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)

Please see notes to consolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

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

Chesswood Income Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario pursuant to its Declaration of Trust dated February 16, 2006. The Fund is authorized to issue an unlimited number of trust units ("Fund Units"). The Fund was created to invest in the financial services industry in Canada and the United States 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%.