the entire $324 million to be lost and the principal redemption value of the B notes would drop to around 80%. On the positive side, credit spreads did track the general improvement in credit markets and these trades do benefit from having a maturity date of June-2012 – a shorter time to maturity reduces the risk of defaults.

Trade #1 and #7 –Names with CDS spread greater than 400 bps
9 Highest Risk Names (17 at 30 September)

Reference Entity	3 Yr CDS Spread (bps) 31-Dec-10	3 Yr CDS Spread (bps) 30-Nov-10	3 Yr CDS Spread (bps) 29-Oct-10	3 Yr CDS Spread (bps) 30-Sep-10	Qtr-to-Qtr Change	Pctg of Notional	Sector (Blackrock)
MBIA Insurance Corp.	2,732	3,238	2,269	3,536	(804)	2.45%	Property & Casualty
Hovnanian Enterprises Inc.	1,341	1,508	1,485	1,457	(116)	0.49%	Home Construction
Clear Channel Communications Inc.	787	1,067	1,102	1,274	(487)	1.35%	Media Non Cable
MGM Mirage	675	783	744	1,036	(361)	0.49%	Gaming
Boyd Gaming Corp.	639	734	653	859	(219)	0.31%	Gaming
First Data Corp.	598	757	742	893	(295)	0.61%	Technology
Financial Security Assurance Hldg LTD	552	527	440	638	(86)	1.84%	Property & Casualty
Beazer Homes USA Inc.	457	543	551	603	(146)	0.92%	Home Construction
Hellenic Telecom Organization SA	403	353	267	292	111	1.22%	Wirelines
Weighted Average	1,161	1,352	1,078	1,498	(337)		

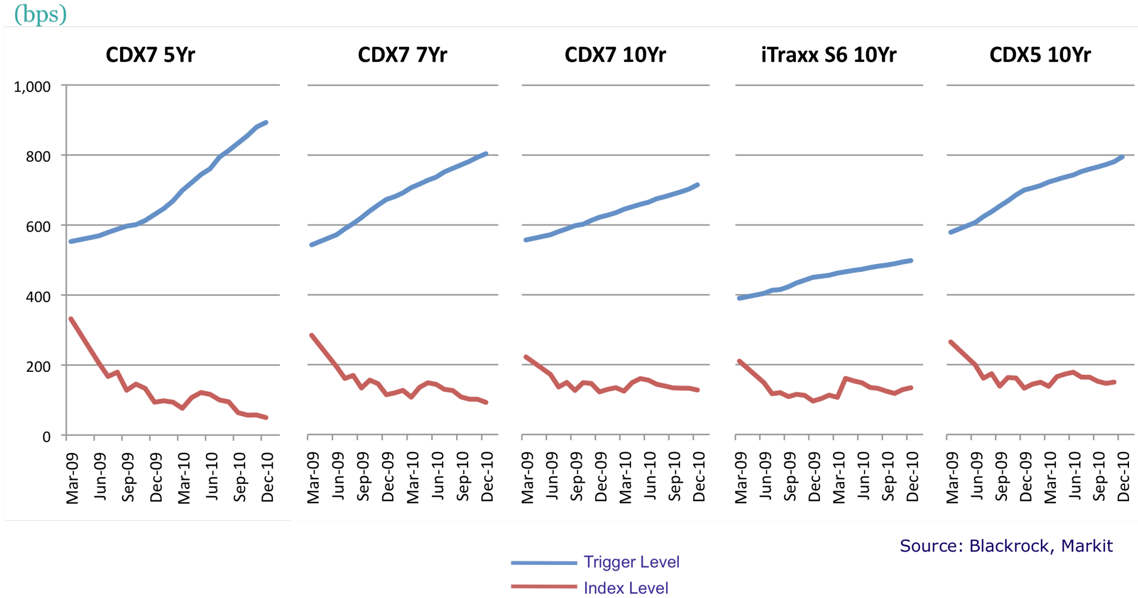
Source: Advantage Data

Margin Trigger Risk

There were no new defaults during Q4 in any of the reference indices for the MAV2 Spread-Loss margin triggers[2]. Total loss levels are unchanged since Q4 of 2009. Specifically, the total losses on the CDX North American IG7 and IG5 indices are 1.11%; the total loss on the iTraxx Europe series 6 is 0.29%.

The trigger indices are compared to the margin trigger levels for each of the five reference indices in the series of charts below. The upper blue lines represent the trigger level; the lower red lines represent the actual index levels. A trigger breach would occur if, at any time, a red line crosses above a blue one.

Trigger Indices Relative to Trigger Levels (bps)



Source: Blackrock, Markit

KAG continues to assess the risk of margin triggers occurring as very remote. The trigger levels (blue) are set based on the loss level of the reference index and the remaining time to maturity. With no increase in losses, the trigger levels have steadily increased and therefore have become more remote. The index levels themselves (red) have declined with the general improvement in credit markets. On average, the index levels were 15.9% of the trigger levels at the end of Q4; this compared to 17.3% as at the end of September. The index would have to widen by more than 6 times to unprecedented levels before a trigger would be breached.

[2] The margin triggers for the Pooled Notes take the form of 'spread-loss' triggers whereby a limit is defined in terms of the market spread of a reference index (e.g. CDX IG7) and determined within a matrix of actual loss and remaining time to maturity. Losses within the reference indices have the impact of lowering the 'margin trigger' spread limit, thereby increasing the risk of margin calls. The passage of time – and resulting decrease in time to maturity – has the effect of increasing the spread limit and, all else being equal, reduces the risk of a margin call. The margin triggers are important because if the market spread on the reference index exceeds the trigger level, MAV2 must draw upon its margin funding facility to post margin. If credit markets deteriorate significantly, there is a possibility that the margin funding facility will not be large enough to post sufficient margin. This would result in the underlying assets in MAV2 defaulting and would entail significant losses to the UWO LT.

Collateral Risk

The Leveraged Super Senior pool is supported by $9.8 Bn of collateral. These assets are available to the LSS counterparties in the case that an LSS trade defaults. At the maturity of the notes, the remaining collateral will be released and distributed to the noteholders as return of principal. Therefore, it is important to monitor the quality of the collateral pool itself in order to be assured that funds will be available to investors at maturity.

The collateral pool is generally composed of high-quality, low-risk assets. One notable exception is the three CDO-squared assets that have been highlighted by DBRS and others as potentially risky. These assets have been stable and realized no additional losses in Q4. KAG continues to monitor the disclosures from BlackRock, the asset administrator, regarding these assets.

Structuring Risk

KAG monitors for adverse affects of 'structuring risk', which is a general category that encompasses errors in drafting or application of legal documents, changes in regulatory environment, etc.

One new development during Q4 was the possibility of an early voluntary liquidation of the MAV2. KAG confirmed in early October that one of the major secondary market investors in the MAV notes was considering attempting to negotiate a 'vertical unwind' whereby investors could tender their notes to the asset providers (the counterparties to the LSS deals) in return for 'liquidation value'. Given that there is a gap between the secondary market price of the full strip of Pooled Notes and the liquidation value of the assets, an arbitrage opportunity presents. BlackRock made a public disclosure in November describing the possibility of a tender process.

KAG cautions that such a process would require a lengthy, multipartite negotiation as well as a voted approval by a majority of all noteholders: this will not be a short-term process. The implication for UWO LT is that, if this process is successful, the secondary market value of the Pooled Notes will climb to the tender value and there will be added liquidity to the market. Given that the secondary market value currently trades at a discount to intrinsic value, this would be a benefit to UWO LT.

The MAV2 A-1 and A-2 notes are rated by the Dominion Bond Rating Service ('DBRS'). There were no changes to the DBRS ratings during Q4: DBRS continues to rate the Class A-1 notes as A(high) and the A-2 notes as BBB(low)

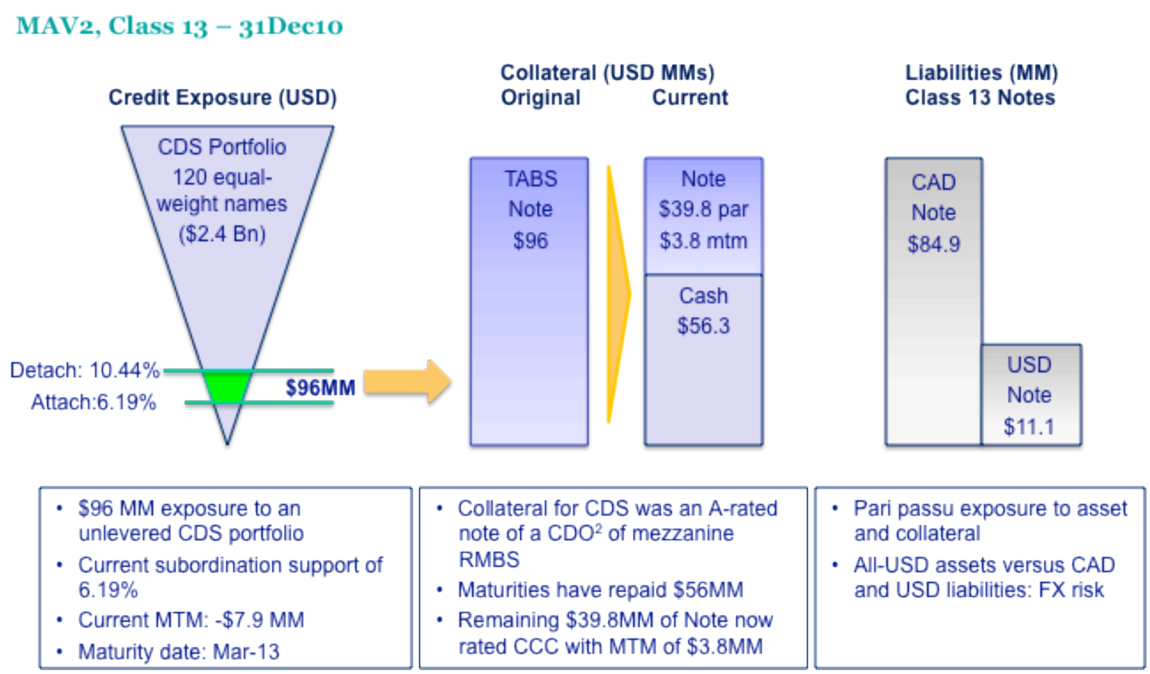
Risk Assessment – MAV2 Class 13s

In addition to the MAV2 Pooled notes, UWO LT holds approximately $650,000 of the MAV2 Class 13 Ineligible Asset Tracking note. The structure of this note is summarized in the diagram on the following page.

This note has a US$96 million unlevered credit exposure to a portfolio of Credit Default Swaps. This portfolio did contain both Takefuji and ABK and therefore made incremental losses in Q4. This credit exposure now has an attachment point of 6.19%; it would take additional *losses* (as opposed to defaults) amounting to 6.19% of the remaining portfolio prior to the first dollar of loss on the credit exposure. The credit exposure matures in March 2013.

The collateral for the credit derivatives exposure was originally a US$96 million 'TABS note', which was the senior note of a credit structure with exposure to US sub-prime mortgage. The current par value of this note is US$40.5 million; there has been a total of US$55 million repaid on the note that is currently being held as cash collateral. The remaining portion of the TABS note is likely to realize losses: it is currently rated CCC and has a mark-to-market value of US$3.3 million.

The Class 13 notes outstanding against these assets are CAD$84.9 million plus US$11.1 million.



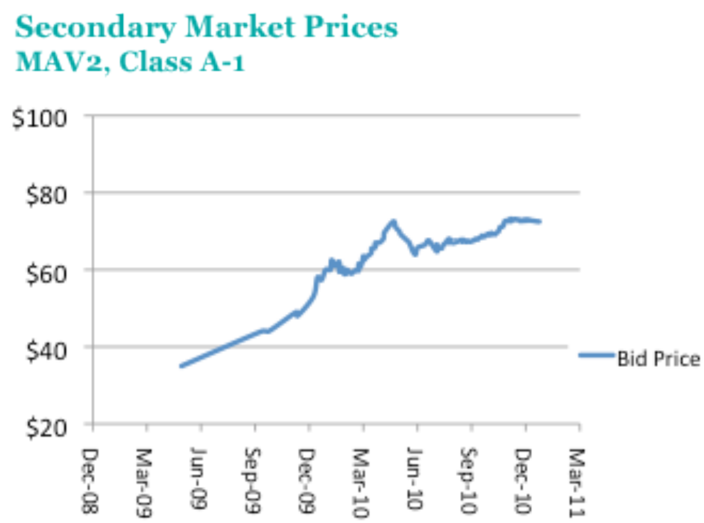
In assessing the value and potential return of the Class 13s, we again consider the credit risk of the CDS portfolio and the collateral risk of the TABS note plus cash balance.

In terms of credit risk, this is a maturing portfolio (2.5 years to maturity) with a considerable cushion against loss (the 6.19% attachment point). There were two incremental credit losses during the quarter, which did lower the attachment point but also has the effect of reducing the number of risky names left in the portfolio. It would still require between 6 and 12 additional defaults to break the attachment point and causes any losses on the credit exposure. KAG continues to be of the view that it is likely that the credit exposure will mature without losses. Thus, the note holder is primarily exposed to collateral risk – what moneys will be available to pay down the Class 13 notes at maturity?

The collateral risk is bifurcated between the highly risky remaining principal outstanding on the TABS note and the virtually riskless cash balance. Assuming no losses on the CDS portfolio, the note holder will receive at least ~$59 per $100 of par value based on the cash alone. There is also some upside potential from further maturities and principal repayments on the TABS note, although these are much less certain or likely.

Secondary Market Activity

Secondary market indicative bid prices rose during Q4. Bids for the MAV2 A-1 notes, for example, increased from 68.5 cents at September 30 to 72.5 cents at year-end. A-2s were bid 66.75 cents at December 30, up from 58.5 cents at September.



The drivers behind the increase in secondary market prices include improvement in credit market conditions, some new buyers expressing interest, and the potential for a 'vertical unwind' providing liquidity in the future. As described above, the vertical unwind concept is being promoted and pursued by hedge fund investors who have accumulated large positions in the MAV notes and for which there is currently no buyer to allow them to liquidate. They are proposing a scheme whereby all investors may essentially sell a full strip of MAV2 Pooled Notes back to the asset originators rather than waiting until the structure is liquidated at final maturity. Since the intrinsic value of the assets upon liquidation is greater than the current market price, this potential for a vertical unwind is supporting the rising secondary market bid. It likely is also driving up prices of the Class B and C Notes as large investors – who initially bought A1 and A2 notes – attempt to accumulate a proportionate 'full strip' of A1, A2, B, and C notes.

UWO LT did not sell any of its portfolio during Q3, electing instead to hold its Notes while using cash on hand to meet any obligations to redeem investors. This appears to have been a sound investment management decision given that secondary market prices rose during the quarter and have continued to rise to the date of this report.

Market bids for the Class 13s also rose to 48 cents at quarter end from the 37 to 40 range at the end of Q3.

Portfolio Valuation

The Market Value of the Portfolio as at 31 December was CAD$12.41 million, up from CAD$11.61 million as at 30 September 2010.

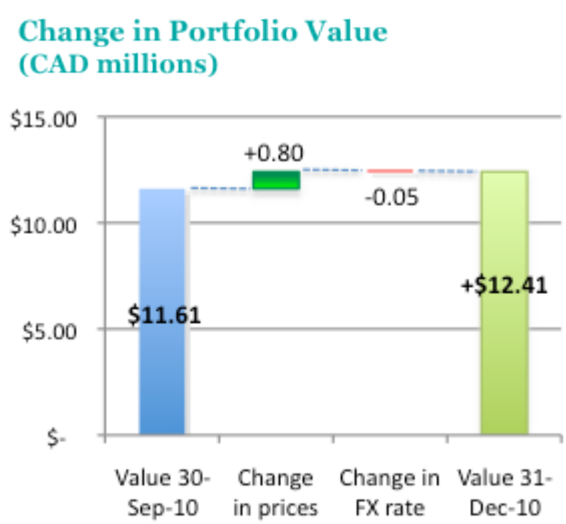
UWO Liquidating Trust

Re-Structured Asset Backed Notes

Valuation as of:	30-Sep-10			31-Dec-10		
			CAD:USD 1.02585			CAD:USD 0.99365
Notes	**Par Value (Local currency)**	**Price (Local currency)**	**Market Value (CAD)**	**Par Value (Local currency)**	**Price (Local currency)**	**Market Value (CAD)**
Class A-1	8,997,474	69.00	6,208,257	8,997,474	72.44	6,517,590
Class A-2	5,919,516	59.02	3,493,698	5,919,516	63.94	3,784,820
Class B	1,074,551	34.50	370,720	1,074,551	41.81	449,302
Class C	495,472	5.00	24,774	495,472	9.81	48,621
IA Tracking Note Class 13	316,001	37.00	116,920	316,001	48.00	151,680
Class A-1 (USD)	1,799,382	68.50	1,264,439	1,799,382	72.44	1,295,160
Class C (USD)	55,836	3.00	1,718	55,836	9.81	5,444
IA Tracking Note Class 13 (USD)	333,292	37.00	126,506	333,292	48.00	158,964
Total (Local currency)	$ 18,991,524			$ 18,991,524		
Total (CAD)	$ 19,048,097		$ 11,607,032	$ 18,977,627		$ 12,411,582
Wtd Average (CAD)		60.94			65.40	

The quarter-to-quarter change in the value of the portfolio was affected by two factors:

- *Change in prices*. A general improvement in secondary market prices for the AB Notes drove the overall increase in portfolio value.
- *Change in FX rate.* Because UWO LT holds both Canadian and US dollar denominated notes, the Canadian value of the portfolio is subject to the change in foreign exchange rates between the two currencies. During the quarter, the CAD:USD rate fell from 1.02585 to 0.99365. This had a marginal detrimental effect on Canadian dollar value of the portfolio.



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In summary, Q4 continued where Q3 left off with somewhat volatile but improving credit markets. UWO LTs holdings of Asset-Backed notes increased in value due to strengthening secondary market for those notes. This increase in prices more than offset the adverse change in USD:CAD exchange rates. The secondary market bids have improved due to the potential for a tender process for a partial unwind of the MAV2 Pool, as well as due to generally stronger credit markets and the 'pull-to-par' effect of the passage of time. KAG continues to believe that UWO LT's strategy of holding its portfolio of notes for a gradual liquidation as required rather than selling all notes at current prices is financially prudent.

Kilgour Advisory Group
31 January 2011

GLOSSARY OF TERMS

Asset-Backed Notes or 'AB Notes'	Notes created through the restructuring of the former non-bank asset-backed commercial paper (ABCP). The AB Notes are comprised of: 'Pooled Notes', 'Ineligible Asset Tracking Notes' and 'Traditional Asset Tracking Notes'.
Credit Default Swap or 'CDS'	Contract where Counterparty A pays financial consideration to a Counterparty B to assume the risk of default by a specific third party company. Analogous to insurance, where A pays a premium to B in return for a lump-sum payment should the specified third-party company go bankrupt or otherwise default. Credit default swaps can be done on an 'unfunded' basis since there is no requirement for either party to own the referenced credit. A CDS premium is quoted in terms of basis points (one-hundredths of a percent) of the notional value 'insured'. Portfolios of CDSs typically underlie 'Leveraged Super Senior' trades.
Credit Default Index e.g. 'CDX' or 'iTraxx'	A quoted market index of the Credit Default Swap premiums on one hundred representative corporate credits. The indices are renewed semi-annually; the vintage most relevant to the AB Notes is the CDX Investment Grade Series 7, which was issued in Sep-06. Indices also are quoted in terms of term to maturity – e.g. the CDX IG7 '5 Year' is based on prices for 5-year credit insurance. The CDX indices are comprised of North American companies; the iTraxx indices reference European credits.
Ineligible Asset ('IA') Tracking Notes	Notes created from the restructuring of ABCP assets that had exposure to US subprime mortgage securities. The Ineligible Assets were quarantined from the Pooled Notes and the IA Tracking Notes will directly track the financial performance of the underlying assets on a one-note-per-asset basis.
Leveraged Super-Senior or 'LSS'	A trade of a portfolio of Credit Default Swaps where the seller of the insurance/buyer of the risk receives a small premium in return for insuring the losses on the portfolio only above a certain amount, for example, the insurance might be for any losses above 30%. Thus, 'super senior'. LSS is partially funded in that the seller of insurance posts collateral ('Margin') for only a portion of the total amount of risk insured. In this way, the small premium is levered to provide a higher return on investment. There are many LSS trades underlying the MAV2 Pooled Notes whereby the MAV is the seller of credit insurance on a levered basis.

Margin	A reserve of cash or near-cash securities pledged as collateral to the insurance purchaser (swap counterparty) under an LSS trade. If the portfolio of CDS experiences losses or the market price of the CDS premiums increase, the counterparty may have the right to call for additional collateral to be posted (a 'margin call').
Margin Funding Facility or 'MFF'	A lending facility established by the federal government, Canadian banks, and some international banks to provide Margin funding should the Spread-Loss Triggers be breached. By making this additional collateral available, the MFF reduces the risk that the AB Notes will be terminated early and incur massive losses to investors.
Master Asset Vehicle or 'MAV'	The so-called Master Asset Vehicles are the issuers of the restructured AB Notes. Essentially, they are the legal entities holding the assets and issuing the Notes, receiving income on the assets and paying expenses and interest to the Noteholders. MAV1 is the vehicle for issuing Notes to the self-margin investors (e.g. the Caisse de Depot) and is not relevant to UWO LT. MAV2 issues the Pooled Notes and IA Tracking Notes held by the LT. MAV3 is the issuer of the Traditional Asset Tracking Notes.
Net Asset Value or 'NAV'	The value of a security or fund; equal to the market value of assets minus liabilities.
Pooled Notes	AB Notes created from the restructuring of ABCP containing both cash assets (loans, non-US residential mortgage backed securities, commercial mortgage backed-securities, etc.) and Leveraged Super Senior assets. These notes are comprised of classes A-1, A-2, B, and C, in order of seniority. These notes are supported by the Margin Funding Facility.
Spread-Loss Trigger	A 'margin trigger' is the metric by which it is judge whether an AB Note must provide additional collateral. A 'Spread-Loss' trigger provides a limit for a pre-determined CDX index's market price (the 'spread') above which additional margin must be posted (e.g. "if spreads on the CDX IG7 5Year exceed 550 basis points, then the note triggers."). The Spread-Loss Triggers are given within a matrix of the level of losses on the Index and the remaining term to maturity on the note. When the AB Notes were restructured, the triggers where changed from market price triggers to Spread-Loss Triggers and the overall levels of the triggers were raised; this reduces the likelihood of margin calls relative to current market conditions.
Traditional Asset ('TA') Tracking Notes	Notes created from the restructuring of ABCP assets that had exposure ONLY to cash assets (loans, non-US residential mortgage backed securities, commercial mortgage backed-securities, etc.). These notes will directly track the performance of the underlying assets on a one-note-per-asset basis.