Chesswood Income Fund

2008 Annual Report

TABLE OF CONTENTS

TO OUR UNITHOLDERS

2008 was a challenging year for us, as it was for most businesses with significant operations in the United States. Our largest subsidiary, Pawnee Leasing Corporation, continued to experience the high charge-off levels encountered at the end of 2007, as economic conditions in the United States continued to erode.

Notwithstanding the charge-offs and increased portfolio reserves, Pawnee posted strong cash flows and finished the year with low leverage and a healthy balance sheet.

The end of the year also saw our market in the U.S. experience a surprisingly rapid correction in the competitive landscape. In the last quarter of 2008, most of our more recent competitors either retreated to their primary markets or closed their doors, resulting in significant year-over-year increases in new lease applications for Pawnee, in November and December. These increases resulted in the return of growth to our portfolio, after a twenty-three month period of contraction that reflected our unwillingness to match the lower prices of these former competitors, despite market pressure.

Our Canadian businesses also experienced significant change. Our Acura dealership enjoyed one of the best years in its history, fueled significantly by the Canadian dollar being on par with the U.S. dollar in the first half of the year. In order to help deter consumers from purchasing their vehicles in the United States at prices well below those in Canada, our manufacturer offered strong incentives which resulted in increased traffic in the showroom and excellent new car sales. In the second half of the year, along with the continuing onset of a slowing economy and a Canadian dollar that was no longer on par with the U.S. dollar, we experienced more modest new car sales, as did our manufacturer, nationally.

In September, we began the wind-down of our Canadian vehicle leasing business, Lease-Win Limited. After more than thirty-five years of operations, profitability and relationship building, Lease-Win continues to help its customers but no longer underwrites new leases. Management remains on board to help with the transition, while the capital invested in Lease-Win is gradually returned to Chesswood.

Notwithstanding the upheaval in the U.S. economy and the challenges faced by the financial services industry in general, we generated a profit for the year, before our non-cash charge on the write-down of goodwill. In these unprecedented times, that is a tribute to our business model which we believe prices risk more appropriately than many of our former competitors, and a testament to the committed efforts of our staff in all of our businesses.

B. Shafran

Barry Shafran
President & CEO

FUND PROFILE

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

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

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

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

BUSINESS OF PAWNEE

Pawnee is an equipment leasing company that provides lease financing on micro and small-ticket business equipment. Pawnee focuses on small businesses in the start-up and "B" credit segment of the U.S. leasing market, servicing the lower 48 states through a network of approximately 550 independent brokers. As of December 31, 2008, Pawnee administered approximately 6,980 leases in its portfolio, with remaining scheduled lease payments of approximately U.S.$101.3 million over the next five years.

Pawnee finances equipment leases where generally:

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

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

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

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

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

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

- Pawnee does not sell its leases, but rather retains its leases for their full term,
- Pawnee's revenues are derived directly from its leases and are not derived from (and therefore, and more importantly, Pawnee's revenues are not dependent upon) fees from the sale of its portfolio of leases, and
- not only is there significant geographic diversification (within the United States) within Pawnee's portfolio of leases, there is also significant diversification in terms of the equipment funded and significant diversification in terms of the industries in which Pawnee's lessees operate. At December 31, 2008:
    - no state represented more than 8.5% of the number of Pawnee's total active leases, with the exception of California which represented 12.7%;
    - Pawnee financed over 65 equipment categories, with its five largest categories by volume, being restaurant, auto repair, titled trucks and trailers, beauty salon and construction which combined accounted for 48.8% of the number of active leases;
    - its lessees operated in over 85 different industry segments, with no industry concentration accounting for more than 15.5% of its number of active leases;
    - no lessee accounted for more than 0.01% of its total lease portfolio; and
    - its largest source of lease originations accounted for originations of 19.5% of its leases in fiscal 2008, and its ten largest origination sources accounted for 42.8% of its leases.

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

As of December 31, 2008, Pawnee employed approximately 44 full-time equivalent employees, over one-third of whom are dedicated to collection and default remediation.

SHERWAY LP AND LEASE-WIN

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

Lease-Win has approximately 1,350 leases in its portfolio under administration with remaining scheduled lease payments totaling approximately $38.5 million as at December 31, 2008. As of September 1, 2008, Lease-Win ceased originating new leases other than extensions with existing customers and a very small volume of leases on behalf of one originator, until the contract with that one originator terminated in February 2009. Virtually all of Lease-Win's leases are open-ended leases, which limits Lease-Win's exposure to losses where the fair market value of a leased vehicle is less than its residual value at the end of the lease term.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") is a review of the financial condition and results of operations of Chesswood Income Fund ("Chesswood" or the "Fund"). This discussion should be read in conjunction with the consolidated financial statements and accompanying notes of the Fund for the year-ended December 31, 2008. The financial statements of the Fund are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The fiscal year of the Fund ends on December 31. The date of this MD&A is March 12, 2009.

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

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

- continuing access to required financing;
- continuing access to products to allow us to hedge our exposure to changes in interest rates;
- risks of increasing default rates on leases;
- our provision for credit losses;
- increasing competition;
- increased governmental regulation of the rates and methods we use in financing and collecting on our leases;
- dependence on key personnel; and
- general economic and business conditions.

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

KEY PERFORMANCE INDICATORS - PAWNEE

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

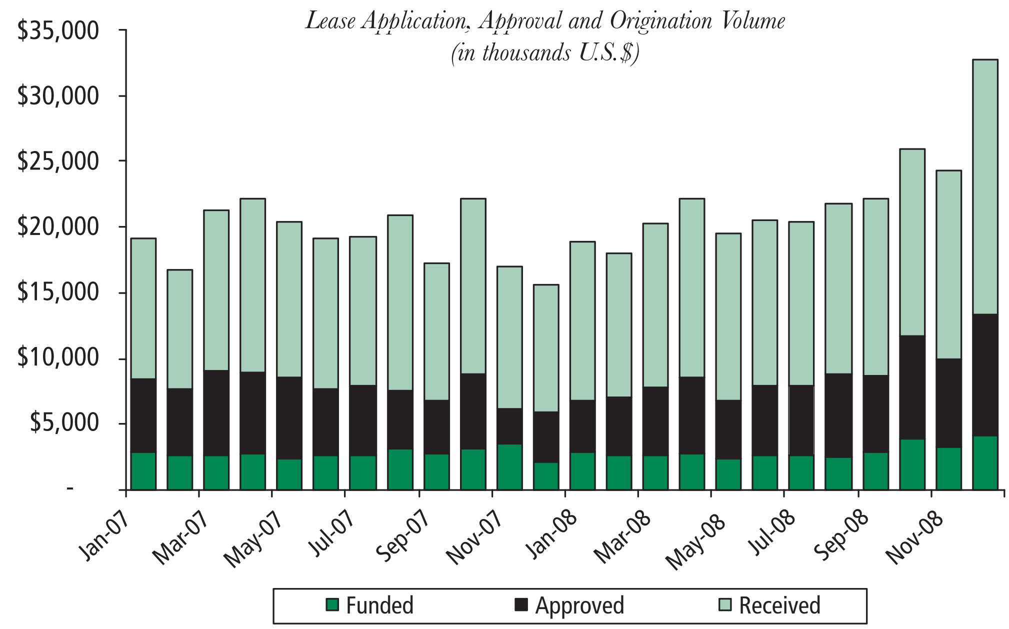
Pawnee Portfolio Statistics *(in U.S.$ thousands except # of leases and %'s)*

	Dec 31 2006	Mar 31 2007	Jun 30 2007	Sep 30 2007	Dec 31 2007	Mar 31 2008	Jun 30 2008	Sep 30 2008	Dec 31 2008
Number of leases outstanding (#)	7,412	7,421	7,411	7,330	7,265	7,088	6,977	6,899	6,980
Gross lease receivable ("GLR") *(1)*	$111,908	$110,784	$110,151	$108,840	$107,163	$103,522	$100,139	$97,921	$101,324
Residual receivable	$12,859	$13,194	$13,475	$13,576	$13,623	$13,391	$13,201	$12,970	$13,066
Net investment in leases, before allowance	$84,977	$84,533	$84,440	$83,732	$82,580	$80,162	$77,867	$76,303	$78,558
Security deposits	$10,175	$10,192	$10,144	$10,005	$9,795	$9,486	$9,200	$8,975	$9,022
Allowance for doubtful accounts	$5,549	$6,087	$6,489	$7,108	$7,612	$8,998	$9,788	$10,604	$11,150
Over 31 days delinquency (% of GLR) *(2)*	3.53%	3.57%	3.24%	5.60%	6.88%	6.31%	6.29%	7.62%	6.90%
Net charge-offs for the three-months ended	$1,779	$1,673	$1,830	$1,827	$2,285	$3,053	$2,619	$2,648	$2,827
Provision for credit losses for the three-months ended	$1,803	$2,211	$2,232	$2,446	$2,789	$4,439	$3,408	$3,465	$3,373

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

Lease Application, Approval and Origination Volume

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



Asset Quality

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

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

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

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

Operating Efficiency

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

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

Collections

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

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

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

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

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

KEY PERFORMANCE INDICATORS – SHERWAY LP

Gross Margins

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

Absorption Rate

The extent to which the profits from the fixed operations of the dealership (service and parts profit centres) offset the fixed costs of the rest of the dealership is known as the dealership's "Absorption Rate". Management uses this measure as well to assess the overall performance of the dealership's fixed operations.

NON-GAAP MEASURES

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

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

Definitions of EBITDA and Adjusted EBITDA

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

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

DISTRIBUTABLE CASH

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

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

	For the three-months ended				
($ thousands except per unit amounts)	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	For the year-ended December 31, 2008
Net income (loss)	($253)	($13,586)	$73	$936	($12,830)
Interest expense	1,036	971	959	1,028	3,994
Income tax provision (recovery)	(307)	479	152	(1,895)	(1,571)
Amortization expense	205	204	189	205	803
Goodwill impairment	-	14,823	-	-	14,823
EBITDA *(1)*	**681**	**2,891**	**1,373**	**274**	**5,219**
Foreign exchange loss (gain)	175	(15)	20	(98)	82
Interest rate swap mark-to-market loss (gain)	597	(572)	103	1,685	1,813
Accretion expense on convertible debentures			5	8	13
Loss on sale of property and equipment	-	-	370	-	370
Elimination of AcG-12 in Lease-Win	(61)	11	66	319	335
Interest on leasing lines	(941)	(877)	(870)	(940)	(3,628)
Adjusted EBITDA *(1)*	**451**	**1,438**	**1,067**	**1,248**	**4,204**
Income Taxes – Pawnee provision per GAAP statements	360	(410)	(122)	1,360	1,188
Amortization expense – Pawnee	(18)	(18)	(20)	(24)	(80)
Capital expenditures	(10)	(7)	(21)	(37)	(75)
Interest on long-term debt	(95)	(94)	(89)	(88)	(366)
Distributable cash *(1) (2)*	**$688**	**$909**	**$815**	**$2,459**	**$4,871**
Total distributions declared	$1,207	$1,230	$774	$598	$3,809
Distributions declared per unit	$0.171	$0.171	$0.107	$0.075	$0.524

(1) EBITDA, Adjusted EBITDA and Distributable cash are non-GAAP measures. See "Non-GAAP Measures" for a definition of EBITDA, Adjusted EBITDA and Distributable cash.
(2) The calculation of distributable cash excludes the $1.2 million cash received on the sale of foreign currency forward exchange contracts.

On July 6, 2007, the Canadian Securities Administrators amended National Policy 41-201 - Income Trusts and Other Indirect Offerings. The revised policy is intended to promote further transparent disclosure for investors with respect to presentation of distributable cash. On July 18, 2007, the Canadian Institute of Chartered Accountants ("CICA") issued its interpretive release "Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities: Guidance on Preparation and Disclosures".

This interpretive release provides guidance on reporting Standardized Distributable Cash in the MD&A of income trusts and other flow-through entities. It supplements the non-GAAP financial measures discussion provided in CICA's "Canadian Performance Reporting Board (CPRB) 2004 publication Management's Discussion and Analysis: Guidance on Preparation and Disclosure". Although this guidance related to disclosure of distributable cash has been issued, a range of alternative disclosures and definitions persist in practice. Other income trusts and the investment community employ various definitions and calculations of distributable cash and the related distribution percentage that can produce significantly differing results.

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

Cash Flow Available for Distribution
($ thousands)

	For the year-ended December 31, 2008	2007
Cash provided by operating activities	$20,407	$17,642
Less: Non-cash items added back to cash provided by operating activities due to bank covenant restrictions *(a)*:		
Accretion expense on lease financing *(a)*	(189)	(252)
Gain on sale of leased vehicles	467	587
Provision for credit losses *(a)*	(18,610)	(13,298)
Recovery of income taxes *(a)*	2,804	3,975
Recovery of income taxes – exclude non-cash taxes relating to Canadian automotive operations	(383)	(1,314)
Recovery of income taxes – excludes non-cash future tax asset relating to the Fund	-	(914)
Amortization relating to Pawnee *(a)*	(80)	(78)
Subtotal	$4,416	$6,348
Less: Non-cash items adjusted for in cash provided by operating activities relating to AcG-12 at Lease-Win *(b)*:		
Unrealized gain on sale of lease receivables *(b)*	300	1,141
Impairments of retained interest in securitizations *(b)*	611	741
Amortization of securitization servicing liability *(b)*	252	285
AcG-12 impact *(b)*	335	(302)
Lease-Win's net leasing revenue on securitized leases *(b)*	1,498	1,865
Subtotal	$5,914	$8,213
Less: Changes in non-cash working capital items relating to operations *(c)*		
Accounts receivable *(d)*	(2,060)	1,857
Inventories *(e)*	494	(176)
Prepaid and other assets *(f)*	263	(552)
Accounts payable and accrued liabilities *(g)*	335	(487)
Subtotal	$4,946	$8,855
Capital expenditures *(h)*	(75)	(84)
Cash flow available for distribution	**$4,871**	**$8,771**

(a) Pawnee's dividends issued up to the Fund are limited to compliance with all bank covenants and may not exceed 95% of Pawnee's consolidated net income, as determined in accordance with U.S. GAAP, excluding mark-to-market adjustments for interest rate swaps, thus there are a number of non-cash items on the Statement of Cash Flows that can not be considered in the calculation of cash flow available for distribution.

(b) Under GAAP, the Consolidated Statement of Cash Flows deducts non-cash items relating to Lease-Win leases that are securitized and the accounting thereof using AcG-12, but does not consider any adjustment for the actual effective yield interest earned on the securitized leases during the period, less any interest paid to the securitization company.

(c) Changes in non-cash working capital items - various working capital items, including but not limited to the timing of receivables collected and payment of payables and accruals, can have a significant impact on the determination of cash flow available for distribution. Accordingly, management excludes the impact of changes in non-cash working capital items to remove the resulting variability of including such amounts in the determination of cash flow available for distribution. As well, based on the bank covenants, the subsidiaries are unable to adjust for these non-cash working capital changes to calculate cash flow that they can send up to the Fund. Even though this is included in cash provided by operations on the Consolidated Statement of Cash Flows per GAAP, it should not be included to calculate cash flow available for distribution as a result of the bank covenants. Realized changes in working capital are typically funded from excess cash flow or the Fund's subsidiaries' credit facilities.

(d) The accounts receivable balance principally relates to the Acura Sherway dealership and includes amounts due from the manufacturer for financing contracts in transit, which are typically collected within seven to ten days, and are usually at their highest levels at month end. Vehicle receivable balances fluctuate throughout the year based on seasonality, and sales volumes of the industry. Any fluctuation is temporary in nature and is typically funded from existing working capital at the dealership or the dealership's credit facilities. There is no impact on cash flow available for distribution.

(e) Inventory balances, comprised predominantly of vehicles at the automotive operations also fluctuate throughout the year based on seasonality, sales volumes and market conditions. Vehicle inventory is financed through vehicle financing credit facilities. The changes in the vehicle financing credit facilities are included in financing activities on the Consolidated Statements of Cash Flows. Any fluctuation in inventory is typically offset by fluctuations in vehicle financing or existing working capital at the dealerships. There is no impact on cash flow available for distribution.

(f) The prepaid expenses and other assets are not expected to change significantly and the changes in prepaid expenses and other assets are typically funded from existing working capital at the subsidiaries or the subsidiaries' credit facilities. Management does not expect changes in accounts payable and accrued liabilities to be significant, and changes in accounts payable and accrued liabilities are typically funded from existing working capital or the Fund's subsidiaries' credit facilities.

(g) The Fund's operating businesses do not require significant capital asset expenditures or depend on capital-intensive operations. Annual capital expenditures can typically be funded by excess cash flow from operations. The Fund's automotive dealership may be required to spend approximately $2.0 million in the next few years under a dealership rebranding program as required by the manufacturer. The costs for the rebranding will be funded by manufacturer assistance, existing excess cash balances, and/or bank financing.

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

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

	For the year-ended December 31, 2008	2007
	($ thousands)	
Cash provided by operating activities	$20,407	$17,642
Net income	($12,830)	($4,518)
Distributions paid to unitholders	$4,051	$8,947
Excess of cash provided by operating activities over distributions paid to unitholders	$16,356	$8,695
Shortfall of net income over distributions paid to unitholders	($16,881)	($13,465)

Cash provided by operating activities is significantly higher than distributions paid to unitholders; the primary reasons for the difference is outlined in the previous table entitled Cash Flow Available for Distribution. The Distributable Cash table on page 8 outlines the primary reasons for the differences between net income and Distributable Cash.

SELECTED QUARTERLY FINANCIAL INFORMATION

Fiscal 2008	For the three-months ended				
($ thousands except per unit amounts)	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	For the year-ended December 31, 2008
Revenue	$22,907	$23,321	$19,717	$17,960	$83,905
Gross profit	9,342	9,422	8,915	9,631	37,310
Income before tax, goodwill impairment and loss on foreign exchange and interest rate swaps	212	1,129	718	628	2,687
Income (loss) before tax	(560)	(13,107)	225	(959)	(14,401)
Net income (loss)	(253)	(13,586)	73	936	(12,830)
Basic and diluted income (loss) per unit	(0.03)	(1.59)	0.01	0.10	(1.51)
Total assets	138,859	120,633	121,119	144,358	144,358
Total long-term financial liabilities	69,035	66,975	67,896	77,760	77,760
Other Data					
Adjusted EBITDA *(1)*	$451	$1,438	$1,067	$1,248	$4,204
Distributable cash	688	909	815	2,459	4,871
Distributions declared	1,207	1,230	774	598	3,809
Distributions declared per unit *(1)(2)*	$0.171	$0.171	$0.107	$0.075	$0.524

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

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

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

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2008 AND 2007

Pawnee's U.S. dollar results for the year ended December 31, 2008 were converted at 1.066, which was the average exchange rate for the year. The U.S. dollar results for the year ended December 31, 2007 were converted at 1.0748 which was the average exchange rate for the corresponding period.

Revenue from vehicle and related automotive operations totaled $55.0 million in the year compared to $57.0 million in the prior year, a decrease of $2.0 million or 3.5% year-over-year. The decrease in vehicle sales at Lease-Win led to a $1.0 million decrease year-over-year in automotive revenue. Revenue from securitized leases was down $863,000 year-over-year predominantly as a result of a change in an estimate for early termination provision under AcG-12 at Lease-Win which accounted for one-time revenue of approximately $600,000 in the fourth quarter of 2007. New vehicle sales revenue at Acura Sherway was up $1.7 million (47 vehicles) year-over-year; however this was offset by a $2.2 million decrease in used vehicle revenue.

Given the automotive operations' cost of sales of $46.6 million ($48.1 million in the prior year), the Canadian automotive operations generated $8.3 million in gross profit for the year-ended December 31, 2008 compared to gross profit of $8.9 million in the prior year, a decrease of $573,000 or 6.4%. The majority of the $573,000 decrease in automotive gross profit relates to the decrease in the non-cash AcG-12 revenue and gross profit. The revenue and gross profit from securitized leases decreased $863,000 year-over-year predominantly as a result of a change in an estimate for early termination provision under AcG-12 at Lease-Win which accounted for one-time revenue of approximately $600,000 in the fourth quarter of 2007. Acura Sherway's gross profit increased by approximately $550,000 year-over year, predominantly from new vehicle sales and gross profit from the service department. Even though Acura Sherway's used vehicle revenue was down $2.2 million year-over-year, the gross profit from used vehicles actually increased by $86,500 in 2008 compared to 2007.

Direct financing lease income totaled $24.8 million in the year ended December 31, 2008 compared to $26.7 million in the same period in the prior year, a decrease of approximately $1.9 million year-over-year which was predominantly due to a decrease in the number of leases outstanding at Pawnee.

Ancillary lease and other income totaled $4.2 million in the year ended December 31, 2008 compared to $4.6 million in the same period in the prior year, a decrease of $350,000 year-over-year which was due to a $318,000 decrease in ancillary lease and other income and a $32,000 decrease due to foreign exchange translation.

During the year-ended December 31, 2008, the provision for credit losses totaled $15.8 million compared to $10.9 million in the prior year, an increase of $4.9 million year-over-year which was due to the effect of higher charge-off levels at Pawnee. Of the $4.9 million increase in the provision for credit losses during the year-ended December 31, 2008, approximately $3.5 million related to an increase in the actual net charge-offs and $1.5 million related to a non-cash increase in the allowance for doubtful accounts, offset by an $85,000 decrease due to the change in foreign exchange rates. (see Pawnee Portfolio Statistics on Page 5)

Salaries, commissions and benefits totaled $7.4 million in the year ended December 31, 2008, an increase of $268,000 from the prior year. The increase predominantly relates to a $331,000 increase in salaries and benefits at Pawnee as a result of an increase in staff in the collection and credit departments and increased bonuses. Acura Sherway salaries, commissions and benefits increased $204,000 year-over-year due to increased new vehicle sales. Even with $177,500 in severance costs and retention bonus accruals, Lease-Win's salaries, commissions and benefits are down $142,400 over the prior year.

General and administrative expenses totaled $6.7 million in the year ended December 31, 2008, an increase of $301,000 from the prior year. Pawnee's general and administrative expenses increased by approximately $450,000 year-over-year predominantly as a result of an increase in collection costs.

Interest expense on long-term debt totaled $3.8 million in the year ended December 31, 2008 compared to $4.4 million in the prior year, a decrease of $569,000 year-over-year, which was primarily due to a $31,000 decrease as result of the change in foreign exchange translation and $1,319,000 decrease in interest expense at Pawnee due to the decrease in the lease financing credit facility, offset by a $767,000 increase in interest rate swap expense at Pawnee.

Lease-Win's mortgage interest expense decreased by $30,000 year-over-year as a result of the mortgage being assumed by the company that purchased Lease-Win's property and building in July 2008. Lease-Win's interest expense on leases financed through the bank increased by $31,000 during the year as a result of the increase in the amount of leases that were bank financed compared to the prior year. Interest expense on the Fund's convertible debentures increased by $12,700 year-over-year as a result of the non-cash interest expense being booked due to the modification of the convertible option on the debentures (as described below under "Balance Sheet").

Interest expense on short-term financing for Canadian automotive operations totaled $202,000 in the year-ended December 31, 2008 compared to $309,000 in the prior year, a decrease of $107,000 year-over-year predominantly due to a decrease in the average vehicle inventory balances outstanding compared to the prior year.

Amortization decreased by approximately $296,000 year-over-year during the year ended December 31, 2008 as a result of lower amortization of intangible assets, some of which were written-off in prior years.

Income before gains and losses on foreign exchange and interest rate swaps totaled $2.7 million for the year ended December 31, 2008 compared to $10.1 million in the prior year, a decrease of $7.4 million. The increase in the provision for credit losses of $4.9 million and the $2.3 million decrease in direct financing lease and ancillary income accounted for the majority of the year-over-year decrease.

The mark-to-market adjustment to revalue the interest rate swaps at Pawnee created a non-cash unrealized loss of approximately $1.8 million in the year ended December 31, 2008 compared to a non-cash loss of $833,000 in the prior year, thus a year-over-year increase in interest rate swap mark-to-market expense of $980,000.

For the year ended December 31, 2008, the mark-to-market adjustment to revalue the foreign exchange forward contracts created a non-cash loss of $270,000, compared to a non-cash gain of $2.8 million in the prior year, thus a net year-over-year decrease in the mark-to-market adjustment of $3.0 million. The non-cash loss of $270,000 for the year ended December 31, 2008 is the difference between the market value of the contracts at December 31, 2007 of $1.5 million compared to the $1.2 million proceeds received when the Fund sold the contracts on March 19, 2008. The Fund had entered into foreign exchange contracts to manage its exposure to the U.S. dollar as significant cash flows are generated in the U.S. Given the significant change in U.S. – Canadian dollar exchange rates in early 2008, it was determined that liquidation of the hedge was an appropriate and desirable step. Therefore, the Fund sold its foreign exchange forward contracts on March 19, 2008 and received $1.2 million on settlement.

Goodwill is typically tested annually for impairment unless certain circumstances arise that would require an assessment prior to an annual review. Management assessed goodwill for impairment as at June 30, 2008 as a result of the continued impact of the current competitive environment on lease originations experienced by Pawnee, the Fund's U.S. commercial equipment leasing subsidiary, and the challenges in the U.S. economy and its effects on charge-offs (this environment changed dramatically by October 2008, following the withdrawal of many of Pawnee's more recent competitors). Management believes that these factors were primarily a result of the current cycle of Pawnee's industry and the general U.S. economic downturn, and anticipates that Pawnee will return to historical growth rate and earnings patterns. The CICA Handbook requires an assessment as to whether there has been an impairment of goodwill at the Fund level in addition to impairments, if any, in the operating entities. The CICA Handbook suggests that the unit price of the Fund Units be used as the basic indicator of value of the Fund as a whole. Management did not believe the $1.45 market value of the Fund Units at June 30, 2008 represented an accurate measure of the Fund as a whole. Using this unit price would assume the stock market is a perfect market and that all investors can accurately predict the future of the current competitive environment on lease originations experienced by Pawnee and the changes in the U.S. economy and its effects on charge-offs. As well, when the Fund Units are thinly traded in the market it is management's belief that the unit price is not indicative of actual value. Market capitalization has also been shown to be a poor measure of value when there is more than one operating unit. Management believes the value of the Fund's operating entities is greater than the market capitalization of the Fund. However, our unit price continued to be lower than expected and therefore, a goodwill impairment loss of $14.8 million was recorded at June 30, 2008. Management determined that there was no further impairment at December 31, 2008.

On July 17, 2008, the Fund's indirectly wholly-owned subsidiary, Lease-Win, sold the land, building and most of the office furniture located at 4077 Chesswood Drive, Toronto, Ontario for gross proceeds of $1.4 million. Lease-Win and the Fund remain at this location and rent a portion of the space. The cost of the property and equipment sold totaled $1.9 million with an accumulated amortization value of $189,000. The purchaser assumed the existing mortgage on the property, the balance of which was $882,000 at June 30, 2008. The sale of land and building resulted in a loss of $370,000 including the expenses of the transaction. The sale generated net proceeds before tax of $476,000.

The loss before taxes totaled $14.4 million for the year ended December 31, 2008 compared to a loss before taxes of $4.8 million in the prior year, a increase of $9.6 million, predominantly as a result of the increase in the provision for credit losses of $4.9 million, the $2.3 million decrease in direct financing lease and ancillary income, the $3.1 million decrease in the unrealized gain on foreign exchange contracts, a year-over-year increase in non-cash unrealized interest rate swap mark-to-market loss of $980,000, offset by a $2.0 million decrease in goodwill impairment year-over-year.

The recovery for income taxes for the year-ended December 31, 2008 totaled $1.6 million compared to $292,000 in the prior year, an increase of $1.3 million. Non-cash expenses relating to GAAP accounting, translate to timing differences for income tax purposes leading to the net recovery of income taxes.

For the year ended December 31, 2008, the Fund reported a consolidated net loss of $12.8 million (including a goodwill impairment charge of $14.8 million), or $1.51 per Fund Unit, compared to net loss of $4.5 million (including a goodwill impairment charge of $16.8 million) or $0.53 per Fund Unit, in the year ended December 31, 2007, a decrease of $8.3 million.

RESULTS OF OPERATIONS FOR THE THREE-MONTHS ENDED DECEMBER 31, 2008 AND 2007

Pawnee's U.S. dollar results for the three-months ended December 31, 2008 were converted at 1.2118, which was the average exchange rate for the three-month period. The U.S. dollar results for the three-months ended December 31, 2007 were converted at 0.9810 which was the average exchange rate for the corresponding period.

Revenue from automotive operations totaled $9.8 million in the three-months ended December 31, 2008, compared to $15.3 million for the same period in the prior year, a decrease of $5.5 million or 35.9% year-over-year. New vehicles sales at Acura Sherway decreased by 92 vehicles during the three-month period compared to the same period in the prior year, resulting in a decrease of $4.3 million in revenue. The non-cash impact of AcG-12 revenue and gross profit from securitized leases at Lease-Win was down $1.0 million year-over-year in the three month period ended December 31, as a result of 2007 income due to a change in an estimate for early termination provision under AcG-12.

The automotive operations generated $1.5 million in gross profit for the three-months ended December 31, 2008 compared to gross profit of $2.9 million in the same period in the prior year, a decrease of $1.4 million or 49.3%. The majority of the $1.4 million decrease in gross profit is the result of the $1.0 million decrease in AcG-12 discussed above. Lease-Win's other gross profit was down $258,000 due to decline in referral income and leases outstanding. Gross profit at Acura Sherway was down $145,000 or 9.6% in the three-months ended 2008 compared to the same period in the prior year, gross profit from new vehicle sales was down $334,508 year-over-year in the three-month period offset by increases in used vehicle sales and parts.

Direct financing lease income totaled $6.9 million in the three-months ended December 31, 2008 compared to $6.1 million in the same period in the prior year; an increase of approximately $851,000 year-over-year predominantly due to foreign exchange. In U.S.$ Pawnee's direct financing lease income totaled U.S.$5.6 million in the fourth quarter of 2008 compared to U.S.$6.1 million in the same period of the prior year, a decrease of U.S.$450,000 which was due to the decrease in the number of leases outstanding year-over-year.

Ancillary lease and other income totaled $1.2 million in the three-months ended December 31, 2008 compared to $1.0 million in the same period in the prior year; an increase of $191,000 year-over-year due to foreign exchange. In U.S.$, Pawnee's ancillary lease and other income was down U.S.$50,000 in the three-month period compared to the same period in the prior year.

During the three-month period ended December 31, 2008, the provision for credit losses totaled $4.1 million compared to $3.0 million in the same period in the prior year; an increase of $1.1 million year-over-year primarily due to foreign exchange. In U.S.$, the provision for credit losses increased U.S.$583,000 in the fourth quarter of 2008 compared to 2007, however in Canadian dollars, the provision for charge-offs increased by $1.35 million. Lease-Win's provision for credit losses was down $163,000 in the three-month period compared to the same period in the prior year, due to an additional provision recorded in 2007.

Income before gain and losses on foreign exchange and interest rate swaps totaled $628,000 for the three-months ended December 31, 2008 compared to $2.6 million in the same period of the prior year, a decrease of $1.9 million. The $1.9 million decrease is predominantly the result of the non-cash $1.0 million decrease in automotive operations gross profit and the increase in the provision for credit losses of $1.1 million.

The loss before taxes totaled $959,000 for the three-months ended December 31, 2008 compared to loss before taxes of $4.2 million in the same period of the prior year, an increase of $3.2 million, predominantly as a result of the goodwill impairment loss of $6.3 million recorded in the prior year offset by the $1.3 million increase in unrealized losses on the interest rate swaps.

Recovery of income taxes for the three-months ended December 31, 2008 totaled $1.9 million and predominantly relates to the non-cash GAAP expense entry on Pawnee's financials statements that eliminates on consolidation; however, the tax effect of that entry does not eliminate on consolidation. Lease-Win also had a $569,000 reversal of income tax expense in the fourth quarter.

For the three-months ended December 31, 2008, the Fund reported consolidated net income of $936,000, or $0.10 per Fund Unit, compared to net loss of $3.2 million or $0.38 per Fund Unit, in the three-months ended December 31, 2007, an increase of $4.1 million predominantly as a result of the $6.3 million goodwill impairment loss recorded in the prior year.

BALANCE SHEET

Total consolidated assets of the Fund at December 31, 2008 were $144.4 million compared to $138.7 million at December 31, 2007, an increase of $5.6 million. Over half of the total assets are represented by Pawnee's and Lease-Win's net investments in direct financing lease receivables. The exchange rate on December 31, 2008 was 1.2246 compared to 0.9881 at December 31, 2007. The change in the foreign exchange rates increased assets by $27.0 million, thus total assets excluding the foreign exchange impact and goodwill impairment decreased by $6.6 million from December 31, 2007.

Cash totaled $5.7 million at December 31, 2008 compared to $2.4 million at December 31, 2007, an increase of $3.3 million. Of the $3.3 million increase, $21.2 million is the result of cash inflow from operations and vehicle financing; $16.5 million decrease in cash to fund net investment in leases; $9.9 million inflow of cash from proceeds from lease financing and securitizations, cash received from residual interest in securitizations, and security deposits; $8.9 million decrease in cash as a results of payments towards lease financing credit facilities; $1.2 million in cash received on settlement of foreign exchange forward contracts; $0.4 million net inflow from sale of property, building and equipment, and $4.0 million in cash distributions paid during the year ended December 31, 2008.

Accounts receivable totaled $1.2 million at December 31, 2008 compared to $3.3 million at December 31, 2007, a decrease of $2.1 million. The accounts receivable balance principally relates to the Acura Sherway dealership and includes amounts due from the manufacturer for financing contracts in transit, which are typically collected within seven to ten days, and are usually at their highest levels at month end. Vehicle receivable balances fluctuate throughout the year based on seasonality, and sales volumes of the industry.

Inventory totaled $8.6 million at December 31, 2008 compared to $8.1 million at December 31, 2007, an increase of $0.5 million. Vehicle inventory balances at dealerships also fluctuate throughout the year based on seasonality, sales volumes and market conditions.

Vehicle inventory is financed through vehicle financing credit facilities, of which $7.6 million was outstanding at December 31, 2008 compared to $6.8 million at December 31, 2007, leaving $1.0 million of inventory that was self-financed as at December 31, 2008 compared to $1.3 million at December 31, 2007.

As at December 31, 2008, net investment in leases totaled $91.7 million compared to $82.6 million at December 31, 2007, an increase of $9.1 million; the increase was comprised of:

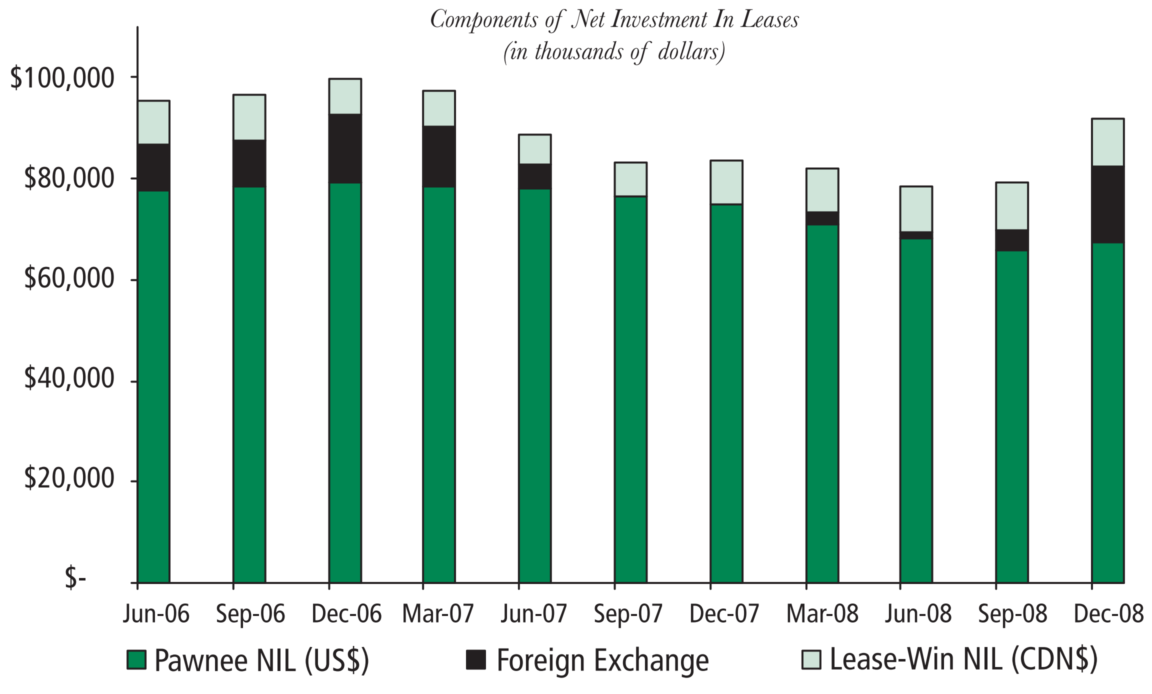
	($ thousands)
Increase in net investment in leases from change in foreign exchange	$17,730
Increase in allowance for doubtful accounts at Pawnee	(4,332)
Decrease of 285 leases since December 31, 2007 at Pawnee	(3,928)
Decrease of U.S.$112.00 per lease in the average book value of net investment in leases	(997)
Net increase in net investment in leases on-balance sheet at Lease-Win	631
Total increase in net investment in leases	$9,104

The gross lease receivable of leases under administration as at December 31, 2008 was approximately $162.6 million, compared to $158.8 million at December 31, 2007. Pawnee's gross lease receivable represented $124.1 million (U.S.$101.3 million) of the total gross lease receivable outstanding at December 31, 2008, compared to $105.9 million (U.S.$107.2 million) at December 31, 2007.

Lease-Win's gross lease receivable under administration totaled $38.5 million at December 31, 2008 down from $52.9 million at December 31, 2007. Lease-Win's gross lease receivable has decreased $14.4 million year-over-year, however its net investment in leases has increased by $698,000 as a result of self-financing more leases in 2008. As of September 1, 2008, Lease-Win no longer originated new leases other than extensions with existing customers and a very small volume of leases on behalf of one originator, until the contract with that originator terminated in February 2009.

The $91.7 million in net investment in leases is net of $14.0 million in allowance for doubtful accounts compared to $7.9 million in allowance for doubtful accounts at December 31, 2007. At Pawnee, the allowance for doubtful accounts of U.S.$11.1 million represents 16.03% of the net investment in lease receivables less security deposits on hand at December 31, 2008 compared to U.S.$7.6 million or 10.46% at December 31, 2007. The 16.03% of the net investment in lease receivables less security deposits is determined in accordance with Pawnee's policy of maintaining an allowance for doubtful accounts, as a percentage of net investment in leases, that is equal to the last twelve-month rolling net charge-off percentage level. Pawnee ceases to accrue interest income on leases after they become 91 days contractually past due, and charges-off leases when they become 151 days contractually past due, unless information indicates that an earlier charge-off is warranted.

The chart below shows that the foreign exchange impact of converting Pawnee's U.S.$ based net investment in leases to Canadian dollars has created the majority of the variance in net investment in leases balance over time. During 2008, Pawnee's net investment in leases decreased due to charge-off levels that increased year-over-year, while originations were relatively unchanged from 2007. Lease-Win's on-balance sheet net investment in leases comprises a very small portion of the Fund's consolidated balance.



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

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

Included in the net investment in lease receivables is $1.9 million in securitized lease receivables at Lease-Win, relating to $26.4 million in assets under administration, compared to $40.1 million at December 31, 2007. At December 31, 2008, 78.8% of Lease-Win's gross lease receivable was securitized compared to 88.4% at December 31, 2007, which reflects Lease-Win's decision to self-finance shorter-term leases. Lease-Win has used securitization for funding its leasing activities since July 1997. These securitization transactions have an off-balance sheet component. See "Critical Accounting Policies and Estimates".

Prepaid expenses totaled $1.7 million at December 31, 2008. Prepaid personal property taxes paid on behalf of Pawnee's lessees of approximately $1.1 million comprise the majority of the prepaid expenses balance. A portion of the 2007 prepaid expenses and other asset balance has been reclassified to prepaid income taxes to be comparable to the 2008 classification.

Pawnee's prepaid income taxes of $4.4 million will be used to offset against any 2009 taxes payable. During 2008, Pawnee was required to remit tax instalments based on 2007 earnings however 2008 results are lower than 2007 resulting in the prepaid income tax amount at December 31, 2008.

On July 17, 2008, the Fund's Canadian automotive leasing company sold the land, building and most of the office furniture located at 4077 Chesswood Drive, Toronto, Ontario for gross proceeds of $1.4 million. Lease-Win and the Fund remain at this location and rent a portion of the space. The cost of the property and equipment sold, totaled $1.9 million with an accumulated amortization value of $189,000. The purchaser assumed the existing mortgage on the property from Lease-Win, the balance of which was $882,000 at June 30, 2008. The sale of land and building resulted in a loss of approximately $370,000 including legal fees, however the sale generated net proceeds before tax of approximately $476,000.

Approximately 77.4% of the Fund's remaining net capital assets are located in Ontario. None of the Fund's operating businesses require significant capital asset expenditures or depend on capital-intensive operations. The Fund's automotive dealership may be required to spend approximately $2.0 million in the next few years under a dealership rebranding program as required by the manufacturer.

Intangible assets totaled $11.0 million at December 31, 2008 compared to $9.4 million at December 31, 2007. The change in intangible assets is comprised of a $2.1 million increase as the result of the change in foreign exchange rates offset by $563,000 in amortization of broker relationships and back-end systems software. The significant intangible assets of broker relationships and customer relationships do not require any outlay of cash to be maintained, as the creation of lease receivables does not require an outlay of cash, other than commissions, which are separately expensed.

Goodwill totaled $18.5 million at December 31, 2008 compared to $26.7 million at December 31, 2007. The $8.2 million decrease is comprised of goodwill impairment of $14.8 million, which was recorded at June 30, 2008 offset by a $6.6 million increase due to the movement in foreign exchange rates. Goodwill is typically tested annually for impairment unless certain circumstances arise that would require an assessment prior to an annual review. Management assessed goodwill for impairment as at June 30, 2008 as a result of the continued impact of the current competitive environment on lease originations experienced by Pawnee, the Fund's U.S. commercial equipment leasing subsidiary, and the challenges in the U.S. economy and its effects on charge-offs (this environment changed dramatically by October 2008, following the withdrawal of many of Pawnee's more recent competitors). Management believes that these factors were primarily a result of the current cycle of Pawnee's industry and the general U.S. economic downturn, and anticipates that Pawnee will return to historical growth rate and earnings patterns.

In addition to the assessment of goodwill of the reporting units, management considered the assessment of goodwill impairment at the Fund level based on our unit price. As the unit price continues to be lower than expected, a general goodwill impairment of $14.8 million was recorded at June 30, 2008. As in the prior year, management did not believe the $1.45 market value of the units at June 30, 2008 represented an accurate measure of the Fund as a whole (the market price at December 31, 2008 was $1.50). Using this unit price would assume the stock market is a perfect market and that all investors can accurately predict the future of the current competitive environment on lease originations experienced by Pawnee and the changes in the U.S. economy and its effects on charge-offs. As well, when the Fund Units are thinly traded in the market it is management's belief that the unit price may not be indicative of actual value. Market capitalization has also been shown to be a poor measure of value when there is more than one operating unit. Management believed the value of the Fund's operating entities is greater than the market capitalization of the Fund at June 30, 2008. However, at June 30, 2008, the Fund Unit's price continued to be lower than expected and a non-cash impairment loss of $14.8 million was recorded at June 30, 2008 in order to reduce goodwill to the estimated fair value.

Effective December 31, 2008, the Fund completed its annual goodwill impairment test and determined that no further impairment was required. As a result of the annual test for impairment of goodwill on the reporting units, the Fund determined that no further impairment was required. Among other considerations, the Fund Units were trading at a higher value at December 31, 2008 than June 30, 2008 when the last goodwill impairment was recorded.

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

Lease financing of $49.4 million at December 31, 2008 is comprised of:

($ thousands)	December 31, 2008	December 31, 2007
Pawnee's credit facility	$46,369	$42,810
Lease-Win's credit facility	3,037	2,177
	$49,406	$44,987
Pawnee's credit facility (U.S.$)	$38,000	$43,500

The $3.6 million increase in Pawnee's lease financing is predominantly due to U.S.$5.5 million in payouts offset by an increase in foreign exchange translation of $10.2 million. At December 31, 2008, the deferred financing costs netted against Pawnee's credit facility totaled $166,000. Pawnee has a credit facility that allows borrowings of up to U.S.$57.5 million in 2008, subject to, among other things, adhering to certain percentages of eligible gross lease receivables, and the maintenance of a minimum debt to tangible net worth ratio.

Pawnee had sufficient cash to fund net lease originations and operating expenses and apply U.S.$5.5 million against its credit facility. This credit facility is secured by substantially all of Pawnee's assets, contains negative covenants including the maintaining of leverage and interest coverage ratios, requires Pawnee to mitigate its interest rate risk by entering interest rate swaps for a notional amount not less than 50% of the aggregate commitment, and matures on May 10, 2011. During the second quarter of 2008, Pawnee's credit facility was extended by one-year as result of the company's normal annual review process with its lenders. During the first quarter of 2009, the maximum permitted borrowings under Pawnee's credit facility was voluntarily reduced by U.S.$5 million (to U.S.$52.5 million, as reflected above) and its borrowing rate was increased slightly; however, the credit facility continues to provide significant room for growth and an attractive borrowing rate.

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

The majority of the $11.3 million in customer security deposits relates to security deposits held by Pawnee. Pawnee's primary lease contract requires that the lessee provide two payments as security deposit (not advance payments), which are held for the full term of the lease and then returned or applied to the purchase option of the equipment at the lessee's request, unless the lessee has previously defaulted (in which case the deposit is applied against the lease receivable). Historically, a very high percentage of lessees' deposits are either applied to the purchase option of the leased equipment at the end of the lease term or used to offset charge-offs. The approximate $1.4 million increase in the security deposit balance from December 31, 2007 is due to a $2.3 million increase as a result of foreign exchange conversion which was offset by a $940,000 decline in security deposits as a result of fewer leases outstanding at December 31, 2008 than December 31, 2007.

Most of Lease-Win's lease receivables are sold on a fully serviced basis. Accordingly, upon each securitization a servicing liability is recorded to recognize the potential reduction in the cash flows receivable by the Fund's automotive leasing operations if an amount was paid by the special purpose entity to a replacement servicer. The estimated fees that would otherwise be payable to a replacement servicer forms the basis of determination of the fair value of the servicing liability that is charged against the gain or loss at the time of recognizing the sale of securitized assets. The $414,000 (2007 - $638,000) in servicing liability would be payable only if Lease-Win was unable to service the lease receivables that have been sold.

Pawnee enters into interest rate swap agreements with its principal lender under its banking facility that provides for payment of an annual fixed rate. In return, Pawnee receives payment of a LIBOR based floating rate amount. Pawnee's bank has the option to terminate the swaps typically one year prior to the maturity date. The interest rate swaps are intended to offset a portion of the variable interest rate risk on the credit facility. At December 31, 2008, the mark-to-market adjustment is a loss of approximately $2.8 million compared to a loss of $735,000 at December 31, 2007 and is shown as a liability on the balance sheet.

In July 2008, Pawnee repriced and extended a U.S. $15,000,000 interest rate swap from 5.09% set to mature in March 2010 to 4.8% with a maturity date of March 28, 2012. In August 2008, Pawnee repriced and extended a U.S. $15,000,000 interest rate swap from 5.14% set to mature in March 2009 to 4.14% with a maturity date of March 28, 2010. In November 2008, Pawnee repriced and extended a U.S. $15,000,000 interest rate swap from 4.14% set to mature in March 2010 to 3.36% with a maturity date of March 28, 2011. Pawnee did not renew the U.S. $5,000,000 interest rate swap that matured in October 2008.

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

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

The mortgage, which had an original principal amount of $1.1 million, bore interest at the rate of 7.25% per annum, and was payable in monthly installments of principal and interest of $9,975, was due December 18, 2013 and was secured by the land and building located at 4077 Chesswood Drive, Toronto, Ontario. On July 17, 2008, the Fund sold the property and the purchaser assumed the mortgage.

The $3.5 million principal amount of convertible debentures (the "Debentures") were issued by the Fund in exchange for convertible debentures in the same principal amount issued by cars4U Ltd. on February 10, 2003. The Debentures bear interest at the rate of 9% per annum, payable quarterly, and were originally to be due on August 10, 2007. The Debentures were subsequently amended so as to extend the maturity date until August 10, 2008. The Debentures were convertible into Fund Units, at the holders' option, at a conversion price of $15.58 per Fund Unit. The Debentures were to be automatically converted into Fund Units in the event that the 20-day average price for the Fund Units was at least $20.16 per Fund Unit. The Debentures were further amended so as to provide for an extension of the due date to January 31, 2011. The terms of conversion were amended as well. The Debentures are now convertible into Fund Units (at the holders' option) at a conversion price of $3.50 per Fund Unit (the conversion price was previously $15.58 per Fund Unit). The Fund has the option to convert the Debentures into Fund Units (at the conversion price of $3.50 per Fund Unit) in the event that the 20-day average price for the Fund Units is at least $4.40 per Fund Unit. Debentures in the principal amount of $2.8 million (out of the aggregate $3.5 million principal amount of the Debentures) are held by trustees of the Fund and/or directors of Chesswood GP Limited (who were previously directors of cars4U Ltd.), which is a 100% owned subsidiary of the Fund. The change in the conversion option was valued at approximately $80,170.

Future income taxes payable at December 31, 2008 totaled $13.2 million compared to $10.8 million at December 31, 2007, an increase of $2.4 million. The increase in future income taxes payable is the result of reallocating $2.4 million of income tax payable to prepaid income taxes; an $1.6 million increase in future taxes payable as a result of foreign exchange, offset by future income tax recovery of approximately $1.6 million.

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

The non-controlling interest of $8.0 million at December 31, 2007, represented the 1,274,601 Class B common shares of Chesswood U.S. Acquisitionco Ltd. ("U.S. Acquisitionco") that were issued as partial consideration for the acquisition of Pawnee. The shares are fully exchangeable for Fund Units, on a one-to-one basis, through a series of steps. The Class B common shares became exchangeable as of November 9, 2008. These exchangeable shares had been classified as a non-controlling interest in the consolidated financial statements. As the Class B common shares had subordinated rights to distributions until November 8, 2008 and their distributions were restricted if certain minimum distributions had not been made, they were valued with a discount rate of 7.5 percent per EIC 151 (Emerging Issues Committee Abstract 151) - Exchangeable Securities Issued By Subsidiaries Of Income Trusts. Effective November 9, 2008, the restrictions on distributions and conversion of the Class B common shares ceased and therefore the non-controlling interest were reclassified as Unitholders' Equity. Per EIC 151, the reclassification of non-controlling interest to Unitholders' Equity was applied retroactively with restatement of prior periods.

At December 31, 2008, there were 7,040,558 Fund Units, 1,274,601 Class B common shares and 203,936 Class C common shares of U.S. Acquisitionco outstanding, totalling $65.6 million. The Class C common shares of U.S. Acquisitionco were also issued as partial consideration for the acquisition of Pawnee and are also fully exchangeable at any time for Fund Units, on a one-to-one basis, through a series of steps.

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

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

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 stock price volatility. Because the conversion option of the Debentures has 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 conversion option.

LIQUIDITY AND CAPITAL RESOURCES OVERVIEW

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

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

The Fund's subsidiaries' objective is to maintain low cash balances, investing any free cash in leases as needed and using any excess to pay down debt on the primary financing facilities. The subsidiaries fund working capital needs, lease originations and growth using advances under credit facilities available when operating cash flow is not sufficient. At December 31, 2008, the Fund's operating units had $25.1 million in additional borrowings available under various credit facilities to fund business operations.

During the first quarter of 2009, the maximum permitted borrowings under Pawnee's credit facility was reduced by U.S.$5 million (to U.S.$52.5 million, as reflected above) and its borrowing rate was increased slightly; however, the credit facility continues to provide significant room for growth and an attractive borrowing rate. Pawnee's borrowings on its credit facility were U.S.$38.0 million at December 31, 2008.

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

Cash Sources and Uses

For the year-ended December 31, 2008
The Fund's operations generated net cash flow from operations of $20.4 million during the year ended December 31, 2008 compared to net cash flow from operations of $17.6 million in the year ended December 31, 2007, an increase of $2.8 million year-over-year.

Cash flow generated from operations during the year ended December 31, 2008 includes the cash outflow from the increase in inventory of $0.5 million but excludes the $0.8 million cash inflow from the increase in short-term vehicle financing during the year. Cash flow generated from operations during the year ended December 31, 2007 includes the cash inflow from the decrease in inventory of $0.2 million but excludes the $0.2 million decrease in short-term vehicle financing relating to the inventory sold during the prior year.

Thus, cash flow from operations after considering the movement in these short-term working capital items was $21.2 million in the year ended December 31, 2008 compared to $17.4 million in the same period in the prior year, an increase of $3.8 million or approximately 21.8% year-over-year.

During the year ended December 31, 2008, investment in net direct financing leases of $16.5 million (2007 – $25.6 million) was offset by financing of $9.9 million (2007 - $19.6 million) from proceeds from lease financing and securitization, cash received from residual interest in securitizations, and security deposits, resulting in a net usage of $6.6 million (2007 - $5.9 million) of cash used in the investment of leases prior to payments against lease financing credit facilities.

Cash flow from operations after considering the vehicle financing and leasing transactions was $14.6 million in the year ended December 31, 2008 compared to $11.4 million in the prior year, an increase of $3.1 million or approximately 27.2% year-over-year.

During the year ended December 31, 2008, cash payments applied to lease financing credit facilities totalled $8.8 million (of which $934,000 was required payments at Lease-Win) compared to $4.7 million during the year ended December 31, 2007 (of which $1.2 million was required payments at Lease-Win).

The Fund's subsidiaries could have utilized their credit facilities further to fund the net lease originations but had sufficient cash on hand to cover these originations and normal business operations while allowing Pawnee to apply U.S.$5.5 million (2007 – U.S.$2.5 million) against its lease financing credit facility during the year.

Principal payments under long-term debt and capital leases totalled approximately $31,000 (2007 - $66,000) during the year ended December 31, 2008. Capital expenditures totalled $75,000 (2007 – $84,000) during the year.

On March 19, 2008, the Fund sold its U.S. dollar foreign exchange forward contracts and received $1.2 million on settlement. The Fund had entered into foreign exchange contracts to manage its exposure to the U.S. dollar as significant cash flows are generated in the U.S. Given the significant change in U.S. – Canadian dollar exchange rates in early 2008, it was determined that liquidation of the hedge was an appropriate and desirable step.

The Fund paid distributions to unitholders in the amount of $4.0 million during the year ended December 31, 2008 compared to $8.9 million in the prior year; a decrease of $4.9 million. The decrease is the result of $3.9 million reduction in the monthly distributions to unitholders and $985,000 reduction in distributions to U.S. Acquisitionco Class B and Class C shareholders as a result of the subordination of Class B distributions and the reduction of distributions on the Class C shares.

Chesswood's trustees and directors will continue to review the Fund's cash flow and cash position, to determine appropriate changes, if any, to the distribution policy going forward. Given the fluctuations in monthly earnings at Pawnee due to market volatility, it is difficult to project charge-off levels and the resultant cash flow. Chesswood's distributable cash may or may not attain the levels necessary to generate this current level of distributions.

In total, in the year ended December 31, 2008, there was an increase in cash of $3.3 million compared to a decrease of cash of $2.6 million in the prior year. Of the $5.9 million increase in cash flow compared to the prior year, $3.8 million is the result of an increase in cash flow from operations and vehicle financing; $1.2 million received on settlement of foreign exchange forward contracts; $4.9 million increase in cash as a result of reductions in distributions paid during the period compared to the prior year; $370,000 net cash inflow from proceeds of sale of property and equipment less mortgage payments and purchases of equipment, and $320,000 increase due to the change in foreign exchange; offset by $4.1 million increase in payments applied to leasing financing credit facilities and $0.6 million outflow of cash due to the increase in net investment in leases less proceeds from financing.

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

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

For the three-months ended December 31, 2008

The Fund's operations generated net cash flow from operations of $2.7 million during the three-months ended December 31, 2008 compared to net cash flow from operations of $2.1 million in the three-months ended December 31, 2007, an increase of $643,000 compared to the same period in the prior year.

Cash flow generated from operations during the three-months ended December 31, 2008 includes the cash outflow from the increase in inventory of $2.5 million but excludes the $2.1 million cash inflow from the increase in short-term vehicle financing during the three-months ended. Cash flow generated from operations during the three-months ended December 31, 2007 includes the cash outflow from the increase in inventory of $1.7 million but excludes the $1.8 million increase in short-term vehicle financing relating to the increase in inventory during the three-months of the prior year.

Thus, cash flow from operations after considering the movement in these short-term working capital items was $4.8 million in the three-months ended December 31, 2008 compared to $3.9 million in the same period in the prior three-months ended, an increase of $989,000 or approximately 25.4% compared to the same period in the prior year.

During the three-months ended December 31, 2008, investment in net direct financing leases of $4.3 million (2007 – $6.4 million) was offset by financing of $2.4 million (2007 - $4.0 million) from proceeds from lease financing and securitization, cash received from residual interest in securitizations, and security deposits, resulting in a net usage of $1.9 million (2007 - $2.4 million) of cash used in the investment of leases prior to payments against lease financing credit facilities.

Cash flow from operations after considering the vehicle financing and leasing transactions was $2.9 million in the three-months ended December 31, 2008 compared to $1.5 million in the same period of the prior year, an increase of $1.4 million or approximately 93.3%.

During the three-months ended December 31, 2008, cash payments applied to lease financing credit facilities totalled $1.5 million compared to $1.1 million during the three-months ended December 31, 2007.

Principal payments under long-term debt and capital leases totalled $nil (2007 - $16,000) during the three-months ended December 31, 2008. Capital expenditures totalled $37,000 (2007 – $8,000) during the three-months ended.

The Fund paid distributions to unitholders in the amount of $625,000 during the three-months ended December 31, 2008 compared to $1.9 million in the same period in the prior year; a decrease of $1.3 million. The decrease is the result of $1.2 million reduction in the monthly distributions to unitholders and $41,000 reduction in distributions to U.S. Acquisitionco Class B and Class C shareholders as a result of the subordination of Class B distributions and the reduction of distributions on the Class C shares.

In total, in the three-months ended December 31, 2008, there was an increase in cash of $782,000 compared to a decrease of cash of $1.6 million in the same period in the prior year. Of the $2.3 million increase in cash flow compared to the prior year, $989,000 is the result of an increase in cash flow from operations and vehicle financing; $1.3 million increase in cash as a result of reductions in distributions paid during the period compared to the prior year; $458,000 less cash flow invested in net investment in leases during the three-months ended December 31, 2008 compared to the same period in the prior year; and $94,000 increase due to the change in foreign exchange; offset by $445,000 increase in payments applied to leasing financing credit facilities and $13,000 increase in the outflow of cash relating to purchases of capital assets.

Financial Covenants, Restrictions and Events of Default

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

Pawnee funds its business primarily through variable rate borrowings and has a revolving credit facility for up to U.S.$52.5 million which can, subject to certain conditions, be extended to U.S.$65 million. As of December 31, 2008, Pawnee had used approximately U.S.$38.0 million of its available borrowing under this facility. Pawnee's ability to access funding at competitive rates through various economic cycles enables it to maintain the liquidity necessary to manage its business, and its ability to continue to access funding is an important condition to its future success. Pawnee is required to purchase fixed interest rate hedges for at least 50% of the total commitment under its credit facility, and as of December 31, 2008 Pawnee has hedged U.S.$30.0 million, representing approximately 78.9% of the U.S.$38.0 million outstanding under the credit facility.

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

Advances on the revolving facility may be drawn at any time, subject to compliance with borrowing base calculations and compliance with the covenants set out therein. As of December 31, 2008, U.S.$38.0 million was outstanding under the facility and Pawnee had capacity to draw up to and in excess of the U.S.$57.5 million commitment (as described above, such maximum was reduced to U.S.$52.5 million in the first quarter of 2009) and remain within the borrowing base under the facility.

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

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

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

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

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

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

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

Distribution to Unitholders

The Fund declared cash distributions during the year ended December 31, 2008 as follows:

Unitholder Record Date	Per Unit
January 31, 2008	$0.0570
February 28, 2008	$0.0570
March 31, 2008	$0.0570
April 30, 2008	$0.0570
May 31, 2008	$0.0570
June 30, 2008	$0.0570
July 31, 2008	$0.0570
August 31, 2008	$0.0250
September 30, 2008	$0.0250
October 31, 2008	$0.0250
November 30, 2008	$0.0250
December 31, 2008	$0.0250
	$0.5240

Distribution Policy

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

The Fund's trustees and directors will continue to review the Fund's cash flow and cash position, to determine any appropriate change to the distribution policy going forward.

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

Minimum payments

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

($ thousands)	2009	2010	2011	2012	2013 and beyond	Total
Lease-Win's lease financing (*)	$3,037	$ -	$ -	$ -	$ -	$3,037
Pawnee's lease financing credit facility	-	-	46,369	-	-	46,369
Convertible debentures	-	-	3,500	-	-	3,500
Total	$3,037	$ -	$49,869	$ -	$ -	$52,906

(*) $3.0 million of the long-term debt would only be payable in 2009 if the bank called the loan, which is not anticipated. Otherwise the loan is payable over the term of the underlying leases.

OUTLOOK

The uncertainty surrounding most western economies, and most notably the U.S. economy, makes forecasts and expectations much more difficult to assess than in past years. While a stimulus package has been put in place in Canada and the U.S., in management's opinion stability and liquidity in the banking industry in the United States is necessary before the economy can begin a meaningful recovery.

As a result of the continued impact of the competitive environment on lease originations experienced by Pawnee until October 2008, and the severe challenges in the U.S. economy and its effects on charge-offs, Pawnee generated lower profitability in 2008. Management believes that Pawnee will return to historical growth rates and earnings patterns, as evidenced by the significant increase in new lease application flow and fundings Pawnee experienced at the end of 2008, following the departure of many competitors from its core markets.

In past downturns, our U.S. business has enjoyed growth and increased profitability as competition pulls back and small business seeks credit from a much smaller base of lenders, such as Pawnee. While we have seen an increase in business late in 2008, the broad uncertainty in the economy makes charge-offs difficult to predict. Management will watch credit profiles and portfolio performance very closely in 2009 and adjust credit adjudication and pricing on an ongoing basis.

The automotive sector is also under pressure from reduced demand for new cars. While our brand – Acura – is a strong one, we expect 2009 to be challenging for new car sales, as do most industry analysts. One of our neighboring Acura dealers closed its doors at the end of 2008. Long viewed as a weaker location, this store closing should provide us with an increase in service customers in 2009. It is our hope that this increase will help offset what we expect will be a weak new car market.

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

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

RISK FACTORS

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

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

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

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

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

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

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

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

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

Deterioration in Economic or Business Conditions

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

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

Losses from Leases

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

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

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

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

External Financing

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

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

"Characterization" Risks

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

Pawnee's management has determined that as at December 31, 2008 a small number of its existing portfolio (less than 1.0% of the gross lease receivable balance) consisted of nominal purchase option leases which would probably be interpreted by a court to be non-true leases. If Pawnee were to become the subject of adverse judicial or regulatory action resulting in penalties, fines, or the inability to collect lease payments and/or interest with respect to leases as a result of a determination that such leases were not true leases, it could have a material adverse impact on our business, financial condition and results of operations, and the amount of cash available for distribution to our unitholders.

Defenses to Enforcement of a Significant Amount of Leases

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

Origination, Funding and Administration of Transactions

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

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

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

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

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

State Licensing Requirements

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

Fees and Charges

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

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

Possible Acquisitions

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

Insurance

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

Lessor Liability

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

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

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

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

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

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

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

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

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

Protection of Intellectual Property
Our operating companies are dependent upon the successful and uninterrupted functioning of their computer and data processing systems. The failure of these systems could interrupt operations or materially impact Pawnee and Lease-Win's ability to originate and service their lease portfolios and broker networks. If sustained or repeated, a system failure could negatively affect the operations of

Pawnee and Lease-Win. Pawnee and Lease-Win maintain confidential information regarding lessees in their computer systems. This infrastructure may be subject to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. A security breach of computer systems could disrupt operations, damage reputation and result in liability.

Failure of Computer and Data Processing Systems

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

Competition in the Automobile Retailing Industry

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

Manufacturers' Control Over Dealerships and the Acura Framework Agreement

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

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

Accounting for the Securitization of Leases

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Leverage, Restrictive Covenants

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

Loss of Limited Liability

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

Statutory Remedies

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

Restrictions on Potential Growth

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

Canadian Income Tax Matters

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

United States Income Tax Matters

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

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

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

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

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

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

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

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

U.S. Acquisitionco has not established any procedure for monitoring the level of investment of non-U.S. unitholders, so its assumption that individual non-U.S. unitholders will hold less than 10% of the stock of U.S. Acquisitionco (after the application of U.S. attribution rules) is based solely upon its observations of patterns of trading in similar Canadian investment funds.
If any non-U.S. unitholder is or becomes ineligible for the portfolio interest exemption, such unitholder is required to give notice to the Fund, pursuant to our Declaration of Trust. The Declaration of Trust contains provisions that allow U.S. Acquisitionco and the Fund to recover from a unitholder amounts that should have been but were not withheld from a distribution to such unitholder because of failure to provide such notice. However, there can be no assurance that U.S. Acquisitionco and the Fund will be able to recover these amounts in full or at all, which could result in a reduction in cash available for distribution to other unitholders.

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

RELATED PARTY TRANSACTIONS

1) Debentures in the principal amount of $2.8 million (out of the aggregate $3.5 million principal amount of the Debentures) were held by trustees of the Fund and/or directors of Chesswood GP Limited, which is a 100% owned subsidiary of the Fund. During the year ended December 31, 2008, interest of $247,950 (2007 - $202,808) was expensed relating to these Debentures of which $196,200 (2007 - $120,526) pertained to related parties.

2) Pawnee leases a 10,800 square foot office facility. The lessor is a related party because of common ownership between itself and the holders of the Class B and C common shares of Chesswood U.S. Acquisitionco Ltd. (the subsidiary through which the Fund holds its interest in Pawnee). As of December 31, 2008, the minimum lease payments are U.S.$189,000 per year triple net and run through 2011, with options for two additional five-year terms.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Valuation of Residual Interests
Lease-Win uses discounted cash flow models to arrive at the estimated fair values of its residual interests. The fair value of residual interests is estimated by computing the present value of the future cash flows from the retained interest and the reserve account less

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

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

Accounting for Goodwill and Intangible Assets

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

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

Interest Rate Swaps and Foreign Exchange Contracts

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

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

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

Income Taxes

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

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

On October 31, 2006, the Minister of Finance for Canada ("Finance") announced proposed changes to the Income Tax Act (Canada) which modify the taxation of certain flow-through entities including mutual fund trusts and their unitholders. On June 22, 2007, this legislation received royal assent and applies a 30.5% tax at the trust level on distributions of certain income from a "specified investment flow through" ("SIFT") trust and treats such distributions as dividends to unitholders. The legislation provides that existing SIFT trusts will be grandfathered and the trust distribution tax will not apply until 2011 as long as normal growth guidelines are met.

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

Most of the Fund's future income tax assets and liabilities are already recorded as substantially all operating assets are held by Pawnee and Lease-Win which are corporations and are tax paying entities. The Fund estimates that the unrecognized temporary differences, in the other subsidiaries, outstanding as of December 31, 2008 that will remain outstanding as of January 1, 2011 is approximately $3 million resulting in a future tax asset of $914,000, based on an effective tax rate of 30.5%. The Fund's estimate of its future income taxes will vary based on actual results of the factors described above, and such variations may be material.

RECENT ACCOUNTING PRONOUNCEMENTS

On January 1, 2008, the Fund adopted the following new accounting standards that were issued by the Canadian Institute of Chartered Accountants: Section 1535, Capital Disclosures; Section 3031, Inventories; Section 3862, Financial Instruments – Disclosures; and Section 3863 Financial Instruments - Presentation. There was no adjustment to the financial statements upon adoption of these new standards, but additional disclosure is presented in notes to the financial statements.

Future changes in accounting policy

On January 31, 2008, the CICA issued a new accounting standard: Handbook Section 3064 Goodwill and Intangible Assets. Section 3064 will replace Handbook Section 3062 Goodwill and Other Intangible Assets and Handbook Section 3450 Research and Development Costs. Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard will be effective for the Fund in the first quarter of 2009. The Fund is currently in the process of evaluating the potential impact of this new standard to the consolidated financial statements.

IFRS-IASB

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CONTROLS & PROCEDURES

Chesswood's Chief Executive Officer and Director of Finance, evaluated or caused an evaluation under their direct supervision of, the design and operating effectiveness of the Fund's disclosure controls and procedures (as defined in National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2008 and have concluded that such disclosure controls and procedures were appropriately designed.

Chesswood has also established adequate internal control over financial reporting (as defined in National Instrument 52-109) ("ICFR") to provide reasonable assurance regarding the reliability of the Fund's financial reporting and preparation of its financial statements for external purposes in accordance with GAAP. The Fund's Chief Executive Officer and Director of Finance assessed, or caused an assessment under their direct supervision of, the design and operating effectiveness of the Fund's ICFR as at December 31, 2008 using the Committee of Sponsoring Organizations Internal Control - Integrated Framework. Based on that assessment, it was determined that the Fund's ICFR was designed appropriately with the below noted exceptions. The assessment also determined that the Fund did not conduct sufficient control testing to assess the operating effectiveness of its ICFR.

Although management is aware that the lenders under Pawnee's credit facility (Pawnee being the Fund's principal subsidiary) engage an independent third party consultant to conduct review and audit processes with respect to various aspects of Pawnee's operations (including its borrowing base, its credit and underwriting functions and its billing, cash, collection, payables, taxes and licensing functions), and aspects of its information technology systems, security and back-up, such reviews and processes, and the report of the consultant thereon, are solely for the benefit of the lenders and are not intended to be relied upon by Pawnee, the Fund or any other person. It is therefore intended that commencing with the Fund's 2009 fiscal year, all of the key controls of the Fund will be independently reviewed.

The Fund's audit committee is working with management to implement such an independent review regime, and to monitor the implementation of the other control enhancement steps envisioned below.

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

1) Segregation of Duties
Given the Fund's size, it has limited resources within the finance department at head office to adequately segregate duties and to permit or necessitate the comprehensive documentation of all policies and procedures that form the basis of an effective design of ICFR. As a result, the Fund is reliant on the knowledge of a limited number of employees and on the performance of mitigating procedures during its financial close process to ensure that the consolidated financial statements are presented fairly in all material respects. Although the finance department of Pawnee has staffing levels which the Fund's management believes is appropriate in the context of the scope of Pawnee's operations, and although the individuals comprising the members of the Fund's management and Pawnee's management responsible for financial reporting are considered to have appropriate proficiency and experience to effectively perform their respective duties, the nature and size of the Fund's operations are such that the duties are performed by a small number

of persons. While management of the Fund believes that the flow of information and degree of consultation with the finance personnel of Pawnee is significant, in order to mitigate the risk of material misstatement in the consolidated financial statements, the Fund has implemented additional review and monitoring controls at head office on a monthly basis. In addition, further steps to cross train existing personnel will be undertaken where possible and consideration will be given on a continuing basis to additional persons in order to provide better segregation of certain duties.

2) Information Technology Controls

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

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

3) Whistle-blower Policy

While the Fund has drafted and implemented a whistle-blower policy and procedure and such policy has been provided to a significant segment of the work forces of the Fund's subsidiaries (and, in particular, most full-time workers), management acknowledges that the whistle-blower policy has not been provided to all staff throughout the organization as at December 31, 2008, particularly the part-time sales and mechanical staff at the automotive dealership.

To mitigate any risk that information pertaining to potential fraudulent or inappropriate behavior is not being reported and remediated, management will roll out the program to all personnel in the Canadian automotive operations by the second quarter of 2009 and will provide refresher training for all other staff.

4) Anti- fraud controls

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

During the quarter ended December 31, 2008, the Fund enlisted the services of an external independent consultant that performed internal control verification of the Canadian automotive operations. The services of this consultant will continue into 2009 to assist with improving the Fund's ICFR related to its Canadian automotive operations.

No changes were made to the design of the Fund's ICFR during the year ended December 31, 2008 that would have materially affected or would be reasonably likely to materially affect the Fund's ICFR.

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

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

MARKET FOR SECURITIES

The Fund Units are traded on the Toronto Stock Exchange under the symbol CHW.UN. The following table summarizes the high and low sales prices of the Fund Units and the average daily trading volume for each month in the period ended December 31, 2008, as reported by the Toronto Stock Exchange.

2008	High	Low	Average Daily Volume
January	$3.64	$2.01	6,283
February	$2.90	$2.40	3,819
March	$2.87	$2.19	6,461
April	$2.60	$2.32	8,615
May	$2.40	$1.80	10,069
June	$1.97	$1.40	10,901
July	$1.77	$1.30	10,133
August	$1.75	$1.40	23,589
September	$1.80	$1.25	18,593
October	$1.63	$0.75	12,079
November	$1.65	$0.99	8,148
December	$1.59	$0.75	11,887
	$3.64	$0.75	10,874

ADDITIONAL INFORMATION

Additional information about the Fund is available:

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

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 Dunwoody LLP, the independent external auditors, in accordance with generally accepted auditing standards on behalf of the unitholders. The Auditors' Report outlines the nature of their examination and their opinion on the financial statements. BDO Dunwoody 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 12, 2009

AUDITORS' REPORT

To the Unitholders of
Chesswood Income Fund

We have audited the consolidated balance sheets of Chesswood Income Fund as at December 31, 2008 and 2007 and the consolidated statements of loss, deficit, comprehensive loss, accumulated other comprehensive income (loss), and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario
March 12, 2009

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)

	December 31, 2008	December 31, 2007 (restated - note 19)
ASSETS		
Cash	$ 5,675	$ 2,352
Accounts receivable	1,190	3,250
Inventories *(note 3)*	8,589	8,096
Prepaid expenses and other assets	1,749	1,183
Prepaid income taxes *(note 17)*	4,427	213
Foreign currency forward exchange contracts *(note 13)*	-	1,505
Net investment in leases *(note 4)*	91,681	82,577
Future income tax asset *(note 17)*	914	914
Property and equipment - net *(note 5)*	627	2,534
	114,852	102,624
Intangible assets *(note 6)*	10,994	9,421
Goodwill *(note 7)*	18,512	26,698
TOTAL ASSETS	$ 144,358	$ 138,743
LIABILITIES		
Accounts payable and accrued liabilities	$ 4,469	$ 4,213
Distributions payable	220	403
Vehicle financing *(note 8)*	7,583	6,794
Lease financing *(note 9)*	49,406	44,987
Customer security deposits *(note 10)*	11,281	9,898
Servicing liability *(note 11)*	414	638
Interest rate swaps *(note 12)*	2,755	735
Mortgage payable *(note 14)*	-	910
Convertible debentures *(note 15)*	3,433	3,500
Future income taxes *(note 17)*	13,226	10,779
	92,787	82,857
UNITHOLDERS' EQUITY		
Fund units *(note 20)*	76,141	76,141
Conversion option *(note 15)*	80	-
Contributed surplus	74	74
Accumulated other comprehensive income (loss)	5,844	(6,400)
Deficit	(30,568)	(13,929)
	51,571	55,886
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY	$ 144,358	$ 138,743

Approved by the Board of Trustees:

Ed Sonshine, Trustee

Fred Steiner, Trustee

Please see notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF LOSS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(in thousands of dollars, except per unit amounts)

		2008		2007
REVENUE				
Revenue - automotive operations	$	**54,907**	$	57,020
Direct financing lease income		**24,757**		26,727
Ancillary lease and other income		**4,241**		4,591
		83,905		88,338
COST OF SALES - automotive operations		**46,595**		48,135
GROSS PROFIT		**37,310**		40,203
EXPENSES				
Salaries and commissions		**7,378**		7,110
Provision for credit losses		**15,768**		10,871
General and administrative		**6,680**		6,381
Interest on long-term debt		**3,792**		4,361
Other interest		**202**		309
Amortization		**803**		1,099
		34,623		30,131
INCOME BEFORE ITEMS BELOW		**2,687**		10,072
Unrealized loss on interest rate swaps *(note 12)*		**(1,813)**		(833)
Unrealized gain (loss) on foreign exchange contracts *(note 13)*		**(270)**		2,802
Net gain (loss) on foreign exchange *(note 13)*		**188**		(21)
Loss on sale of property and equipment *(note 5)*		**(370)**		-
Goodwill and intangible asset impairment *(note 6 & 7)*		**(14,823)**		(16,830)
		(17,088)		(14,882)
LOSS BEFORE INCOME TAXES		**(14,401)**		(4,810)
Recovery of income taxes *(note 17)*		**(1,571)**		(292)
NET LOSS	$	**(12,830)**	$	(4,518)
Basic and diluted loss per unit *(note 24)*	$	**(1.51)**	$	(0.53)

Please see notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(in thousands of dollars)

	2008	2007
Deficit, balance at beginning of year, as previously stated	$ (12,330)	$ (806)
Reclassification of non-controlling interest *(note 19)*	(1,599)	(135)
Deficit, balance at beginning of year, as restated	(13,929)	(941)
Net loss	(12,830)	(4,518)
Distributions	(3,809)	(8,470)
Deficit, balance at end of year	$ (30,568)	$ (13,929)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(in thousands of dollars)

	2008	2007 (restated - note 19)
Net loss	$ (12,830)	$ (4,518)
Other comprehensive income (loss), net of tax		
Change in unrealized (losses) gains on translating financial statements of self-sustaining foreign operations	12,244	(9,683)
Total other comprehensive income (loss), net of tax	12,244	(9,683)
Comprehensive loss for the period	$ (586)	$ (14,201)

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(in thousands of dollars)

	2008	2007 (restated - note 19)
Accumulated other comprehensive income (loss), beginning of year	$ (6,400)	$ -
Transitional adjustment on adoption of new accounting policies	-	2,790
Reclassification of non-controlling interest *(note 19)*	-	493
Other comprehensive income (loss) for the period	12,244	(9,683)
Accumulated other comprehensive income (loss), end of year	$ 5,844	$ (6,400)

Please see notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(in thousands of dollars)

	2008	2007
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net loss for the period	**$ (12,830)**	$ (4,518)
Add (deduct) items not involving cash:		
Amortization	**803**	1,099
Goodwill and intangible asset impairment	**14,823**	16,830
Accretion expense on lease financing	**189**	252
Accretion expense on convertible debentures	**13**	-
Loss on sale of property and equipment	**370**	-
Gain on sale of leased vehicles	**(467)**	(587)
Unrealized loss on interest rate swaps	**1,813**	833
Unrealized gain on sale of lease receivables, net of provision for prepayment and provision for credit losses	**(300)**	(1,141)
Impairments of retained interest in securitizations	**(611)**	(741)
Amortization of securitization servicing liability	**(252)**	(285)
Provision for credit losses	**18,610**	13,298
Recovery of income taxes	**(2,804)**	(3,975)
Unrealized (gain) loss on foreign exchange contracts	**270**	(2,802)
Net (gain) loss on foreign exchange	**(188)**	21
	19,439	18,284
Changes in non-cash working capital items relating to operations		
Accounts receivable	**2,060**	(1,857)
Inventories	**(494)**	176
Prepaid and other assets	**(263)**	552
Accounts payable and accrued liabilities	**(335)**	487
	968	(642)
Cash provided by operating activities	**20,407**	17,642

Continued on next page

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(in thousands of dollars)

	2008	2007
INVESTING ACTIVITIES		
Proceeds from sale of property and equipment - net	$ 476	$ -
Purchases of property and equipment - net	(75)	(84)
Cash received from residual interest in securitization	2,339	2,554
Increase in net investment in leases	(16,543)	(25,598)
Decrease in security deposits	(903)	(430)
Cash used in investing activities	(14,706)	(23,558)
FINANCING ACTIVITIES		
Proceeds from securitization of leases	5,059	15,206
Vehicle financing	789	(203)
Proceeds from lease financing	3,394	2,089
Lease financing payments	(8,778)	(4,702)
Servicing liability	28	184
Mortgage principal payments	(28)	(53)
Obligations under capital leases	(3)	(13)
Payment of financing costs	(148)	-
Proceeds from sale of foreign exchange forward contracts	1,235	-
Cash distributions paid	(4,051)	(8,947)
Cash provided (used) by financing activities	(2,503)	3,561
Unrealized foreign exchange (loss) gain on cash	125	(195)
Net increase (decrease) in cash	3,323	(2,550)
Cash, beginning of period	2,352	4,902
Cash, end of period	$ 5,675	$ 2,352

Supplemental disclosures of cash flow information (see note 25)

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 through the acquisition of cars4U Ltd. pursuant to a plan of arrangement under the Business Corporations Act (Ontario) and the indirect acquisition of Pawnee Leasing Corporation. 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.

Operating results of the Fund started on May 10, 2006 upon the conversion of cars4U Ltd. to an income trust, and the completion of an initial public offering for $57,781,930, the proceeds of which were used for the acquisition of the shares of Pawnee Leasing Corporation, of Colorado.

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 substantially all of the limited partnership units of Sherway LP. 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 LP, the Fund is involved in selling, servicing and leasing Acura automobiles, in the Province of Ontario. Through its interest in Lease-Win Limited (“Lease-Win”), the Fund has a portfolio of automobiles 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
Our consolidated financial statements include the financial statements of the Fund, and those of our subsidiaries Chesswood Holding Trust, Chesswood Holding LP, Chesswood GP Limited, Chesswood General Partner Trust, Chesswood GP Beneficiary Limited, Chesswood Holdings Ltd, Lease-Win, U.S. Acquisitionco, Pawnee, and Sherway LP.

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, 2008 and 2007. All financial information is presented in Canadian dollars, unless otherwise noted.

Accounting policy changes
On January 1, 2008, the Fund adopted the amended CICA Handbook Section 1400, General Standards of Financial Statement Presentation, which includes guidance on an entity’s ability to continue as a going concern. The revised standard explicitly requires management to assess and disclose the Fund’s ability to continue as a going concern. These consolidated financial statements have been prepared on the basis of accounting policies applicable to a going concern which assumes that the Fund will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Fund is not aware of any material circumstance that would undermine this assumption.

On January 1, 2008, the Fund adopted CICA Handbook Section 1535, Capital Disclosures. This standard requires the disclosure of information related to the objectives, policies and processes for managing capital. There was no impact to the Fund's financial statements as this standard only addresses disclosure requirements.

On January 1, 2008, the Fund adopted CICA Handbook Section 3031, Inventories. Under this section, inventories are required to be measured at the lower of cost and net realizable value. The standard provides guidance on the determination of cost, including allocation of overheads and other costs to inventory. The standard also requires the consistent use of either the first-in, first-out (FIFO) or other weighted average cost method to measure automobile parts. The standard requires the reversal of previously recorded write downs to realizable value when there is clear evidence that net realizable value has increased. Additional disclosures are also required. The adoption of this section had no effect on the consolidated financial statements as vehicle inventory was already recorded at lower of cost and net realizable value and the automobile parts were recorded on a FIFO basis.

On January 1, 2008, the Fund adopted CICA Handbook Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments - Presentation. This section requires disclosure of information related to the significance of financial instruments to the Fund's performance. The Fund is also required to disclose information related to the risks of its use of financial instruments and how those risks are managed. As this standard only addresses presentation and disclosure requirements, there was no impact to the Fund's financial statements.

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's policy is to maintain an allowance for doubtful accounts equal to the last twelve-month rolling charge-off level. A provision is charged against earnings to maintain the allowance for credit losses at the appropriate level.

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

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 investors of 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 investors in the qualifying special purpose entities 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.

Trust servicing liability

The trust servicing liability 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 with original maturities of three months or less. The value approximates fair value.

Inventory

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 and includes all direct expenditures required to prepare the vehicles for sale. The cost of automobile parts is 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:

Building	4% declining balance
Building improvements	20% declining balance
Leasehold improvements	straight-line over the remaining term of the lease
Service equipment	20% declining balance
Furniture and equipment	20% to 40% 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
Customer relationships	straight-line basis over five 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 the trade names and 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.

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.

Intercompany interest expense
The structure of the Fund, similar to other income fund and corporate structures, includes intercompany debt that generates intercompany interest expense. We reduce our taxable income in our Consolidated Statements of Income and, therefore, our calculation of income tax expense by this interest expense.

If United States tax authorities were to challenge our treatment of the intercompany notes or the amount of our interest expense, or if they were to implement 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, we may be required to pay higher income taxes and our cash distributions could be adversely affected.

Exchangeable securities
The Fund has applied the recommendations of the Emerging Issues Committee (EIC) of the Canadian Institute of Chartered Accountants which issued an Abstract of Issues Discussed No. 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.

Effective November 9, 2008, the restrictions on distributions and conversion of the Class B common shares ceased and therefore the non-controlling interest were reclassified as Unitholders' Equity. Per EIC 151, the reclassification of non-controlling interest to Unitholders' Equity was applied retroactively with restatement of prior periods.

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:

- our reported amounts of assets and liabilities at the date of the consolidated financial statements,
- our disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and
- our 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, service liability and the fair value of the interest rate swaps. As a result, actual amounts could differ from these estimates.

Financial instruments

On January 1, 2007, the Fund adopted the Canadian Institute of Chartered Accountants Handbook ("CICA Handbook") Section 3855, "Financial Instruments – Recognition and Measurement". Under Section 3855, financial assets and liabilities are initially recognized at fair value. Measurement in subsequent periods is dependent upon the classification of each instrument. The Section requires that 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

On January 1, 2007, the Fund adopted CICA Handbook Section 1530, "Comprehensive Income" which requires disclosure of comprehensive income and CICA Handbook Section 3251, "Equity" which requires presentation of the components of equity, including retained earnings (deficit) accumulated other comprehensive income, contributed surplus, share capital and reserves and the changes therein. Upon adoption of this section, the consolidated financial statements now include statements of comprehensive income and accumulated comprehensive income. The amount of the transitional provision represents the previously disclosed cumulative foreign currency translation of self-sustaining foreign operations as at December 31, 2006.

Future accounting changes

a) Section 3064, Goodwill and Intangible Assets replaces Handbook Section 3062 Goodwill and Other Intangible Assets and Handbook Section 3450 Research and Development Costs. Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard will be effective for the Fund in the first quarter of 2009. The Fund is currently in the process of evaluating the potential impact of this new standard to the consolidated financial statements.

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

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

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

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

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

2. OPERATING LINES OF CREDIT

At December 31, 2008, Sherway LP and Lease-Win had authorized lines of credit of $1,500,000 and $500,000, respectively. The lines of credit were not utilized at December 31, 2008. The lines of credit are secured by assignments of the book debts and a general security agreement over the assets of the entities. Please see notes 8 and 9 for additional credit facilities available to Sherway LP, Lease-Win and Pawnee. Please see note 33 for subsequent event.

3. 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 and includes all direct expenditures required to prepare the vehicles for sale. The cost of automobile parts is determined using the first-in, first-out method.

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 operation's other assets for the lines of credit. The lines of credit were not utilized at December 31, 2008.

Demonstrator vehicles were written down by $97,276 (2007 - $91,596) based on the utilization of the vehicles. This cost is included in general and administrative expenses. Used vehicles were written down by $75,044 (2007 - $77,647) during the year and 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 $260,908 (2007 – $209,019).

	December 31, 2008	December 31, 2007
	($ thousands)	
New and demonstrator vehicles	**$7,245**	$5,955
Used vehicles	**1,202**	1,995
Parts and other	**142**	146
	$8,589	$8,096

4. NET INVESTMENT IN LEASES

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

	December 31, 2008	December 31, 2007
	($ thousands)	
Total minimum lease payments for non-securitized leases	**$129,383**	$110,292
Estimated residual values of leased equipment	**12,491**	10,177
Initial direct costs of lease acquisition	**6,368**	5,371
	148,242	125,840
Unearned income	**(44,456)**	(38,062)
	103,786	87,778
Allowance for doubtful accounts	**(14,032)**	(7,850)
	89,754	79,928
Securitized lease receivable	**1,927**	2,649
Net investment in leases	**91,681**	82,577
Less: Current portion	**(24,263)**	(24,041)
Net investment in leases - long-term portion	**$67,418**	$58,536

	For the year-ended December 31,	
	2008	2007
	($ thousands)	
The activity in the allowance for doubtful accounts is as follows:		
Opening balance	**$7,850**	$6,753
Provision for credit losses	**15,768**	10,871
Impact of change in foreign exchange rates over period	**2,406**	(1,391)
Direct write-downs, net of recoveries	**(11,992)**	(8,383)
Ending balance	**$14,032**	$7,850

Securitization lease receivable - Lease-Win sells financing leases through securitization transactions. In all of those securitizations, Lease-Win 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, 2008	December 31, 2007
	($ thousands)	
Assets under administration from the securitization of leases	**$26,440**	$40,120

During the year, the Fund recognized pre-tax gains of $247,970 (2007 - $560,631), which is net of estimated servicing liabilities of $84,465 (2007 - $262,196) on the securitization of the financing leases. Estimated servicing liabilities of $251,552 (2007 - $284,745) were 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, 2008 and 2007 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, 2008	December 31, 2007
		($ thousands)	
Carrying amount of retained interests	$	**2,286**	3,498
Fair value of retained interests	$	**2,491**	3,815
Weighted average lease term (in years)		**2.56**	2.56
Expected credit losses (annual rate)	%	**0.89**	0.88
Impact on fair value of a 10% adverse change	$	**23**	34
Impact on fair value of a 20% adverse change	$	**45**	67
Residual cash flows discount rate (annual)	%	**6.50**	6.75
Impact on fair value of a 10% adverse change	$	**19**	34
Impact on fair value of a 20% adverse change	$	**38**	68

5. PROPERTY AND EQUIPMENT

On July 17, 2008, the Fund's indirectly wholly-owned subsidiary, Lease-Win, sold the land, building and most of the office furniture located at 4077 Chesswood Drive, Toronto, Ontario for gross proceeds of $1.4 million. Lease-Win and the Fund will remain at this location and rent a portion of the space. The cost of the property and equipment sold totaled $1.9 million with an accumulated amortization value of $189,000. The purchaser assumed the existing mortgage on the property, the balance of which was $882,000 at June 30, 2008. The sale of land and building resulted in a loss of $370,000 including the expenses of the transaction. The sale generated net proceeds before tax of $476,000.

	Cost	Accumulated Amortization	December 31, 2008 Net
		($ thousands)	
Leasehold improvements	$473	($223)	**$250**
Service equipment	197	(75)	**122**
Furniture and equipment	350	(186)	**164**
Service vehicles	15	(8)	**7**
Computer hardware and software	190	(106)	**84**
	$1,225	($598)	**$627**

	Cost	Accumulated Amortization	December 31, 2007 Net
		($ thousands)	
Land	$357	$ -	$357
Building and improvements	1,439	(113)	1,326
Leasehold improvements	467	(142)	325
Service equipment	181	(50)	131
Furniture and equipment	325	(112)	213
Service vehicles	14	(5)	9
Computer hardware and software	237	(86)	151
Computer hardware, software and service equipment under capital lease	62	(40)	22
	$3,082	($548)	$2,534

6. 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, 2008 Net**
			($ thousands)		
Trade names	$6,445	$622	$ -	($454)	**$6,613**
Broker relationships	3,883	525	(1,479)	-	**2,929**
Customer relationships	1,144		(382)	(762)	**-**
Framework agreement	1,300		-		**1,300**
Back-end systems software	222	23	(93)		**152**
	$12,994	$1,170	($1,954)	($1,216)	**$10,994**

As a result of the 2008 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.

As a result of the 2007 annual test for impairment of trade names and other intangible assets, the Fund determined that the carrying value of the customer relationships and trade name for Lease-Win exceeded its fair value in the amount of $713,000 (2006 - $503,000). The impairment reflects Lease-Win's change in policy that is focused on managing yields. This policy may result in less growth and/or marginal contraction of its portfolio. The impairment of these intangible assets is recorded on the income statement as Intangible asset and goodwill impairment.

	Cost	Cumulative Foreign Exchange Adjustment	Accumulated Amortization	Accumulated Impairment	December 31, 2007 Net
			($ thousands)		
Trade names	$6,445	($656)	$ -	($454)	$5,335
Broker relationships	3,883	(425)	(823)	-	2,635
Customer relationships	1,144		(382)	(762)	-
Framework agreement	1,300		-		1,300
Back-end systems software	222	(24)	(47)		151
	$12,994	($1,105)	($1,252)	($1,216)	$9,421

7. GOODWILL

Goodwill represents the difference between business acquisition costs, using the purchase method of accounting, and the fair value of the net tangible assets and identifiable intangible assets acquired.

At September 30, 2007, as a result of the impact of the competitive environment on lease originations experienced by Pawnee, the Fund's U.S. commercial equipment leasing subsidiary, and the changes in the U.S. economy and its effects on charge-offs. Pawnee had generated lower profitability in 2007. Since December 31, 2006, management closely monitored the trends in budget to actual results on a quarterly basis to determine if an impairment trigger was present that would warrant a reassessment of the recoverability of the carrying amount of goodwill prior to the required annual impairment test. During the three months ended September 30, 2007, macroeconomic factors that drive the business continued to affect Pawnee results. As a result of these unfavorable operating conditions and in particular having regard for the results for the month of September and the near term outlook, we performed an interim impairment test in connection with the preparation of our interim consolidated financial statements for the three and nine months ended September 30, 2007.

Based on an assessment as of September 30, 2007, management determined that the carrying value of goodwill for this reporting unit exceeded its estimated fair value and recorded a $9.0 million pre-tax impairment charge. The fair value was determined based primarily on discounted cash flows. Management believes that these factors are a result of the current cycle of Pawnee's industry and anticipates that Pawnee will return to historical growth rate patterns.

Effective December 31, 2007, the Fund completed its annual goodwill impairment test. As a result of the annual test for impairment of goodwill, the Fund determined that the carrying value of the Canadian automotive operations exceeded its fair value in the amount of $3.1 million (2006 - $278,000). The impairment reflects a change in policy that is focused on managing yields and increased competition. This policy may result in less growth and/or marginal contraction of its portfolio. The impairment of goodwill is recorded on the income statement as Intangible asset and goodwill impairment.

In addition to the assessment of goodwill of the reporting units, management considered the assessment of goodwill impairment at the Fund level based on our unit price. As the unit price continues to be lower than expected, a general goodwill impairment of $4.0 million was recorded at December 31, 2007. The unit price of the Fund's units can be used as the basic indicator of value of the Fund as a whole. To use the unit price would assume the stock market is a perfect market and that all investors can accurately predict the future of the current competitive environment on lease originations experienced by Pawnee and the changes in the U.S. economy and its effects on charge-offs. As well, when the Fund's units are thinly traded in the market it is management's belief that the unit price may not be indicative of actual value. Market capitalization has also been shown to be a poor measure of value when there is more than one operating unit. Management believes the value of our operating entities is greater than the market capitalization of the Fund at December 31, 2007. Without an arms-length offer it is hard to determine an accurate measure of value. The $4.0 million impairment is management's best estimate.

As a result of the continued impact of the competitive environment on lease originations experienced by Pawnee, the Fund's U.S. commercial equipment leasing subsidiary, and the challenges in the U.S. economy and its effects on charge-offs. Pawnee has been generating lower profitability in 2008. The Fund assessed the goodwill for impairment at June 30, 2008. Management believes that these factors are primarily a result of the current cycle of Pawnee's industry and the general U.S. economic downturn, and anticipates that Pawnee will return to historical growth rate and earnings patterns, however this return will be later than originally expected. In addition to the assessment of goodwill of the reporting units, management considered the assessment of goodwill impairment at the Fund level based on our unit price. As the unit price continues to be lower than expected, a general goodwill impairment of $14.8 million was recorded at June 30, 2008. As in the prior year, management did not believe the $1.45 market value of the units at June 30, 2008 represented an accurate measure of the Fund as a whole. Management believes the value of the Fund's operating entities is greater than the market capitalization of the Fund at June 30, 2008. However, at June 30, 2008, the Fund's unit price continued to be lower than expected and, given the continued competitive pressures and increased charge-offs, a non-cash impairment loss of $14.8 million was recorded at June 30, 2008 in order to reduce goodwill to the estimated fair value.

Effective December 31, 2008, the Fund completed its annual goodwill impairment test. As a result of the annual test for impairment of goodwill on the reporting units, the Fund determined that no further impairment was required. Management determined that there was no further impairment at December 31, 2008 based on market value as the Fund units were trading at a higher value at December 31, 2008 than June 30, 2008 when the last goodwill impairment was booked.

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

(**) The opening goodwill amount has been adjusted for a cars4U Ltd. contributed surplus amount that should have been eliminated through the accounting of the acquisition using the purchase method.

8. VEHICLE FINANCING

	December 31, 2008	December 31, 2007
	($ thousands)	
Acura Sherway floor plan facilities	**$7,583**	$6,496
Lease-Win warehouse credit facility	**-**	298
	$7,583	$6,794

Sherway LP has an $8.5 million floor plan facility available, bearing interest at the bank's prime rate plus ¼% or the Canadian Dollar Offering Rate ("CDOR") = 1.35%, secured by the related vehicles and a general security agreement over the dealership operation's other assets. The floor plan notes 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.

Lease-Win's warehousing facility is used for the purchase of vehicles pending permanent funding and advances are repayable within 45 days of drawdown. The warehouse facility bears interest at rates from prime plus 0.50% and is secured by the underlying assets and an assignment of book debts and a general security agreement over all assets of Lease-Win.

Please see note 33 for subsequent event.

9. LEASE FINANCING

	December 31, 2008	December 31, 2007
	($ thousands)	
Pawnee credit facility	**$46,369**	$42,810
Lease-Win credit facility	**3,037**	2,177
Lease financing	**$49,406**	$44,987

a) Pawnee has a credit facility that allows borrowings of up to U.S.$57.5 million subject to, among other things, certain percentages of eligible gross lease receivables, of which U.S.$38.0 million was utilized at December 31, 2008 (2007 U.S.$43.5 million). This credit facility is secured by substantially all of Pawnee's assets, contains negative covenants including the maintaining of leverage and interest coverage ratios, requires Pawnee to mitigate its interest rate risk by entering interest rate swaps for a notional amount not less than 50% of the aggregate commitment, and matures on April 28, 2011. Upon Pawnee's recognition of a non-cash interest charge during the year ended December 31, 2008, 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. Upon Pawnee's recognition of goodwill impairment during the year ended December 31, 2007, 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. See note 12 for information relating to interest rate swaps affiliated with this credit facility.

b) Lease-Win's financing is collaterized 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 has an authorized credit facility of $4.0 million to be used for the purchase of assets for leasing. At the inception of each loan, Lease-Win has the right to fix the interest rate for the term. The floating rate loans bear interest at the bank's prime rate plus 0.25%. Lease-Win has the right to fix the rate on all its floating rate debt at the bank's prime rate plus 0.75%. The lease financing is scheduled to be repaid over a period not exceeding the term of the underlying leases, but is due on demand. Subsequent to year-end the bank adjusted the interest rates on this credit facility, see note 33.

Lease-Win also has the following authorized credit facilities available:

Demand loan – service leases or daily rental usage $200,000
Demand loan – non-automotive equipment. $1,500,000
Demand loan – used vehicle financing $1,000,000

The demand loans are available to facilitate the purchase of new vehicles for service loaners or daily rental usage and equipment. These loans bear interest at rates from prime plus 1% and are secured by the underlying asset and an assignment of book debts and a general security agreement over all assets of Lease-Win. At December 31, 2008 and 2007, these facilities were not utilized.

For a summary of the aggregate amount of minimum payments required on all debt, please see note 16.

10. 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. From the past experience of the predecessor companies, a very high percentage of the customer's 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, 2008	December 31, 2007
	($ thousands)	
Security deposits that will be utilized within one year	$1,852	$1,437
Security deposits that will be utilized in future years	9,429	8,461
Customer security deposits	$11,281	$9,898

11. SERVICING LIABILITY

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

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 return, Pawnee receives payment of a LIBOR based floating rate amount. Pawnee's bank has the option to terminate the swaps typically one year prior to the maturity date. The interest rate swaps are intended to offset a portion of the variable interest rate risk on the credit facility.

In July 2008, Pawnee repriced and extended a U.S. $15,000,000 interest rate swap from 5.09% set to mature in March 2010 to 4.8% with a maturity date of March 28, 2012.

In November 2008, Pawnee repriced and extended a U.S. $15,000,000 interest rate swap from 4.14% set to mature in March 2010 to 3.36% with a maturity date of March 28, 2011.

Pawnee did not renew the U.S. $5,000,000 interest rate swap that matured in October 2008.

The following were the interest rate swaps outstanding at December 31, 2008:

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

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

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

13. FOREIGN CURRENCY FORWARD EXCHANGE CONTRACTS

The Fund had entered into foreign exchange contracts to manage its exposure to the U.S. dollar as significant cash flows are generated in the U.S. The Fund sold specific amounts of currencies at predetermined rates and exchange rates, which were matched with the anticipated operational cash flows. Contracts in place at December 31, 2007 include future contracts of U.S.\$15.6 million until 2010 at a weighted average exchange rate of CDN\$1.0914 per U.S. \$1.00. There was a net unrealized gain of \$1,504,589 from these hedge contracts at December 31, 2007. On March 18, 2008, the Fund sold its foreign exchange forward contracts and realized a gain of \$1.2 million.

	For the year ended December 31, 2008	For the year ended December 31, 2007
	(\$ thousands)	
Unrealized gain/(loss) on revaluation of foreign exchange contracts	**(\$270)**	\$2,802
Unrealized (gain)/loss on conversion of certain balance sheet and income statement balances and transactions during the year	**110**	(91)
Actual loss on foreign exchange on movement of funds from the United States during the year	**78**	70
	188	(21)
Net gain (loss) on foreign exchange	**(\$82)**	\$2,781

14. MORTGAGE PAYABLE

In 2008, upon the sale of the land and building located at 4077 Chesswood Drive, Toronto, Ontario, the mortgage payable was assumed by the purchaser of the land and building. The mortgage, which had an original principal amount of \$1.1 million with an interest at the rate of 7.25% per annum, had monthly installments of principal and interest of \$9,975, and was due December 18, 2013 and was secured by the land and building. The balance at December 31, 2007 was \$910,000.

15. CONVERTIBLE DEBENTURES

At the time of the Plan of Arrangement, one of the companies incorporated into the Plan had an outstanding \$3.5 million principal amount of convertible debentures (the "cars4U Debentures"). These cars4U Debentures bore interest at a rate of 9% per annum, payable quarterly, and were due on February 10, 2006. The cars4U Debentures were amended so as to provide for (among other things) an extension of the due date to August 10, 2008 and for the issue of debentures by the Fund (in replacement of the cars4U Debentures) upon completion of the Arrangement ("Fund Issued Debentures"). Upon completion of the Plan of Arrangement, these convertible debentures were replaced by the issuance of the Fund Issued Debentures. The Fund Issued Debentures are convertible into Fund Units, at the holders' option, at a conversion price of \$15.58 per Fund Unit. The Fund Issued Debentures will be automatically converted into Fund Units in the event that the 20-day average price for the Fund Units is at least \$20.16 per Fund Unit.

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

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

During the year ended December 31, 2008, interest of $328,545 (2007 - $315,000) was expensed relating to these Debentures of which $216,419 (2007 - $196,200) pertained to related parties.

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

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

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 stock price volatility. Because the conversion option of the convertible debentures has 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 conversion option.

16. MINIMUM PAYMENTS

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

($ thousands)	2009	2010	2011	2012	2013 and beyond	Total
Lease-Win's lease financing (*)	$3,037	$ -	$ -	$ -	$ -	$3,037
Pawnee's lease financing credit facility	-	-	46,369	-	-	46,369
Convertible debentures	-	-	3,500	-	-	3,500
Total	$3,037	$ -	$49,869	$ -	$ -	$52,906

(*) $3.0 million of the lease financing would only be payable in 2009 if the bank called the loan, which is not anticipated, otherwise the loan is payable over the term of the underlying leases.

17. 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 (recovery) consists of the following for:

	For the year ended December 31, 2008	For the year ended December 31, 2007
	($ thousands)	
Current income tax (recovery) expense	$(2,440)	$2,493
Future income tax (recovery) expense	869	(2,785)
Total income tax (recovery) expense	($1,571)	($292)

We have reduced our taxable income and, therefore, our calculation of income tax expense by interest expense on intercompany notes that bear interest at 12% and are eliminated in consolidation. The interest expense on these notes was U.S.$893,332 for the year-ended December 31, 2008 and U.S.$4,020,000 for the year-ended December 31, 2007. The reduced interest expense for the 2008 year as compared with the 2007 year was the result of a temporary waiver by the holder of the note in respect of the 2008 year.

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

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 assuming no changes in the current structure occur. 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.

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 corporations and are tax paying entities. The Fund estimates that the unrecognized temporary differences, in the other subsidiaries, outstanding as of December 31, 2008 that will remain outstanding as of January 1, 2011 is approximately $3 million. The Fund's estimate of its future income taxes will vary based on actual results of the factors described above, and such variations may be material.

The table below shows the reconciliation between income tax recovery reported in the Statement of Loss and the income tax recovery that would have resulted from applying the Canadian federal tax rate of 33.5% to pre-tax loss.

	For the year ended December 31, 2008	For the year ended December 31, 2007
	($ thousands)	
Loss before income taxes	**($14,401)**	($4,810)
Less: Income of the Fund taxable to the recipient	**(2,443)**	(6,096)
Loss before income taxes	**(16,844)**	(10,906)
Canadian income tax rate	**33.50%**	36.12%
Expected income tax expense (recovery)	**(5,643)**	(3,939)
Dividend income in recipient income above on which taxes were paid	**565**	1,245
Tax cost of non-deductible items		
Unrealized foreign exchange (gain) loss	**106**	(1,012)
Realized foreign exchange gain	**414**	-
Amortization and impairment of intangible assets	**5,190**	4,877
U.S. withholding taxes paid	**29**	45
Non-cash interest expense in subsidiary	**(964)**	-
Capital taxes paid (refund)	**(13)**	5
Tax cost of deductible items		-
IPO costs	**(539)**	(582)
SIFT – future tax asset	**-**	(914)
Reduction in income taxes	**(200)**	58
Other timing differences	**(385)**	(137)
Higher effective income tax rates in foreign jurisdictions	**(131)**	62
Recovery of income taxes	**($1,571)**	($292)

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, 2008	December 31, 2007
	($ thousands)	
Future tax assets		
Leased assets	**$22,701**	$29,584
Allowance for doubtful accounts	**5,168**	2,829
Amount related to tax losses carried forward	**611**	1,433
Difference in goodwill and intangible asset base	**101**	59
Accrued liabilities	**1,055**	158
	29,636	34,063
Future tax liabilities		
Direct financing lease receivables	**$42,862**	$44,842
	$42,862	$44,842
Future income taxes payable	**$13,226**	$10,779
Future income tax asset – SIFT difference in goodwill and intangible asset base	**914**	914
Net future income taxes payable	**$12,312**	$9,865

The $611,000 relating to tax losses expire in 2010.

18. FINANCIAL INSTRUMENTS

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

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

As at December 31, 2008 and 2007, the estimated fair value of other financial assets and liabilities approximates their carrying values.

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

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

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

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

Pawnee has a credit facility that allows borrowings of up to U.S.$57.5 million subject to, among other things, certain percentages of eligible gross lease receivables, of which U.S.$38.0 million was utilized at December 31, 2008 (2007 U.S.$43.5 million). This credit facility is secured by substantially all of Pawnee's assets, contains negative covenants including the maintaining of leverage and interest coverage ratios, requires Pawnee to mitigate its interest rate risk by entering interest rate swaps for a notional amount not less than 50% of the aggregate commitment, and matures on April 28, 2011. At this time, management believes that the syndicate of financial institutions that provides Pawnee's credit facility is financially viable and will continue to provide this facility, however there are no guarantees in the current economic environment. Fees on the credit facility may increase, however we believe that any increases would be within market rates.

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

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

Accounts receivable, which totaled $1.2 million at December 31, 2008 (2007 - $3.2 million), principally relates to the Acura Sherway dealership and includes amounts due from the manufacturer and financing contracts in transit, which are typically collected within seven to ten days. Credit risk is primarily limited to the concentration of the receivable with the automotive manufacturer.

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

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

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

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

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

d) Interest rate risk

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

The Fund's cash is used to finance working capital, which is short-term in nature, and is at floating interest rates. The vehicle financing used to finance the inventory, which is short-term in nature, is also at floating interest rates thus exposing the Fund to interest rate fluctuations. Subsequent to December 31, 2008, the Canadian automotive operations' chartered bank increased the rates on the credit facilities, see note 33.

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

Pawnee's credit facility requires Pawnee to mitigate its interest rate risk by entering interest rate swaps for a notional amount not less than 50% of the aggregate commitment. The interest rate swap agreements provide for payment of an annual fixed rate. In return, Pawnee receives payment of a LIBOR based floating rate amount. The interest rate swaps are intended to offset a portion of the variable interest rate risk on the credit facility. See note 12 for more information relating to interest rate swaps associated with this credit facility.

Lease-Win finances its activities using both fixed rate and floating rate funds. All of Lease-Win's $3.0 million lease financing is at the floating rate. Lease-Win has the right to fix the rate on all its floating rate debt at the bank's prime rate plus 0.75% (see note 9 for further disclosure of facility and rates). The leases financed through securitization can be financed at fixed or floating rate. As at December 31, 2008, approximately $2.9 million of Lease-Win's $30.3 million securitized gross lease receivables were funded on a floating rate basis.

The following table presents a sensitivity analysis to hypothetical changes in market interest rates and their potential impact on the Fund for the year-ended December 31, 2008:

	+100 bps	-100 bps
	($ thousands)	
Increase (decrease) in interest expense	121	(121)
Increase (decrease) in net income	(95)	95

The following are the minimum principal payments required on debt:

($ thousands)	2009	2010	2011	2012	2013 and beyond	Total
Lease-Win's lease financing	$907	$707	$1,146	$277	$ -	$3,037
Pawnee's lease financing credit facility	-	-	46,369	-	-	46,369
Convertible debentures	-	-	3,500	-	-	3,500
Total	$907	$707	$51,015	$277	$ -	$52,906

e) Foreign exchange risk

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

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

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

U.S. Denominated Balances ($'000s)	December 31, 2008	December 31, 2007
Foreign exchange risk to balance sheet		
Year-end exchange rate	1.2246	0.9881
Cash	$529	$794
Prepaid expenses and other assets	4,935	1,294
Net investment in leases	67,408	74,968
Capital assets – net	135	159
Goodwill and intangible assets	17,108	31,898
U.S. denominated assets in U.S.$	$90,115	$109,113
Effect of a 10% increase or decrease in the Cdn/U.S. dollar on assets	$11,035	$10,781
Accounts payable and accrued liabilities	2,437	2,158
Lease financing	37,864	43,326
Customer security deposits	9,022	9,794
Interest rate swap contracts	2,250	744
Future income taxes payable	7,056	5,878
U.S. denominated assets in U.S.$	$58,629	$61,900
Effect of a 10% increase or decrease in the Cdn/U.S. dollar on liabilities	$7,180	$6,116
U.S. denominated net assets in U.S.$	$31,486	$47,213
U.S. denominated net assets in CDN$	$38,558	$46,651
Effect of a 10% increase or decrease in the Cdn/U.S. dollar on U.S. denominated net assets	$3,855	$4,665
Foreign exchange risk to income statement		
Net loss from U.S. in U.S.$	($11,542)	($4,171)
Average exchange rate	1.0660	1.0748
Net loss from U.S. in Cdn$	(12,304)	(4,483)
Effect of a 10% increase or decrease in the Cdn/U.S. dollar on U.S. denominated net loss	$1,277	$448
Foreign exchange risk to cash flows to the Fund		
Cash flow received from U.S. subsidiary – U.S.$	$3,035	$7,276
Average exchange rate	1.066	1.0748
Cash flow received from U.S. subsidiary – CDN$	$3,235	$7,820
Effect of a 10% increase or decrease in the Cdn/U.S. dollar on U.S. denominated cash flow	$323	$782

Capital Management

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

The Fund's capital is not subject to any capital requirements imposed by a regulator. However, each of the Fund's operating subsidiaries is subject to bank and/or manufacturer covenants relative to leverage and/or working capital. These bank covenants safeguard the capital in each of its operating subsidiaries. Pawnee is restricted in its ability to further merge, acquire companies or be acquired, or incur additional debt without lender approval. Furthermore, dividends from Pawnee are limited to compliance with all bank covenants and may not exceed 95% of Pawnee's consolidated net income, as determined in accordance with U.S. GAAP, excluding mark-to-market adjustments for interest rate swaps.

The Fund's subsidiaries' objective is to maintain low cash balances, investing any free cash in leases as needed and using any excess to pay down debt on the primary financing facilities. The subsidiaries fund working capital needs, lease originations and growth using advances under credit facilities available when operating cash flow is not sufficient. At December 31, 2008, the Fund's operating units had $25.1 million in additional borrowings available under various credit facilities to fund business operations.

Pawnee has a credit facility that allows borrowings of up to U.S.$57.5 million subject to, among other things, certain percentages of eligible gross lease receivables, of which U.S.$38.0 million was utilized at December 31, 2008 (2007 U.S.$43.5 million). This credit facility is secured by substantially all of Pawnee's assets, contains negative covenants including the maintaining of leverage and interest coverage ratios, requires Pawnee to mitigate its interest rate risk by entering interest rate swaps for a notional amount not less than 50% of the aggregate commitment, and matures on April 28, 2011. During the first quarter of 2009, the maximum permitted borrowings under Pawnee's credit facility was voluntarily reduced by U.S.$5 million (to U.S.$52.5 million, as reflected above) and its borrowing rate was increased slightly; however, the credit facility continues to provide significant room for growth and an attractive borrowing rate.

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

Under Pawnee's debt to equity covenant calculation, customer security deposits are treated as an offset to net investment in leases and are not considered a debt. Below is the consolidated debt to equity analysis. There are no bank covenants relating to the consolidated debt to equity calculation.

	December 31, 2008	December 31, 2007
	($ thousands except ratio)	
Debt	$78,073	$69,459
Equity	$55,004	$59,386
Debt/Equity	1.42	1.17

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

Extension of Convertible Debentures - The $3.5 million principal amount of convertible debentures that were due on August 10, 2008 (the "Debentures"), were amended and restated so as to provide (among other changes) for an extension of the maturity date to January 31, 2011.

19. NON-CONTROLLING INTEREST

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

The non-controlling interest had been comprised of:

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

Of the $2,556,000 amount, $957,000 was reclassified to opening accumulated other comprehensive income (loss) and $1,599,000 was allocated to opening deficit for 2008. The restatement did not have an impact on loss per unit for 2007.

20. 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 U.S. Acquisitionco Co Ltd. shares *(000's)*	Total *($ thousands)*
Opening Fund Units	-	-	$ -
Fund units issued on initial public offeringg	5,778	-	57,782
Fund units issued to former cars4U Ltd. shareholders	1,241	-	12,405
Class C U.S. Acquisitionco shares fully exchangeable to Fund Units	-	204	2,039
Issuance costs (less non-controlling interest share of costs)	-	-	(6,843)
Fund units issued for deferred purchase consideration *(note 21)*	22	-	175
Fund Units – December 31, 2006 and 2007, as previously stated	7,041	204	$65,558
Class B U.S. Acquistionco shares reclassified from non-controlling interest *(note 19)*	-	1,275	10,583
Fund Units – December 31, 2008, 2007, and 2006 restated	**7,041**	**1,479**	**76,141**

21. DEFERRED PURCHASE CONSIDERATION

On February 25, 2004, Lease-Win purchased the shares and business operations (representing primarily intangible assets) of KRGcars4U Inc. for $690,596. The estimated cost of the contingent consideration that was provided in the KRGcars4U Inc. purchase agreement was payable in common shares of cars4U Ltd. in August 2006 and was shown in the equity section of the consolidated balance sheet as deferred purchase consideration. The maximum number of cars4U Ltd. shares, which could have been issued under the purchase agreement was 500,000 shares. Given the conversion to Fund, the contingent consideration was payable through the issue of Fund Units. The maximum number of Fund Units issuable under the purchase agreement was 27,100, and translated to a value of $271,000. Based on the formula of the contingent consideration 21,842 units were issued on September 25, 2006 which had a value of $174,736.

22. 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 were no amounts accrued for under the LTIP for the year-ended December 31, 2008 and the period ended December 31, 2007.

b) Unit based compensation

Certain key employees and officers of certain of the Fund's Entities participate in a unit-based compensation plan. Compensation costs related to unit options granted to eligible employees are recognized as a charge to earnings over the vesting period, based on the fair value of the unit options on the grant date.

An analysis of the unit-based options outstanding under the employee unit option plan and other arrangements is as follows:

	Number of options	Weighted average exercise price
Outstanding – Beginning of period	113,639	$9.88
Forfeited	13,639	$8.98
Outstanding – end of period	100,000	$10.00
Options outstanding and exercisable at December 31, 2008 (2007 - 113,639)	100,000	$10.00

Grant date	Number of options	Vested	Expiry date	Exercise price
May 10, 2006	100,000	100,000	May 9, 2016	$10.00

Included in contributed surplus is $74,045 relating to 100,000 options granted on May 10, 2006. The weighted average grant date fair value of the options was $0.65. During 2008, 13,639 options were forfeited as the individual is no longer associated with the Fund.

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 unit options granted on May 10, 2006:

	New Options
Number of options granted	100,000
Expected annual distribution	$1.15
Expected volatility	20.0%
Risk-free interest rate	4.46%
Expected life	10 years

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 Fund's unit option plan has 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 granted.

23. 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 trustees of the Fund.

The decision to reduce monthly distributions was made as a result of the impact of the current competitive environment faced by Pawnee as well as the softening in certain sectors of the U.S. economy.

The Fund declared the following cash distributions during the years ended December 31, 2008 and 2007:

Unitholder Record Date	Per Unit	2008 Distributions	Unitholder Record Date	Per Unit	2007 Distributions
		($ thousands)			*($ thousands)*
January 31, 2008	$0.057	$401	January 31, 2007	$0.0958	$675
February 28, 2008	$0.057	401	February 28, 2007	$0.0958	675
March 31, 2008	$0.057	401	March 31, 2007	$0.0958	675
April 30, 2008	$0.057	401	April 30, 2007	$0.0958	675
May 31, 2008	$0.057	401	May 31, 2007	$0.0958	675
June 30, 2008	$0.057	401	June 30, 2007	$0.0958	674
July 31, 2008	$0.057	401	July 31, 2007	$0.0958	674
August 31, 2008	$0.025	176	August 31, 2007	$0.0958	674
September 30, 2008	$0.025	176	September 30, 2007	$0.0958	674
October 31, 2008	$0.025	176	October 31, 2007	$0.0958	674
November 30, 2008	$0.025	176	November 30, 2007	$0.0570	401
December 31, 2008	$0.025	176	December 31, 2007	$0.0570	401
		$3,687			$7,547
Distributions declared to Class B & C shareholders during period		122			923
Total distributions		$3,809			$8,470

Pursuant to the purchase agreement by which the Fund acquired Pawnee, the holders of Class B and Class C shares of U.S. Acquisitionco, agreed to a reduction of U.S. $888,762 in 2007, against the dividends otherwise payable on such shares. This reduction became effective in May 2007 and therefore the distributions to the holders of Class B and Class C shares are reduced by U.S. $74,063 a month, for one year. This reduction does not relate to any subordination of distributions.

The Fund announced on October 30, 2007, that it was reducing its monthly distributions to 5.70 cents from 9.58 cents per unit commencing with the distribution for the month-ended November 30, 2007, which was paid on December 17, 2007. Pursuant to the purchase agreement by which the Fund acquired Pawnee, the holders of Class B shares of U.S. Acquisitionco, agreed to subordinate the dividends payable on such shares if the monthly distributions to unitholders of the Fund were reduced less than 9.58 cents per unit. The subordination of dividends on the Class B shares was effective up to November 8, 2008.

The Fund announced on August 20, 2008, that it was reducing its monthly distributions to 2.50 cents from 5.70 cents per unit commencing with the distribution for the month-ended August 31, 2008, which was paid on September 15, 2008.

24. LOSS PER UNIT

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

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

Weighted average:	2008	2007
Units outstanding	7,040,558	7,040,558
Class B shares	1,274,601	1,274,601
Class C shares	203,936	203,936
Weighted average Units outstanding	8,519,095	8,519,095

A convertible debenture, convertible into 1,000,000 units (2007 - 224,647 units), and options to purchase 100,000 units (2007 - 113,639 units) were outstanding during the year but were excluded from the calculations of diluted loss per unit due to their anti-dilutive effect.

25. CASH FLOW SUPPLEMENTARY DISCLOSURE

	For the year-ended December 31, 2008	For the year-ended December 31, 2007
	($ thousands)	
Interest paid	$3,854	$4,501
Income tax installments paid	$1,332	$3,462
Non-cash transactions		
Mortgage assumed by purchaser of property and equipment	$882	-

26. 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 and which are customary in the industry.

Trustee, Director and Officer Insurance - The Fund has entered into agreements which contain indemnification of its trustees, directors and officers to indemnify them against expenses (including legal fees), judgments, fines and any amount actually and reasonably incurred by them in connection with any action, suit or proceeding in which the trustees, directors and/or officers are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of the Fund. The Fund benefits from directors' and officers' liability insurance which is purchased by the Fund. No amount has been accrued in the consolidated balance sheet as of December 31, 2008 and 2007 with respect to this indemnity.

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 percentage identity of stock ownership that results. 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 in the Fund 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.

27. CONTINGENCIES AND COMMITMENTS

Contingencies
In the normal course of business activities, the Fund's subsidiaries are subject to a number of claims and legal actions that may be made by customers, suppliers and others in respect of which either an adequate provision has been made or for which no material liability is expected.

Commitments
The Fund entities are committed to aggregate minimum rental payments under existing lease for premises as follows:

	December 31, 2008
	($ thousands)
2009	$519
2010	603
2011	609
2012	460
2013	192
Thereafter	-
Total	$ 2,383

28. RELATED PARTY TRANSACTIONS

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

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

29. ECONOMIC DEPENDENCE

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

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

30. SEASONAL OPERATIONS AND SIGNIFICANT ESTIMATES

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

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

31. COMPARATIVE FIGURES

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

Effective November 9, 2008, the restrictions on distributions and conversion of the Class B common shares ceased and therefore the non-controlling interest were reclassified as Unitholders' Equity. Per EIC 151, the reclassification of non-controlling interest to Unitholders' Equity was applied retroactively with restatement of prior periods.

32. SEGMENTED INFORMATION

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

	For the Year-Ended December 31, 2008 ($ thousands)		
	Canada	**U.S.**	**Total**
Revenue	$55,538	$28,367	$83,905
Gross profit	8,943	28,367	37,310
Interest expense	741	3,253	3,994
Amortization	190	613	803
Corporate overhead	1,574	-	1,574
Income before other items	**323**	**2,364**	**2,687**
Goodwill and intangible asset impairment	(780)	(14,043)	(14,823)
Unrealized loss on interest rate swaps		(1,813)	(1,813)
Loss on sale of property and equipment	(370)	-	(370)
Unrealized loss on foreign exchange	(82)	-	(82)
Loss before income taxes	**(909)**	**(13,492)**	**(14,401)**
Recovery of income taxes	(383)	(1,188)	(1,571)
Net loss	**(526)**	**(12,304)**	**(12,830)**
Total Assets	29,292	115,066	144,358
Net investment in leases	9,133	82,548	91,681
Goodwill	2,520	15,992	18,512
Intangible assets	1,300	9,694	10,994
Property and equipment expenditures	42	33	75

	For the Year-Ended December 31, 2007 ($ thousands)		
	Canada	**U.S.**	**Total**
Revenue	$57,540	$30,798	$88,338
Gross profit	9,405	30,798	40,203
Interest expense	833	3,837	4,670
Amortization	484	615	1,099
Corporate overhead	1,765	-	1,765
Income (loss) before other items	**(114)**	**10,186**	**10,072**
Goodwill and intangible asset impairment	(3,812)	(13,018)	(16,830)
Unrealized loss on interest rate swaps	-	(833)	(833)
Unrealized gain on foreign exchange	2,781	-	2,781
Loss before income taxes	**(1,145)**	**(3,665)**	**(4,810)**
Provision for (recovery of) income taxes	(1,110)	818	(292)
Net loss	**(35)**	**(4,483)**	**(4,518)**
Total Assets	30,930	107,813	138,743
Net investment in leases	8,501	74,076	82,577
Goodwill	3,300	23,398	26,698
Intangible assets	1,330	8,091	9,421
Property and equipment expenditures	36	48	84

33. SUBSEQUENT EVENTS

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

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

Other Information

Auditors
BDO Dunwoody LLP

Transfer Agent
Equity Investment Services Inc.

Corporate Counsel
McCarthy Tétrault LLP

Website
www.chesswoodfund.com

Toronto Stock Exchange Symbol
CHW.UN

Chesswood
Income Fund

TSX: CHW.UN

4077 Chesswood Drive
Toronto, Ontario, Canada M3J 2R8
Tel. 416.386.3099 Fax. 416.386.3085
www.chesswoodfund.com