Chesswood Income Fund

2007 Annual Report

TABLE OF CONTENTS

TO OUR UNITHOLDERS

We are pleased to present Chesswood's results for 2007. This year is likely to be remembered for the significant changes that took place late in the year in the U.S. financial services sector – special investment vehicle liquidity challenges and large write-offs by U.S financial institutions, stemming mostly from sub prime residential mortgages. While these events did affect us in the last few months of the year, the balance of our fiscal year was not influenced by these issues.

We had three large non-cash items affect our net income in the year. More specifically, we wrote down our Goodwill by $16.8 million, recognized an unrealized gain on foreign exchange contracts of $2.8 million, and recognized an unrealized loss on interest rate swap agreements of $833,000. Prior to these items, our income before tax totaled $10.1 million or approximately $1.18 per unit, on a diluted basis. We achieved this level of profitability notwithstanding having increased our allowance for bad debts in our U.S. business by 37% for the year, or approximately U.S.$2.1 million.

Chesswood receives cash flow from our Pawnee Leasing Corporation subsidiary, based on Pawnee's monthly net income. In a somewhat unique confluence of events, the higher allowance levels, while a non-cash expense, reduce the cash flow to Chesswood (by reducing net income), and therefore allow Pawnee to reduce its indebtedness and portfolio leverage. While Pawnee's leverage has always been modest, it improved through the course of the year, resulting in improved balance sheet strength for Pawnee and Chesswood, at a fortuitous time.

As we have indicated in the recent past, we continue to remain disciplined in the face of loose credit standards that we believe do not reflect the risk profile of our market in the United States. We believe that the industry risk profile is worsening as commercial and consumer credit continues to erode in the U.S. in the early stages of 2008. We also believe that our disciplined pricing and underwriting, while difficult in the face of potential negative portfolio growth, is critical in this cycle.

While we are not pleased with the current market price of our units, we are committed to and focused on the long-term interests of our operating businesses, which ultimately underpin the value of our units.

Many thanks to our stakeholders and staff for their efforts on Chesswood's behalf in 2007. The staff in each of our three businesses works diligently each and every day with a commitment that is truly admirable.

B. Shafran

Barry Shafran
President & CEO

FUND PROFILE

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

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

The Fund's annual information form for the year-ended December 31, 2007 is available on SEDAR at www.sedar.com, and provides additional information on the Fund and its operating companies.

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

BUSINESS OF PAWNEE

Pawnee is an equipment leasing company that provides lease financing on micro and small-ticket business equipment. Pawnee focuses on small businesses in the start-up and "B" credit segment of the U.S. leasing market, servicing the lower 48 states through a network of approximately 550 independent brokers. As of December 31, 2007, Pawnee administered over 7,200 leases in its portfolio, with remaining scheduled lease payments of approximately US$107.2 million over the next five years.

The business of Pawnee accounted for approximately 95.8% of the consolidated Adjusted EBITDA (see "Non-GAAP Measures" in our MD&A below) of the Fund for the year ended December 31, 2007.

Pawnee finances equipment leases where generally:

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

Pawnee's business does not involve leasing of consumer goods.

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

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

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

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

- unlike sub-prime mortgage companies, Pawnee does not provide funding to the residential consumer, and funds only "business essential" commercial equipment,

- Pawnee does not sell its leases, but rather retains its leases for their full term,

- Pawnee's revenues are derived directly from its leases and are not derived from (and therefore, and more importantly, Pawnee's revenues are not dependent upon) fees from the sale of its portfolio of leases, and

- not only is there significant geographic diversification (within the United States) within Pawnee's portfolio of leases, there is also significant diversification in terms of the equipment funded and significant diversification in terms of the industries in which Pawnee's lessees operate.

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

As of December 31, 2007, Pawnee employed approximately 42 full-time equivalent employees, of which over one-third are specifically dedicated to collection and default remediation.

LEASE-WIN AND SHERWAY LP

Founded in 1971, Lease-Win leases predominantly new vehicles of all makes to individual and corporate clients.

Lease-Win currently has approximately 1,700 leases in its portfolio under administration with remaining scheduled lease payments totaling approximately $52.9 million as at December 31, 2007. Virtually all of Lease-Win's leases are open-ended leases, which limits Lease-Win's exposure to losses where the fair market value of a leased vehicle is less than its residual value at the end of the lease term.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") is a review of the financial condition and results of operations of Chesswood Income Fund ("Chesswood" or the "Fund"). This discussion should be read in conjunction with the consolidated financial statements and accompanying notes of the Fund for the year-ended December 31, 2007. The financial statements of the Fund are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The fiscal year of the Fund ends on December 31. The date of this MD&A is March 13, 2008.

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

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

Our annual information form in respect of the period ended December 31, 2007 is available on SEDAR at www.sedar.com, and provides additional information and should be read in conjunction with this report, management discussion and analysis, financial statements and notes thereto.

Prior period comparative financial information of the Fund is not available for the full period and, under generally accepted accounting principles accepted in Canada, has not been presented in the financial statements and notes thereto. However, in order to provide comparative financial information with respect to the Fund's consolidated results of operations for the year ended December 31, 2007, we have prepared pro-forma unaudited combined results of operations of cars4U Ltd. and Pawnee for the period from January 1, 2006 to December 31, 2006 (see "Comparative Financial Information" below).

OVERVIEW

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario pursuant to a declaration of trust. 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 interests in Lease-Win Limited ("Lease-Win") and Sherway LP, the Fund is involved in leasing automobiles and selling, servicing and leasing Acura automobiles in the Province of Ontario.

The business operations of Pawnee accounted for approximately 78.4% of the total assets of the Fund and approximately 95.8% of the consolidated Adjusted EBITDA (see "Non-GAAP Measures" below) of the Fund for the year-ended December 31, 2007.

Initial Public Offering in 2006

Chesswood is a financial services trust which initiated operations 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 primarily used for the acquisition of Pawnee.

On May 10, 2006, under a Plan of Arrangement, the Fund directly acquired all of the assets and undertaking of cars4U Ltd. and its subsidiaries by the issuance of 1,240,230 units of the Fund ("Fund Units") in exchange for the outstanding shares of cars4U Ltd.

The Fund filed a prospectus dated May 2, 2006 for its initial public offering, which closed on May 10, 2006, for the sale to the public of 5,778,193 Fund Units at a price of $10 per unit for net proceeds of approximately $50,964,308, after deducting expenses of the offering and related transactions and underwriters' fees totaling $8.0 million. cars4U Ltd. utilized approximately $1.2 million of its own funds to cover expenses of the initial public offering.

The Fund indirectly acquired Pawnee through Chesswood U.S. Acquisition Co Ltd. ("U.S. Acquisitionco") for a combined total of US$43.4 million in cash and US$13.3 million through the issue of approximately 1.3 million Class B common shares of U.S. Acquisitionco (which are exchangeable, for no additional consideration, on a one-for-one basis for Fund Units from and after November 8, 2008) and approximately 204,000 Class C common shares of U.S. Acquisitionco (which have the same exchange rights as the Class B common shares, but which are exchangeable at any time); and provided US $1.0 million to Pawnee for working capital and US$1.5 million to Pawnee as reimbursement of the repurchase price of outstanding stock appreciation rights at Pawnee.

Subject to the application of certain subordination of distribution entitlements, the Class B common shares and Class C common shares of U.S. Acquisitionco entitle the holders to per share distributions equal to the distributions made on the Fund Units. Unless otherwise indicated, distributions on the Class B and Class C common shares of U.S. Acquisitionco were the same as those on the Fund Units.

OUTLOOK

Management expects the challenging conditions in the U.S. financial services markets to continue, at a minimum, for most of 2008. Recessionary effects may further dampen the shorter-term economic outlook in the United States.

Management continues to be focused on analyzing the performance and behaviour of its portfolio, assessing its credit adjudication processes and market trends, so as to adjust, where possible, for changing economic conditions. These adjustments can include a tightening of credit standards, which in turn could affect the level of new lease originations.

Management is also focused on positioning its U.S. based business for opportunities that it believes may present themselves as market conditions ultimately improve in the U.S.

The recently announced Stimulus Package in the U.S. included a provision which allows for businesses to claim depreciation for tax purposes at accelerated rates. This provision will allow Pawnee to reduce its cash taxes otherwise payable for 2008 by several million dollars, at minimum, thereby improving Pawnee's expected cash flow and leverage for the year.

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

FORWARD-LOOKING STATEMENTS

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

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

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

KEY PERFORMANCE INDICATORS - PAWNEE

Management regularly evaluates and analyzes the following key performance indicators to more effectively operate Pawnee's business: lease application, approval and origination volume, asset quality, and operating efficiency.

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

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

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

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

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

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

KEY PERFORMANCE INDICATORS - Lease-Win

Lease Applications and Origination Volumes
Management regularly reviews lease applications for trends that may indicate changes in the economic or competitive landscape that may necessitate adjustments or changes in Lease-Win's pricing and/or processes. In addition, management tracks, analyzes and compares - to the prior periods and to one another - the volume and margin performance of Lease-Win's leasing sales staff, in order to support and help drive volume and profitability in its vehicle fleet.

Credit Profiles
Lease-Win is an 'A' lessor that provides leasing services to lessees that are of 'A' or higher credit quality, or have guarantors and/or co-lessees of this quality. Notwithstanding this origination requirement, lessee credit profiles can change once a lease has commenced. Lease-Win reviews its accounts receivable aging regularly in order to identify, when possible, potential changes in the creditworthiness of lessees, based primarily on any changes that may appear in payment patterns. It uses this process in order to be proactive in the protection of its leased assets.

OEM Lease Pricing and Short and Long-Term Bond Pricing
Management monitors the lease pricing offered by the vehicle manufacturers in order to more competitively position the products Lease-Win's leasing representatives can offer customers. Short and long-term bond prices are watched closely as well, in order to help manage Lease-Win's cost of capital and to aid in the determination of interest rates for its lease products.

KEY PERFORMANCE INDICATORS – Sherway LP

Gross Margins

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

Absorption Rate

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

NON-GAAP MEASURES

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

EBITDA, Adjusted EBITDA and distributable cash are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA, Adjusted EBITDA and distributable cash may not be comparable to similarly titled measures presented by other issuers. Investors are cautioned that EBITDA, Adjusted EBITDA and distributable cash should not be construed as an alternative to net income (loss) determined in accordance with GAAP as indicators of Chesswood's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. However, management believes that cash flows from operations is not an appropriate measure from which to derive distributable cash because normal day-to-day lease financing transactions are grouped under financing and investing activities in accordance with GAAP and therefore cash flows from operations do not reflect these core activities.

Definitions of EBITDA and Adjusted EBITDA

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

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

DISTRIBUTABLE CASH

Distributable cash is not a defined term under GAAP, but is derived from Adjusted EBITDA, which in turn is derived from net earnings, which is a measure recognized under Canadian GAAP. Management believes that distributable cash is a useful supplemental measure of performance as it provides investors with an indication of the amount of cash available for distribution to unitholders. Distributable cash should not be used as an alternative to using net income as a measure of profitability or as an alternative to the statement of cash flows. However, management believes that cash flows from operations is not an appropriate measure from which to derive distributable cash because normal day-to-day lease financing transactions are required to be grouped under financing and investing activities in accordance with GAAP and therefore cash flows from operations does not reflect these core activities. Our method of calculating distributable cash may not be comparable to similarly titled items reported by other issuers.

The Fund distributed $0.0958 per unit monthly in respect of January to October 2007. The Fund announced on October 30, 2007 that it was reducing its monthly distributions to $0.0570 cents from $0.0958 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 less than $0.0958 cents per unit. The subordination of Class B distributions ends in November 2008. 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 general erosion in the U.S. economy.

	For the three-months ended				
($ thousands except per unit amounts)	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007	For the year-ended December 31, 2007
Net income (loss)	$1,580	$4,041	($6,742)	($2,721)	($3,842)
Interest expense	1,248	1,208	1,142	1,072	4,670
Income tax provision (recovery)	558	(209)	320	(961)	(292)
Amortization expense	292	286	274	247	1,099
Goodwill and intangible asset impairment	-	-	10,512	6,318	16,830
Non-controlling interest	278	710	(1,185)	(479)	(676)
EBITDA *(1)*	**3,956**	**6,036**	**4,321**	**3,476**	**17,789**
Foreign exchange gain	(93)	(1,587)	(1,120)	19	(2,781)
Interest rate swap mark-to-market loss(gain)	292	(319)	486	374	833
Elimination of AcG-12 in Lease-Win	165	223	18	(708)	(302)
Interest on leasing lines	(1,154)	(1,109)	(1,048)	(977)	(4,288)
Adjusted EBITDA *(1)*	**3,166**	**3,244**	**2,657**	**2,184**	**11,251**
Income Taxes – Pawnee provision per GAAP statements	(560)	(756)	(297)	(323)	(1,936)
Amortization expense – Pawnee	(23)	(24)	(19)	(12)	(78)
Capital expenditures	(30)	(45)	(1)	(8)	(84)
Interest on long-term debt	(95)	(98)	(94)	(95)	(382)
Distributable cash *(1)*	**$2,458**	**$2,321**	**$2,246**	**1,746**	**$8,771**
Total distributions declared to unitholders & non-controlling interest *(2)*	$2,448	$2,292	$2,220	$1,511	$8,471
Distributions declared per unit	$0.2874	$0.2874	$0.2874	$0.2098	$1.072

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

(2) 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 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. If Pawnee's distributable cash exceeds a targeted increased annual level, the holders may be entitled to be paid all or a portion of the reduction amount.

SELECTED QUARTERLY FINANCIAL INFORMATION

Fiscal 2007	For the three-months ended				
($ thousands except per unit amounts)	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007	For the year-ended December 31, 2007
Revenue	$21,082	$23,008	21,840	22,408	$88,338
Gross profit	10,457	10,084	9,642	10,020	40,203
Income before tax, non-controlling interest, impairment, and loss on foreign exchange and interest rate swaps	2,615	2,636	2,271	2,550	10,072
Income (loss) before tax and non-controlling interest	2,416	4,542	(7,607)	(4,161)	(4,810)
Net income (loss) before non-controlling interest	1,858	4,751	(7,927)	(3,200)	(4,518)
Net income (loss)	1,580	4,041	(6,742)	(2,721)	(3,842)
Basic and diluted income (loss) per unit	0.22	0.56	(0.93)	(0.38)	(0.53)
Total assets	179,705	165,948	144,355	137,829	137,829
Total long-term financial liabilities	83,905	77,408	72,409	69,798	69,798
Other Data					
Adjusted EBITDA *(1)*	$3,166	$3,244	2,657	2,184	$11,251
Distributable cash	2,458	2,321	2,246	1,746	8,771
Distributions declared (unitholders & non-controlling interest)	2,448	2,292	2,220	1,511	8,471
Distributions declared per unit *(1)(2)*	$0.2874	$0.2874	$0.2874	$0.2098	$1.072

Fiscal 2006	For the period from	For the three-months ended		For the period from
($ thousands except per unit figures)	May 10, 2006 to June 30, 2006	September 30, 2006	December 31, 2006	May 10, 2006 to December 31, 2006
Revenue	$12,733	$22,596	$22,078	$57,407
Gross profit	6,093	10,721	10,456	27,270
Income before tax, non-controlling interest, impairment, and loss on foreign exchange	2,311	4,030	3,033	9,374
Income before tax and non-controlling interest	2,032	3,997	1,213	7,242
Net income before non-controlling interest	1,318	2,710	1,280	5,308
Net income	1,120	2,305	1,089	4,514
Basic and diluted income per unit	$0.16	$0.32	$0.14	$0.62
Total assets *(3)*	176,360	171,231	180,282	180,282
Total long-term financial liabilities	81,889	82,455	88,229	88,229
Other Data				
Adjusted EBITDA *(1)*	$2,712	$4,730	$3,781	$11,223
Distributable cash	1,972	3,215	3,362	8,549
Distributions declared (unitholders & non-controlling interest)	1,363	2,447	2,448	6,258
Distributions declared per unit *(1)(2)*	$0.1607	$0.2874	$0.2874	$0.7355

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

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

(3) In the quarterly financial statements during 2006, intangible assets and goodwill were converted at the historic exchange rate, although they should have been converted at the current exchange rate. The offsetting entry would have been to the cumulative foreign currency translation account in the equity section of the balance sheet, thus there was no income statement impact from this adjustment at year-end. The total assets value in the prior quarters has been adjusted for this correction.

COMPARATIVE FINANCIAL INFORMATION

As described above, the Fund's initial public offering and its indirect acquisition of Pawnee were completed on May 10, 2006. Accordingly, in order to provide the comparative financial information below with respect to our results of operations for the year ended December 31, 2006, we have provided certain pro forma unaudited combined results of operations for cars4U Ltd. and Pawnee for such year.

(unaudited, in thousands of dollars)	For the three months-ended December 31, 2007	For the three months-ended December 31, 2006	For the year ended December 31, 2007	Pro-forma combined results for the year ended December 31, 2006
Average exchange rate for the period	0.9810	1.1384	1.0748	1.1342
Revenue				
Automotive operations	$15,291	13,628	$57,020	$54,631
Direct financing lease income	6,123	7,267	26,727	28,075
Ancillary lease and other income	994	1,183	4,591	5,208
	22,408	22,078	88,338	87,914
Cost of sales – automotive operations	12,388	11,622	48,135	46,456
Gross profit	10,020	10,456	40,203	41,458
Expenses				
Salaries, commissions and benefits	1,496	2,079	7,110	8,336
Provision for credit losses	2,994	2,125	10,871	7,019
General and administrative	1,661	1,809	6,381	6,276
Interest on long-term debt	1,009	934	4,361	3,849
Other interest	63	124	309	420
Amortization	247	312	1,099	915
	7,470	7,383	30,131	26,815
Income before items below	2,550	3,073	10,072	14,643
Goodwill and intangible asset impairment	(6,318)	(781)	(16,830)	(781)
Unrealized gain (loss) on interest rate swap contracts	(374)	(40)	(833)	(117)
Unrealized gain (loss) on foreign exchange contracts	(169)	(909)		
			2,802	(1,181)
Gain (loss) on foreign exchange	150	(130)	(21)	(170)
	(6,711)	(1,860)	(14,882)	(2,249)
Income (loss) before income taxes and non-controlling interest	($4,161)	$1,213	($4,810)	$12,394

Revenue from vehicles and related automotive operations totaled $57.0 million for the year-ended December 31, 2007 compared to $54.6 million for the prior year, an increase of $2.4 million or 4.4% year-over-year. Given the automotive operations' cost of sales of $48.1 million, the Canadian automotive operations generated $8.9 million in gross profit for the year-ended December 31, 2007. Gross profit from the Canadian automotive operations for the prior year totaled $8.2 million, for an increase of $0.7 million or 8.5% year-over-year. A change in an estimate for the early termination provision under AcG-12 at Lease-Win accounted for the majority of the increase in automotive gross profit.

Revenue from vehicles and related automotive operations totaled $15.3 million in the three-months compared to $13.6 million for the same period in the prior year, an increase of $1.7 million or 12.5% year-over-year. Given the automotive operations' cost of sales of $12.4 million, the Canadian automotive operations generated $2.9 million in gross profit for the three-months ended December 31, 2007. Gross profit from the Canadian automotive operations for the prior year totaled $2.0 million, for an increase of $0.9 million or 44.7% year-over-year. A change in an estimate for the early termination provision under AcG-12 at Lease-Win accounted for the majority of the increase in automotive gross profit for the three-month period ended December 31 year-over-year.

Direct financing lease income decreased by approximately $1.3 million year-over-year, predominantly due to a $1.4 million decrease as a result of foreign exchange. In U.S. dollars, direct financing lease income actually increased by approximately $153,000 in the year. The average number of leases outstanding throughout 2007 remained virtually unchanged from 2006. Direct financing lease income decreased by approximately $1.2 million ($161,000 decrease in US$) in the three-month period predominantly due to foreign exchange fluctuations compared to the prior year.

Ancillary lease and other income decreased by approximately $617,000 year-over-year, of which $254,000 was the result of a decrease in foreign exchange. A decrease in insurance fee income of U.S. $203,000 was the largest component of the decrease year-over-year. Ancillary lease and other income decreased by approximately $0.2 million (U.S.$4,300) in the three-month period ending December 31, predominantly due to foreign exchange fluctuations compared to the prior year.

During the year-ended December 31, 2007, the provision for credit losses increased by $3.8 million year-over-year due to the effect of higher charge-off levels on Pawnee's allowance for doubtful accounts, as compared to the pro-forma figures for the prior year. At Pawnee, the allowance for doubtful accounts represents 10.46% of the net investment in lease receivables less security deposits on hand at December 31, 2007 compared to 7.42% at December 31, 2006. Of the U.S.$3.9 million increase in the provision for credit losses during the year ended December 31, U.S.$2.2 million related to an increase in the actual net charge-offs and US$1.7 million related to a non-cash increase in allowance for doubtful accounts which is in accordance with Pawnee's policy of maintaining an allowance for doubtful accounts, as a percentage of net investment in leases, that is equal to the last twelve months rolling charge-off percentage level.

During the three-month period ended December 31, 2007, the provision for credit losses increased by $869,000 year-over-year due to the effect of higher charge-off levels on Pawnee's allowance for doubtful accounts as compared to the same period in the prior year. Of the U.S.$1.0 million increase in the provision for credit losses during the three-month period ending December 31, approximately $506,000 related to an increase in the actual net charge-offs and $480,000 related to a non-cash increase in the allowance for doubtful accounts.

Salaries, commissions and benefits decreased $1.2 million year-over-year. Salaries and benefits at Pawnee decreased $969,000 in 2007 compared to the pro-forma figure for 2006 predominantly due to lower bonus levels and a decrease of $164,000 relating to foreign exchange. Administrative salaries, benefits and bonuses of the Fund staff were down $206,000 year-over-year. This decrease includes the non-cash unit option expense of $74,000 in May 2006 in relation to the IPO. Salaries, commissions and benefits decreased $583,000 during the three-months ended December 31, 2007, primarily due to decreases in bonus levels at Pawnee.

General and administrative expenses increased $105,000 during the year ended December 31, 2007 compared to the prior year. Increases in professional fees, trustee fees, withholding taxes and directors and officers insurance accounted for the majority of the year-over-year increase in these expenses. The prior year's expenses reflected the costs of a smaller public company including significantly lower insurance costs from January 1, 2006 to May 9, 2006.

Amortization increased by approximately $184,000 year-over-year during the year ended December 31, 2007 as a result of the amortization of the intangible assets created on the acquisition of cars4U Ltd and Pawnee.

Expenses before goodwill impairment, gain and losses on foreign exchange and interest rate swaps totaled $7.5 million for the three-months ended December 31, 2007 compared to $7.4 million in the same period of the prior year, an increase of $87,000. The increase in the provision for credit losses of $869,000 was predominantly offset by decreases in salaries and commissions of $583,000, general and administrative expenses of $148,000 and amortization expense of $65,000. Expenses before goodwill impairment and gains and losses on foreign exchange and interest rate swaps for the three-months ended December 31, 2007 were $723,000 lower compared to the same period of the prior year due to the movement in foreign exchange rates year-over-year.

Income before goodwill impairment, gain and losses on foreign exchange and interest rate swaps totaled $10.1 million for the year- ended December 31, 2007 compared to $14.6 million in the year ended December 31, 2006; a decrease of $4.5 million, of which $3.8 million was the result of the increase in provision for credit losses.

Income before goodwill impairment, gain and losses on foreign exchange and interest rate swaps totaled $2.6 million for the three-months ended December 31, 2007 compared to $3.1 million in the three-months ended December 31, 2006, a decrease of $523,000. The significant factors that led to this decrease in the three-month period year-over-year were the increase in provision for credit losses of $869,000, the change in the foreign exchange rates which accounted for $360,000 of the decrease offset by a $648,000 increase in gross profit from the Canadian automotive operations as a result of the change in the estimate for the early termination provision under AcG-12.

As a result of the impact of changes to risk profiles and 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 generated lower profitability in 2007. Since December 31, 2006, management has closely monitored 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, certain unfavorable macroeconomic factors affected Pawnee's results. As a result of these unfavorable factors and in particular having regard to 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 consolidated financial statements for the three and nine months ended September 30, 2007.

Based on the impairment test as of September 30, 2007, management determined that the carrying value of goodwill for Pawnee 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. Management also tested the goodwill of the other operating units as at September 30, 2007 and determined that a $1.5 million pre-tax impairment charge for Lease-Win should be recognized as well.

The Fund performed the annual test for impairment of goodwill at December 31, 2007. As a result of the impairment test of goodwill on a single-unit reporting basis, it was determined that no further goodwill impairment was required for Pawnee. Management determined that the carrying value of goodwill for the Canadian automotive companies exceeded its estimated fair value and recorded a $1.6 million pre-tax goodwill impairment charge and $713,000 intangible asset impairment. The fair value was determined based primarily on discounted cash flows. The impairment predominantly reflects Lease-Win's newly adopted 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 CICA Handbook also requires an assessment if there has been an impairment of goodwill at the Fund level in addition to the impairments in the operating entities. The unit price of the Fund's units may be used as the basic indicator of value of the Fund as a whole. Management does not think the $3.75 market value of the Fund Units at December 31, 2007 represents an accurate measure 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 volume of trading in Fund Units in the market is relatively low, 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 arm's-length offer it is difficult to determine an accurate measure of value. However, the Fund Unit price continues to be lower than expected and a general goodwill impairment of $4.0 million has been taken.

Breakdown of Goodwill and Intangible Asset Impairment		For the year-ended December 31, 2007	2006
		(thousands)	
Pawnee goodwill impairment at September 30		$ 9,022	$ -
Canadian automotive goodwill impairment at September 30		1,491	-
Canadian automotive intangible asset impairment at December 31		713	503
Canadian automotive goodwill impairment at December 31		1,608	278
General goodwill impairment at December 31		3,996	-
	Total	$ 16,830	$ 781

The mark-to-market adjustment to revalue the interest rate swaps at Pawnee created a non-cash loss of approximately $833,000 in the year-ended December 31, 2007 compared to a pro-forma non-cash loss of $117,000 in the prior year, thus a net year-over-year increase in interest rate swap mark-to-market expense of $716,000. For the three-months ended December 31, 2007, the mark-to-market adjustment to revalue the interest rate swaps at Pawnee created a non-cash loss of approximately $374,000, compared to a non-cash loss of $40,000 in the same period of the prior year, thus a net year-over-year increase in interest rate swap expense of $334,000 in the three month period.

The mark-to-market adjustment to revalue the foreign exchange forward contracts created a non-cash gain of $2.8 million in the year-ended December 31, 2007 compared to a non-cash loss of $1.2 million in the prior year, thus a net year-over-year increase in the mark-to-market adjustment of $4.0 million. For the three-months ended December 31, 2007, the mark-to-market adjustment to revalue the foreign exchange forward contracts created a non-cash loss of $169,000, compared to a non-cash loss of $909,000 in the same period of the prior year, thus a net year-over-year increase in the mark-to-market adjustment of $740,000 in the three-month period.

The net effect of all of the above-noted items resulted in income before taxes decreasing by $17.2 million from the 2006 pro-forma comparative figures, predominantly as a result of the $16.8 million impairment in goodwill and intangible assets. For the three-month period ended December 31, 2007, income before taxes decreased by $5.4 million from the same period in the prior year predominantly as a result of the $6.3 million impairment in goodwill and intangible assets.

The recovery of income taxes for the three-month period ended December 31, 2007 totaled $961,000 compared to $67,000 in the same quarter of the prior year, an increase of $894,000. For the year ended December 31, 2007, the recovery of income taxes totaled $292,000, and was comprised of the following,

	For the year-ended December 31, 2007
Income tax recovery	*(thousands)*
Income tax expense	$ 2,017
Income tax recovery related to goodwill and intangible asset impairment	(1,078)
Income tax recovery related to the amortization of intangible assets	(152)
Recognition of future tax asset – SIFT Trust provisions	(914)
Decrease in future taxes payable - Lease-Win due to decrease in enacted tax rates for future years	(191)
Alternative minimum tax expense - Lease-Win	26
Recovery of income tax expense	$ (292)

For the three-months ended December 31, 2007, predominantly as a result of a $6.3 million goodwill and intangible asset impairment in the quarter, the Fund reported a consolidated net loss of $2.7 million, or $0.38 per Fund Unit, compared to net income of $1.1 million in the three-months ended December 31, 2006, a decrease of $3.8 million. For the year-ended December 31, 2007, the Fund reported a consolidated net loss of $3.8 million, or $0.53 per Fund Unit, which included a goodwill and intangible asset impairment of $16.8 million

RESULTS OF OPERATIONS FOR THE YEAR-ENDED DECEMBER 31, 2007 AND THE PERIOD FROM MAY 10, 2006 TO DECEMBER 31, 2006

The Fund was legally established on February 16, 2006, however as described above, the Funds initial public offering and its indirect acquisition of Pawnee, were completed on May 10, 2006. Thus the comparative information below and on the consolidated statements of income and loss relates to the period from May 10, 2006 to December 31, 2006. In order to provide the comparative financial information below with respect to our results of operations for the year ended December 31, 2006, we have provided certain pro forma unaudited combined results of operations for cars4U Ltd. and Pawnee above (as described above under a "Comparative Financial Information").

Revenue from vehicles and related automotive operations totaled $57.0 million in the year. Given the automotive operations' cost of sales of $48.1 million, the Canadian automotive operations generated $8.9 million in gross profit for the year ended December

31, 2007. Revenue from vehicles and related automotive operations totaled $35.6 million in the 236-days ended December 31, 2006. Given the automotive operations cost of sales of $30.1 million, the Canadian automotive operations generated $5.5 million in gross profit for the 236-days ended December 31, 2006.

For the year-ended December 31, 2007, direct financing lease income totaled $26.7 million. Direct financing lease income totaled $18.4 million during the 236-days ended December 31, 2006.

Ancillary lease and other income totaled $4.6 million for the year-ended December 31, 2007. Ancillary lease and other income totaled $3.4 million for the 236-day operating period ended December 31, 2006.

Income before goodwill impairment, gain and losses on foreign exchange and interest rate swaps totaled $10.1 million for the year- ended December 31, 2007 compared to $9.6 million in the 236-day operating period ended December 31, 2006.

For the year-ended December 31, 2007, the Fund reported a consolidated net loss of $3.8 million, or $0.53 per Fund Unit, which included a goodwill and intangible asset impairment of $16.8 million (as described above under a "Comparative Financial Information"). The Fund reported consolidated net income of $4.5 million, or $0.62 per Fund Unit, during the 236-day operating period ended December 31, 2006.

BALANCE SHEET

Total consolidated assets of the Fund at December 31, 2007 were $138.7 million compared to $180.3 million at December 31, 2006; over half of these assets represent Pawnee's and Lease-Win's net investments in direct financing lease receivables. The change in foreign exchange rates accounts for $22.1 million of the $41.6 million decrease in total assets from December 31, 2006. The exchange rate on December 31, 2007 was 0.9881 compared to 1.1653 at December 31, 2006.

Cash totaled $2.4 million at December 31, 2007 compared to $4.9 million at December 31, 2006, a decrease of $2.5 million year-over-year. The decrease in cash is predominantly the result of a $1.8M increase in vehicle receivables (which are typically collected within seven to ten days after sale of the vehicles) and the fact that Pawnee paid down its bank loan by US$2.5M during the year.

Accounts receivable totaled $3.2 million at December 31, 2007 compared to $1.4 million at December 31, 2006, an increase of $1.8 million. The accounts receivable balance principally relates to the Acura Sherway dealership and includes amounts due from the manufacturer for financing contracts in transit, which are typically collected within seven to ten days, and are usually at their highest levels at month end. Vehicle receivable balances fluctuate throughout the year based on seasonality, and sales volumes of the industry. At December 31, 2007, the vehicle receivables were higher than usual due to the incentives offered by the manufacturer.

Inventory totaled $8.1 million at December 31, 2007 compared to $8.3 million at December 31, 2006, a decrease of $0.2 million. Vehicle inventory balances at dealerships also fluctuate throughout the year based on seasonality, sales volumes and market conditions.

Vehicle inventory is financed through vehicle financing credit facilities, of which $6.8 million was outstanding at December 31, 2007 compared to $7.0 million at December 31, 2006, leaving $1.3 million of inventory that was self-financed as at December 31, 2007.

As at December 31, 2007, total net investment in leases totaled $82.6 million compared to $99.6 million at December 31, 2006, a decrease of $17.0 million or 17.1%. Of the $17.0 million decrease in net investment in leases, $16.1 million is the result of foreign exchange translation and an increase in the provision for doubtful accounts. More specifically, the decrease was comprised of:

	CDN$ *(thousands)*
Decrease from change in foreign exchange	$14,075
Increase in allowance for doubtful accounts at Pawnee	2,039
Decrease of 147 leases since December 31, 2006 at Pawnee	1,651
Decrease of US$98.00 in the average book value of net investment in leases	717
Net increase in net investment in leases at Lease-Win	(1,416)
Total decrease in net investment in leases	$17,066

The gross lease receivable of leases under administration as at December 31, 2007 was approximately $158.8 million, compared to $189.5 million at December 31, 2006. Pawnee's gross lease receivable represents $105.9 million (US$107.2 million) of the total gross lease receivable outstanding at December 31, 2007, compared to $130.4 million (US$111.9 million) at December 31, 2006.

Lease-Win's gross lease receivable under administration totaled $52.9 million at December 31, 2007 down from $59.1 million at December 31, 2006. Lease-Win's gross lease receivable has decreased $6.2 million year-over-year, however their net investment in leases has increased by $1.4 million as a result of self-financing more leases in 2007.

The $82.6 million in net investment in leases is net of $7.9 million in allowance for doubtful accounts compared to $6.8 million at December 31, 2006. At Pawnee, the allowance for doubtful accounts of U.S.$ 7.6 million represents 10.46% of the net investment in lease receivables less security deposits on hand at December 31, 2007 compared to U.S.$5.5 million or 7.42% at December 31, 2006. The 10.46% of the net investment in lease receivables less security deposits is determined in accordance with Pawnee's policy of maintaining an allowance for doubtful accounts, as a percentage of net investment in leases, that is equal to the last twelve-month rolling net charge-off percentage level.

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

Included in the net investment in lease receivables is $2.6 million in securitized lease receivables at Lease-Win, relating to $40.1 million in assets under administration, compared to $46.6 million at December 31, 2006. At December 31, 2007, 88.39% of Lease-Win's gross lease receivable was securitized compared to 91.5% at December 31, 2006, which reflects Lease-Win's decision to self-finance shorter-term leases. Lease-Win has used securitization as its preferred method of funding its leasing activities since July 1997. These securitization transactions have an off-balance sheet component. See "Critical Accounting Policies and Estimates".

Prepaid expenses totaled $1.4 million at December 31, 2007. Prepaid personal property taxes paid on behalf of Pawnee's lessees of $1.0 million comprise the majority of the prepaid expenses balance.

Property and equipment predominantly relates to the land and building located at 4077 Chesswood Drive, Toronto, Ontario and equipment at Sherway LP's Acura dealership in Etobicoke, Ontario. Approximately 93.9% of the Fund's property and equipment is located in Ontario. None of the Fund's operating businesses require significant capital asset expenditures or depend on capital-intensive operations. The significant intangible assets of broker relationships and customer relationships also do not require significant outlay of cash to maintain them, as the creation of organic lease receivables does not require significant outlay of cash, other than commissions.

Shown below is the continuity of intangible assets recognized upon the acquisition by the Fund of Pawnee and the cars4U group of companies. Trade names and the framework agreement (related to the Acura Sherway dealership) are indefinite-life assets and are not amortized, and will be evaluated for impairment at least annually. Fair values were principally determined by discounting projected future cash flows. As a result of the annual test for impairment of trade names and other intangible assets, the Fund determined that the carrying value of the customer relationships and trade-names for Lease-Win exceeded its fair value in the amount of $713,000.

	For the year-ended December 31, 2007
Intangible asset continuity	*($ thousands)*
Intangible assets at December 31, 2006	$12,436
Amortization	(794)
Impairment of intangible assets booked	(713)
Foreign exchange adjustment on amortization	42
Foreign exchange adjustment on December 31, 2006 balance	(1,550)
	$ 9,421

As described under "Comparative Financial Information", (i) based on an assessment as of September 30, 2007, management determined that the carrying value of goodwill for Pawnee exceeded its estimated fair value and recorded a $9.0 million pre-tax impairment charge (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) and (ii) management also tested the goodwill of the other operating units as at September 30, 2007 and determined that a $1.5 million pre-tax impairment charge for Lease-Win should be recognized as well. As further described under "Comparative Financial Information", the Fund performed the annual test for impairment of goodwill at December 31, 2007 and it was determined (i) that no further goodwill impairment was required for Pawnee, and (ii) that the carrying value of goodwill for the Canadian automotive companies exceeded its estimated fair value and recorded a $1.6 million pre-tax impairment charge and (iii) a general goodwill impairment of $4.0 million should also be taken.

	For the year-ended December 31, 2007
Goodwill continuity	*($ thousands)*
Goodwill in December 31, 2006 Annual Report	$ 49,013
Correction of Contributed surplus at December 31, 2006	(495)
Adjusted goodwill balance as at December 31, 2006	48,518
Goodwill impairment	(16,117)
Foreign exchange adjustment on goodwill impairment	724
Foreign exchange adjustment on December 31, 2006 balance	(6,427)
	$ 26,698

Lease financing of $45.0 million at December 31, 2007 is comprised of:

	December 31, 2007	December 31, 2006
	($ thousands)	
Pawnee's credit facility	$42,810	$53,604
Lease-Win's credit facility	2,177	1,896
	$44,987	$55,500
Pawnee's credit facility – US$ - actual balance – gross of deferred financing costs	$43,500	$46,000

The $10.0 million decrease in lease financing is predominantly due to a decrease in foreign exchange of $7.7 million and $2.3 million in net payouts. At December 31, 2007, the deferred financing costs netted against Pawnee's credit facility totaled $172,000. Pawnee has a credit facility that allows borrowings of up to US$57.5 million, subject to, among other things, adhering to certain percentages of eligible gross lease receivables, and the maintenance of a minimum debt to tangible net worth ratio. 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.

Pawnee had sufficient cash to fund net lease originations, operating expenses, monthly distributions and apply US$2.5 million against its credit facility. This credit facility is secured by substantially all of Pawnee's assets, contains negative covenants including the maintaining of leverage and interest coverage ratios, requires Pawnee to mitigate its interest rate risk by entering interest rate swaps for a notional amount not less than 50% of the aggregate commitment, and matures on May 10, 2010.

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

The majority of the $9.9 million in customer security deposits relate to security deposits held by Pawnee. Pawnee's primary lease contract requires that the lessee provide two payments as security deposit (not advance payments), which are held for the full term of the lease and then returned or applied to the purchase option of the equipment at the lessee's request, unless the lessee has previously defaulted (in which case the deposit is applied against the lease receivable). Historically, a very high percentage of lessees' deposits are either applied to the purchase option of the leased equipment at the end of the lease term or used to offset delinquencies. The approximate $2.2 million decline in the security deposit balance from December 31, 2006 is due primarily to a $1.8 million decline as a result of foreign exchange conversion.

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 $638,000 in servicing liability would be payable only if Lease-Win was unable to service the lease receivables that have been sold.

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 futures contracts for US$15.6 million until February 2010 at a weighted average exchange rate of CDN $1.0914 per US$1.00. The Fund received a monthly market valuation from its bank counterparty that was utilized in determining the unrealized gain or loss of the foreign currency contracts. The unrealized gains and losses on these contracts represent the changes in their fair values due to exchange rate fluctuations in each period. At December 31, 2007, the unrealized gain on these contracts totaled approximately $1.5 million, compared to an unrealized loss of $1.2 million at December 31, 2006. On March 19, 2008, the Fund sold its foreign exchange forward contracts and received $1.2 million on settlement.

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

Effective Date	Notional Amount U.S.$	Annual Fixed Rate	Maturity date	Bank Call Date
October 2005	5,000,000	4.66%	October 2008	October 2007
March 2007	15,000,000	5.14%	March 2009	n/a
March 2007	15,000,000	5.09%	March 2010	n/a

Pawnee's interest rate swaps are not considered trading instruments as it intends to hold them until termination. Nonetheless, the interest rate swaps do not qualify as a hedge for accounting purposes, and are therefore recorded as a separate derivative financial instrument. Accordingly, the estimated fair value of the interest rate swaps 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. At December 31, 2006, the mark-to-market gain for the interest rate swaps totaled $76,450 and was included in prepaid expenses and other assets.

The mortgage of approximately $910,000, which had an original principal amount of $1.1 million, bears interest at the rate of 7.25% per annum, is payable in monthly installments of principal and interest of $9,975, is due December 18, 2013 and is secured by the land and building located at 4077 Chesswood Drive, Toronto, Ontario.

The $3.5 million principal amount of convertible debentures (the "Debentures") were issued by the Fund in exchange for convertible debentures in the same principal amount issued by cars4U Ltd. in February 10, 2003. The Debentures bear interest at the rate of 9% per annum, payable quarterly, and were due on August 10, 2007. The Debentures have since been extended until August 10, 2008. The Debentures are convertible into Fund Units, at the holders' option, at a conversion price of $15.58 per Fund Unit. The 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. Debentures in the principal amount of $2.1 million (out of the aggregate $3.5 million principal amount of the Debentures) were issued to trustees of the Fund and/or directors of Chesswood GP Limited (who were previously directors of cars4U Ltd.), which is a 100% owned subsidiary of the Fund.

Future income taxes payable at December 31, 2007 totaled $10.8 million compared to $15.4 million at December 31, 2006, a decrease of $4.6 million. The decrease is comprised of actual taxes paid of $3.5 million, $1.7 million decrease in foreign exchange, $1.2 million tax recovery as a result of the impairment and amortization of goodwill and intangible assets, and $191,000 reduction of future taxes payable at Lease-Win due to the reduction in enacted tax rates for future years offset by $2.0 million in future tax expense.

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

The non-controlling interest of $8.0 million represents the 1,274,601 Class B common shares of U.S. Acquisitionco that were issued as partial consideration for the acquisition of Pawnee. $1.6 million of the $2.9 million decrease from December 31, 2006 is the result of foreign exchange. The shares are fully exchangeable for Fund Units, on a one-to-one basis, through a series of steps. The Class B common shares may be exchanged after November 8, 2008. These exchangeable shares have been classified as a non-controlling interest in the consolidated financial statements. The Class B common shares are entitled to distributions provided that certain minimum distributions on the Fund Units and the Class C common shares of U.S. Acquitisitionco have been made. As the Class B common shares are subordinated until November 8, 2008 and their distributions are restricted if certain minimum distributions have not been made, they have been 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.

At December 31, 2007, there were 7,040,558 Fund Units and 203,936 in Class C common shares of US Acquisitionco outstanding, totalling $65.6 million. The Class C common shares of US Acquisitionco were issued as partial consideration for the acquisition of Pawnee. The shares are fully exchangeable at any time for Fund Units, on a one-to-one basis, through a series of steps.

LIQUIDITY AND CAPITAL RESOURCES OVERVIEW

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

The Fund's 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, 2007, the Fund's operating units had $15.6 million in additional borrowings available under various credit facilities to fund business operations.

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

Cash Sources and Uses

For the year-ended December 31, 2007

The Fund's operations generated net cash flow from operations of $17.6 million during the year-ended December 31, 2007.

Cash flow generated from operations during the year ended December 31, 2007 includes the cash inflow from the decrease in inventory of $176,000 but excludes the repayment of $203,000 of short-term vehicle financing relating to the inventory sold. Thus, cash flow from operations after considering the movement in these short-term working capital items was $17.4 million.

At December 31, 2007, vehicle receivables were higher than usual due to the incentives offered by the auto manufacturer which generated strong sales and given the timing of the holidays, the processing of those receivables was slower than normal; however they were all collected by early January, leading to a temporary lag in cash flow.

Investment in net direct financing leases of $25.5 million during the period was offset by financing of $14.7 million from lease financing, cash received from residual interest in securitizations, security deposits and securitization of leases, resulting in a net usage of $10.8 million of cash in the investment of leases. The Fund's subsidiaries could have utilized their credit facilities further to fund net lease originations but had sufficient cash on hand to cover these originations, distributions paid, and normal business operations while allowing Pawnee to apply U.S.$2.5 million against their lease financing credit facility during the year.

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

The Fund paid distributions to unitholders and non-controlling interest in the amount of $8.9 million during the year-ended December 31, 2007.

In total, in the year-ended December 31, 2007, there was a decrease of cash of $2.6 million, predominantly relating to the pay-down of USD$2.5 million against Pawnee's credit facility.

For the three-months ended December 31, 2007

The Fund's operations generated net cash flow from operations of $2.3 million (2006 - $2.4 million) during the three-months ended December 31, 2007.

Cash flow generated from operations during the three-months ended December 31, 2007 includes the cash outflow relating to the increase in inventory of $1.7 million (2006 - $1.9 million) but excludes the $1.8 million (2006 - $2.0 million) increase in short-term vehicle financing relating to the inventory purchased during the three-month period. Thus, cash flow from operations after considering the movement in these short-term working capital items was $4.1 million (2006 - $4.4 million).

At December 31, 2007, vehicle receivables were higher than usual due to the incentives offered by the auto manufacturer which generated strong sales and given the timing of the holidays, the processing of those receivables was slower than normal; however they were all collected by early January, leading to a temporary lag in cash flow.

Investment in net direct financing leases of $6.4 million (2006 – $11.5 million) during the period was offset by financing of $2.9 million (2006 $10.3 million) from lease financing, cash received from residual interest in securitizations, security deposits and securitization of leases, resulting in a net usage of $3.5 million (2006 - $1.2 million) of cash in the investment of leases. The Fund's subsidiaries could have utilized their credit facilities further to fund the net lease originations but had sufficient cash on hand to cover these originations, distributions paid, and normal business operations while allowing Pawnee to apply U.S.$1.0 million against their lease financing credit facility during the three-month period.

Principal payments under long-term debt and capital leases totalled approximately $16,000 (2006 - $18,000) during the three-months ended December 31, 2007. Capital expenditures totalled $8,000 (2006 – $22,500) during the three-month period.

The Fund paid distributions to unitholders and non-controlling interest in the amount of $1.9 million (2006 - $2.4 million) during the three-months ended December 31, 2007.

In total, in the three-months ended December 31, 2007, there was a decrease of cash of $1.6 million (2006 $586,000 increase in cash), predominantly relating to the pay-down of USD$1.0 million against Pawnee's credit facility.

The Fund expects to finance current operations, planned capital expenditures and internal growth for the foreseeable future using funds generated from operations, existing cash, and the funds available under existing credit facilities. Distributions to date have been funded from operational cash flows (which term is not intended to be a reference to cash flow from operations in the Fund's financial statements, as management believes that cash flow from operations is not an appropriate measure from which to derive or reflect the Fund's distributable cash because normal day-to-day leasing and vehicle financing transactions are required to be grouped under financing and investing activities in accordance with GAAP and therefore cash flows from operations does not reflect these core activities).

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

Financial Covenants, Restrictions and Events of Default

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

Pawnee funds its business primarily through variable rate borrowings and has a revolving credit facility for up to US$57.5 million which can, subject to certain conditions, be increased to US$65 million. As of December 31, 2007, Pawnee had used approximately US$43.5 million of its available borrowing under this facility. Pawnee's ability to access funding at competitive rates through various economic cycles enables it to maintain the liquidity necessary to manage its business, and its ability to continue to access funding is an important condition to its future success. Pawnee is required to purchase fixed interest rate hedges for at least 50% of the total commitment under its credit facility, and as of December 31, 2007 Pawnee has hedged US$35.0 million, representing approximately 80.5% of the US$43.5 million outstanding under the credit facility. 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.

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

Advances on the revolving facility may be drawn at any time, subject to compliance with borrowing base calculations and compliance with the covenants set out therein. As of December 31, 2007, US$43.5 million was outstanding under the facility and Pawnee had capacity to draw up to and in excess of the US$57.5 million commitment and remain within the borrowing base under the facility.

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

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

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

Distribution to Unitholders

The Fund declared cash distributions during the year-ended December 31, 2007 as follows:

Unitholder Record Date	Per Unit
January 31, 2007	$0.0958
February 28, 2007	$0.0958
March 31, 2007	$0.0958
April 30, 2007	$0.0958
May 30, 2007	$0.0958
June 30, 2007	$0.0958
July 31, 2007	$0.0958
August 31, 2007	$0.0958
September 30, 2007	$0.0958
October 31, 2007	$0.0958
November 30, 2007	$0.0570
December 31, 2007	$0.0570
	$1.0720

Distribution Policy

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

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. If Pawnee's distributable cash exceeds a targeted increased annual level, the holders may be entitled to be paid all or a portion of the reduction amount.

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 in respect of 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 less than 9.58 cents per unit. The subordination of Class B distributions ends in November 2008. 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 general erosion in the U.S. economy.

Minimum payments

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

($ thousands)	2008	2009	2010	2011	2012 and beyond	Total
Lease-Win's lease financing *(*)*	$2,177	$ -	$ -	$ -	$ -	$ 2,177
Pawnee's lease financing credit facility	-	-	42,810	-	-	42,810
Mortgage payable	57	61	65	70	657	910
Convertible debentures	3,500	-	-	-	-	3,500
Total	$5,734	$61	$42,875	$ 70	$657	$49,397

(*) $2.1 million of the long-term debt would only be payable in 2008 if the bank called the loan, which is not anticipated. Otherwise the loan is payable over the term of the underlying leases.

RISK FACTORS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Management of Pawnee believes that the leases currently being originated and those leases originated since July of 2003 are true leases for commercial law, tax law, and other legal purposes. However, Pawnee's management has determined that as at December 31, 2007 approximately 0.34% of the gross lease receivable balance of its existing portfolio consists of nominal purchase option leases which would probably be interpreted by a court to be non-true leases. If Pawnee were to become the subject of adverse judicial or regulatory action resulting in penalties, fines, or the inability to collect lease payments and/or interest with respect to a significant amount of its leases as a result of a determination that such leases were not true leases, it could have a material adverse impact on our business, financial condition and results of operations, and the amount of cash available for distribution to our unitholders.

Defenses to Enforcement of a Significant Amount of Leases
Certain defenses and recovery impediments are more common in micro and small-ticket equipment finance transactions than with respect to equipment finance providers in other segments of the equipment finance industry. Management believes that certain of these risks are sufficiently addressed in Pawnee's existing lease documentation and related business practices. However, there are other risks that Pawnee has not addressed for various reasons, including that certain of these risks are not susceptible to being addressed either at all, or without incurring cost inefficiencies or taking other measures deemed unacceptable by Pawnee's management based on a risk-reward assessment. Pawnee has never experienced any material occurrence of these risks nor have

these risks historically had a material adverse impact on Pawnee. However, there is no assurance that these risks will not have a material adverse impact on Pawnee's business, financial condition and results of operations in the future.

Origination, Funding and Administration of Transactions

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

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

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

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

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

State Licensing Requirements

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

Fees and Charges

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

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

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

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

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

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

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

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

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

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

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

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

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

Protection of Intellectual Property
Pawnee continually develops and improves its brand recognition, which has been an important factor in maintaining its competitive position. No assurance can be given that others will not independently develop substantially similar branding. Despite Pawnee's efforts to protect its proprietary rights, unauthorized parties may attempt to obtain and use information that Pawnee regards as proprietary. Stopping unauthorized use of Pawnee's proprietary rights may be difficult, time-consuming and costly. There can be no assurance that Pawnee will be successful in protecting its proprietary rights.

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

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

Competition in the Automobile Leasing Industry
The automotive leasing industry is competitive. Lease-Win's competition, being in many cases financial institutions and finance companies, often have a lower cost of funds than Lease-Win. Any increase in activity by these institutions or the entry into this market of new participants with a lower cost of funds or other competitive advantages could have a material adverse impact on our

business, financial condition and results of operations, and on the amount of cash available for distribution to our unitholders. Additionally, increased competition may adversely affect operating margins and result in loss of market share.

Manufacturers' Control Over Dealerships and the Acura Framework Agreement
Automobile dealerships operate pursuant to dealer agreements with automobile manufacturers. Through the terms and conditions of these dealer agreements, automobile manufacturers exert considerable influence over the operations of dealerships.

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to our Structure and Exchange Rate Fluctuations
The distributions expected to be made to our unitholders will be denominated in Canadian dollars, however, a significant percentage of our revenues are expected to be derived from the revenues of Pawnee, which is in U.S. dollars. Changes in the value of the U.S. dollar could have a negative impact on the amount in Canadian dollars available for distribution to our unitholders. In light of recent exchange rates and analyst projected exchange rates, the Fund's currency hedging positions have been sold. Accordingly, the Fund does not currently have any hedging arrangements to mitigate currency exchange risks, should the Canadian dollar significantly strengthen relative to the U.S. dollar.

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

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

Loss of Limited Liability
On December 16, 2004, the Trust Beneficiaries' Liability Act, 2004, a new Ontario Statute included in Bill 106, received Royal Assent. That statute provides, in effect, that our unitholders are not liable, as beneficiaries of a trust, for any act, default, obligation or liability of the Fund or as trustees, arising after December 16, 2004. That statute has not yet been judicially considered and it is possible that reliance on the statute by a unitholder could be successfully challenged on jurisdictional or other grounds.
Statutory Remedies
Although the Fund is a legal entity, it is not generally regulated by established corporate law and unitholders' rights are governed primarily by the specific provisions of our Declaration of Trust, which addresses such items as the nature of the Fund Units, the entitlement of our unitholders to cash distributions, restrictions respecting non-resident holdings, meetings of our unitholders, delegation of authority, administration, Fund governance and liabilities and duties of the Fund's trustees to our unitholders. As well, under certain existing legislation such as the Bankruptcy and Insolvency Act (Canada) and the Companies Creditor's Arrangement Act (Canada), the Fund is not a legally recognized entity within the definitions of these statutes. In the event of an insolvency or restructuring of the Fund, the rights of our unitholders will be different from those of shareholders of an insolvent or restructuring corporation.

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

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

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

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

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

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

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

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

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

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

U.S. Acquisitionco has not established any procedure for monitoring the level of investment of non-U.S. unitholders, so its assumption that individual non-U.S. unitholders will hold less than 10% of the stock of U.S. Acquisitionco (after the application of U.S. attribution rules) is based solely upon its observations of patterns of trading in similar Canadian investment funds.

If any non-U.S. unitholder is or becomes ineligible for the portfolio interest exemption, such unitholder is required to give notice to the Fund, pursuant to our Declaration of Trust. The Declaration of Trust contains provisions that allow U.S. Acquisitionco and the Fund to recover from a unitholder amounts that should have been but were not withheld from a distribution to such unitholder because of failure to provide such notice. However, there can be no assurance that U.S. Acquisitionco and the Fund will be able to recover these amounts in full or at all, which could result in a reduction in cash available for distribution to other unitholders.

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

RELATED PARTY TRANSACTIONS

1) Debentures in the principal amount of $2.2 million (out of the aggregate $3.5 million principal amount of the Debentures) were issued to trustees of the Fund and/or directors of Chesswood GP Limited, which is a 100% owned subsidiary of the Fund.

2) Pawnee leases a 10,800 square foot office facility. The lessor is a related party because of common ownership between itself and the holders of the Class B and C common shares of U.S. Acquisitionco. As of December 31, 2007, the minimum lease payments are US$189,000 per year triple net and run through 2011, with options for two additional five-year terms.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Understanding the Fund's accounting policies is essential to understanding the results of the Fund's operations and financial condition. The Fund's significant accounting policies are described in Note 1 to the Fund's consolidated financial statements for the year-ended December 31, 2007. The preparation of these financial statements requires us to make estimates and judgments that affect reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. On an ongoing basis, we evaluate our estimates, including credit losses, residuals, initial direct costs and fees, other fees and realizability of deferred tax assets. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties. Our financial statements are based on the selection and application of critical accounting policies, the most significant of which are described below.

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

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

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

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

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

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

Accounting for the Securitization of Leases and Off-Balance Sheet Arrangements
The Fund, through its subsidiary Lease-Win, transfers or sells receivables to a securitization trust (the "Securitization Trust") as a means of financing its automobile finance contracts. These securitization transactions have an off-balance sheet component. These transactions are currently considered a sale under Canadian GAAP. As such, Lease-Win is required to make estimates in respect of frequency, timing and severity of losses and prepayment on the underlying pools of assets sold, which impacts the future expected

cash flows Lease-Win would expect to receive from the sale of the receivables. The expected cash flows are discounted at a rate that Lease-Win feels is commensurate with the underlying risk of the receivables. Changes in these estimates or significant variations in actual performance from these estimates could significantly impact Lease-Win's financial results in a period.

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

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

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

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

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

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

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

Accounting for Goodwill and Intangible Assets

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

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

Interest Rate Swaps and Foreign Exchange Contracts

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

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

Chesswood Holdings LP, a wholly owned subsidiary of the Fund, had entered into foreign exchange contracts to manage its exposure to the U.S. dollar as significant cash flows for unitholder distributions are generated in the U.S. As the foreign exchange contracts related to equity transactions, they do not qualify as a hedge for accounting purposes, and are therefore recorded as separate derivative financial instruments. Accordingly, the estimated fair value of the foreign exchange contract are recorded as a liability on the accompanying consolidated balance sheet and adjustments to the fair value of the foreign exchange contracts are recorded as gain or loss on interest rate swaps. The fair value was determined from a monthly market valuation report obtained from its bank counterparty.

Income Taxes

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

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

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

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

Most of the Fund's future income tax assets and liabilities were already recorded in these interim 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, 2007 that will remain outstanding as of January 1, 2011 is approximately $3 million. The recording of this future tax asset related to these temporary differences resulted in the Fund recording a non-cash recovery to future income tax expense and a future tax asset of $914,000 during the second quarter of 2007, based on an effective tax rate of 30.5%. The Fund's estimate of its future income taxes will vary based on actual results of the factors described above, and such variations may be material.

RECENT ACCOUNTING PRONOUNCEMENTS

The Canadian Institute of Chartered Accountants (“CICA”) has issued the following new Handbook Sections which were effective for interim periods beginning on or after October 1, 2006, which the Fund adopted on January 1, 2007:

Section 3855, “Financial Instruments – Recognition and Measurement”, describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. These standards require that all financial assets be classified as either available for sale (‘AFS’), trading, held to maturity (‘HTM’) or loans and receivables. Financial liabilities are classified as either trading or other. Initially, all financial assets and financial liabilities must be recorded on the balance sheet at fair value with subsequent measurement determined by the classification of each financial asset and liability. Transaction costs related to trading securities are expensed as incurred. Transaction costs related to AFS, HTM, loans and receivables and deposits are generally capitalized and are then amortized over the expected life of the instrument. Financial assets and financial liabilities held for trading are measured at fair value with the changes in fair value reported in earnings. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading are measured at amortized cost. Available-for-sale financial assets are measured at fair value with changes in fair value reported in other comprehensive income (‘OCI’) until the financial asset is disposed of, or becomes impaired. The impact of the adoption of this new section did not have a significant effect on the consolidated financial statements.

Section 1530, “Comprehensive Income”, and Section 3251, “Equity”, Comprehensive income is the change in equity of an enterprise during a period arising from transactions and other events and circumstances from non-owner sources. It includes items that would normally not be included in net income such as changes in the foreign currency translation adjustment relating to self-sustaining foreign operations and unrealized gains or losses on available-for-sale financial instruments. This section describes how to report and disclose comprehensive income and its components. Section 3251, “Equity”, replaces Section 3250, “Surplus”, and establishes standards for the presentation of equity and changes in equity as a result of the new requirements of Section 1530, “Comprehensive Income”. 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.

Section 3865, “Hedges”, describes when hedge accounting is appropriate. Hedge accounting ensures that all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of earnings in the same period. The impact of the adoption of this new section did not have an effect on the consolidated financial statements.

Cash Flows

Amendments to CICA Handbook Section 1540, Cash Flow Statements, require entities to disclose total cash distributions on financial instruments classified as equity in accordance with a contractual agreement and the extent to which total cash distributions are non-discretionary. This disclosure requirement became effective for interim and annual financial statements relating to fiscal periods ending on or before March 31, 2007. 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.

Accounting Changes

On January 1, 2007, the Fund adopted the Canadian Institute of Chartered Accountants Handbook ("CICA Handbook") Section 1506, "Accounting Changes" which requires that voluntary changes in accounting policy be made only if the changes result in consolidated financial statements that provide more reliable and more relevant information. It also requires prior period errors to be corrected retrospectively. The adoption of the standard had no effect on the Fund's consolidated financial statements.

Variable Interest Entities (VIEs)

On January 1, 2007, we adopted CICA Emerging Issues Committee Abstract No. 163, Determining the Variability to be Considered in Applying AcG-15 (EIC-163). EIC-163 provides additional clarification on how to analyze and consolidate VIEs. The adoption of EIC-163 had no impact on our consolidated financial statements.

Convertible and Other Debt Instruments with Embedded Derivatives

On October 1, 2007, the Fund adopted CICA Emerging Issues Committee Abstract No. 164, Convertible and Other Debt Instruments with Embedded Derivatives (EIC-164). EIC-164 provides clarification regarding the accounting treatment for certain types of convertible debt instruments, their classification as liabilities or equity, and the implications on earnings per unit. It also provides guidance on whether these instruments contain any embedded derivatives that are required to be accounted for separately. The adoption of EIC-164 had no impact on our consolidated financial statements.

Future changes in accounting policy

CICA Section 1400, General Standards of Financial Statement Presentation, was amended in June 2007 to include guidance on an entity's ability to continue as a going concern. The revised standard is effective for all fiscal periods commencing on or after January 1, 2008. 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 will adopt CICA 1535, Capital Disclosures. This standard requires the disclosure of information related to the objectives, policies and processes for managing capital. There will be no impact to the Fund's financial statements as this standard only addresses disclosure requirements.

On January 1, 2008, the Fund will adopt CICA 3031, Inventories. Under this new 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 will also be required. The Fund does not expect the adoption of this section to have a material effect on the consolidated financial statements as vehicle inventory is already recorded at lower of cost and net realizable value and the automobile parts is currently recorded on a FIFO basis.

On January 1, 2008, the Fund will adopt CICA 3862, Financial Instruments – Disclosures. CICA 3862 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 will be no impact to the Fund's financial statements.

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

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public entities being converged with International Financial Reporting Standards over a transitional period currently expected to be until 2011. The impact this transition will have on the Fund's consolidated financial statements has not been determined; however management continues to monitor these regulatory developments.

CONTROLS & PROCEDURES

Disclosure controls and procedures have been designed under the supervision of the Chief Executive Officer and Director of Finance, with the participation of management under their supervision, to provide reasonable assurance that all material information relating to the Fund, including its consolidated subsidiaries, is made known to such officers by others within those entities.

The Fund's Chief Executive Officer and Director of Finance are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision to provide reasonable assurance regarding the reliability of the Fund's financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

The Fund's Chief Executive Officer and Director of Finance have evaluated the effectiveness of the Fund's disclosure controls and procedures as at December 31, 2007, and have concluded that such controls and procedures provide reasonable assurance that all material information relating to the Fund, including its consolidated subsidiaries, is made known to such officers in a timely fashion. Although the individuals comprising the members of the Fund's management and Pawnee's management responsible for financial reporting are considered to have appropriate proficiency and experience to effectively perform their duties, the nature and size of operations are such that the duties are performed by a small number of persons. As a result, further consideration must be made on a continuing basis as to whether additional persons are required.

There were no changes to the Fund's internal control over financial reporting during the quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Fund's internal control over financial reporting.

Note, however that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitation include, amongst other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; and (ii) the impact of isolated errors.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

MARKET FOR SECURITIES

The Fund Units are traded on the Toronto Stock Exchange under the symbol CHW.UN. The following table summarizes the high and low sales prices of the Fund Units and the average daily trading volume for each month in the period ended December 31, 2007, as reported by the Toronto Stock Exchange.

2007	High	Low	Average Daily Volume
January	$8.34	$7.20	17,093
February	$8.50	$8.00	6,166
March	$8.44	$7.20	22,344
April	$7.95	$6.75	31,058
May	$8.20	$7.46	14,021
June	$7.88	$7.00	6,333
July	$7.85	$6.79	3,966
August	$7.50	$5.75	14,344
September	$6.99	$6.00	9,650
October	$6.20	$4.40	7,455
November	$5.49	$3.75	31,214
December	$4.00	$3.50	23,979
	$8.50	$3.50	15,736

ADDITIONAL INFORMATION

Additional information about the Fund is available:

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

The consolidated financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles. These consolidated 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 consolidated 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 consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

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 consolidated financial statements for issuance to the unitholders.

The financial statements have been audited by BDO Dunwoody LLP, the independent external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the unitholders. The Auditors' Report outlines the nature of their examination and their opinion on the consolidated financial statements. BDO 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 13, 2008

AUDITORS' REPORT

To the Unitholders of
Chesswood Income Fund

We have audited the consolidated balance sheets of Chesswood Income Fund as at December 31, 2007 and 2006 and the consolidated statements of income (loss), deficit, comprehensive loss, accumulated other comprehensive income and loss, and cash flows for the year ended December 31, 2007 and the period ended December 31, 2006. 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 audits.

We conducted our audits 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, 2007 and 2006 and the results of its operations and its cash flows for the year ended December 31, 2007 and the period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP
Chartered Accountants, Licensed Public Accountants

Toronto, Ontario
March 13, 2008, Except Note 34
which is as of March 19, 2008

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)

	December 31, 2007	December 31, 2006
ASSETS		
Cash	$ 2,352	$ 4,902
Accounts receivable	3,250	1,393
Inventories *(note 4)*	8,096	8,271
Prepaid expenses and other assets	1,396	2,341
Foreign currency forward exchange contracts *(note 14)*	1,505	-
Net investment in leases *(note 5)*	82,577	99,643
Future tax asset *(note 18)*	914	-
Property and equipment *(note 6)*	2,534	2,778
	102,624	119,328
Intangible assets *(note 2 & 7)*	9,421	12,436
Goodwill *(note 2 & 8)*	26,698	48,518
TOTAL ASSETS	$ 138,743	$ 180,282
LIABILITIES		
Accounts payable and accrued liabilities	$ 4,213	$ 4,403
Distributions payable	403	915
Vehicle financing *(note 10)*	6,794	6,997
Lease financing *(note 11)*	44,987	55,500
Customer security deposits *(note 12)*	9,898	12,137
Servicing liability *(note 13)*	638	739
Foreign currency forward exchange contracts *(note 14)*	-	1,181
Interest rate swap contracts *(note 19)*	735	-
Mortgage payable *(note 15)*	910	963
Convertible debentures *(note 16)*	3,500	3,500
Future income taxes *(note 18)*	10,779	15,390
	82,857	101,725
Non-controlling interest *(note 21)*	8,027	10,941
UNITHOLDERS' EQUITY		
Fund units *(note 22)*	65,558	65,558
Contributed surplus *(note 24(b))*	74	74
Accumulated other comprehensive income (loss) *(note 1)*	(5,443)	-
Cumulative foreign currency translation amount	-	2,790
Deficit	(12,330)	(806)
	47,859	67,616
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY	$ 138,743	$ 180,282

Approved by the Board of Trustees:

Ed Sonshine, Trustee

Fred Steiner, Trustee

Please see notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (LOSS) FOR THE YEAR ENDED DECEMBER 31, 2007 AND THE PERIOD FROM FEBRUARY 16 2006 TO DECEMBER 31, 2006

(in thousands of dollarss, except per unit amounts))

	FOR THE YEAR ENDED DECEMBER 31, 2007	FOR THE PERIOD FROM FEBRUARY 16, 2006 TO DECEMBER 31, 2006
REVENUE		
Revenue - automotive operations	$ **57,020**	$ 35,574
Direct financing lease income	**26,727**	18,392
Ancillary lease and other income	**4,591**	3,441
	88,338	57,407
COST OF SALES - automotive operations	**48,135**	30,137
GROSS PROFIT	**40,203**	27,270
EXPENSES		
Salaries and commissions	**7,110**	5,389
Provision for credit losses	**10,871**	4,535
General and administrative	**6,381**	4,105
Interest on long-term debt	**4,361**	2,636
Other interest	**309**	209
Amortization	**1,099**	784
	30,131	17,658
INCOME BEFORE ITEMS BELOW	**10,072**	**9,612**
Unrealized loss on interest rate swaps	**(833)**	(238)
Unrealized gain (loss) on foreign exchange contracts	**2,802**	(1,181)
Net loss on foreign exchange	**(21)**	(170)
Goodwill and intangible asset impairment *(note 7 & 8)*	**(16,830)**	(781)
	(14,882)	(2,370)
INCOME (LOSS) BEFORE INCOME TAXES	**(4,810)**	**7,242**
(Recovery of) / Provision for income taxes *(note 18)*	**(292)**	1,934
INCOME (LOSS) BEFORE NON-CONTROLLING INTEREST	**(4,518)**	5,308
Non-controlling interest *(note 21)*	**(676)**	794
NET INCOME (LOSS)	$ **(3,842)**	$ 4,514
Basic and diluted earnings (loss) per unit *(note 26)*	$ **(0.53)**	$ 0.62

Please see notes to consolidated financial statements.

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

	FOR THE YEAR ENDED DECEMBER 31, 2007	FOR THE PERIOD FROM FEBRUARY 16, 2006 TO DECEMBER 31, 2006
Deficit, balance at beginning of period	$ (806)	$ -
Net income (loss)	(3,842)	4,514
Distributions	(7,682)	(5,320)
Deficit, balance at end of period	$(12,330)	$ (806)

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS
FOR THE YEAR ENDED DECEMBER 31, 2007
(in thousands of dollars)

	FOR THE YEAR ENDED DECEMBER 31, 2007
Loss	$ (3,842)
Other comprehensive loss, net of tax Change in unrealized (losses) gains on translating financial statements of self-sustaining foreign operations	(8,233)
Total other comprehensive loss, net of tax	(8,233)
Comprehensive loss for the period	$(12,075)

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

	FOR THE YEAR ENDED DECEMBER 31, 2007
Accumulated other comprehensive income (loss), beginning of period	$ -
Transitional adjustment on adoption of new accounting policies *(note 1)*	2,790
Other comprehensive loss for the period	(8,233)
Accumulated other comprehensive loss, end of period	$ (5,443)

Please see notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007
AND THE PERIOD FROM FEBRUARY 16 2006 TO DECEMBER 31, 2006

(in thousands of dollars)

	FOR THE YEAR ENDED DECEMBER 31, 2007	FOR THE PERIOD FROM FEBRUARY 16, 2006 TO DECEMBER 31, 2006
OPERATING ACTIVITIES		
Net income (loss) for the period	**$(3,842)**	$4,514
Add (deduct) items not involving cash:		
Non-controlling interest share of net income (loss)	**(676)**	794
Amortization	**1,099**	784
Goodwill and intangible asset impairment	**16,830**	781
Accretion expense on lease financing	**252**	124
Gain on sale of leased vehicles	**(587)**	(462)
Unrealized loss on interest rate swap contracts	**833**	238
Unrealized gain on sale of lease receivables, net of provision for prepayment and provision for credit losses	**(561)**	(1,013)
Impairments of retained interest in securitizations	**(1,404)**	(109)
Amortization of securitization servicing liability	**(285)**	(150)
Provision for credit losses	**13,298**	5,817
Unit-based compensation expense	**-**	74
Provision for income taxes	**(3,975)**	(457)
Unrealized (gain) loss on foreign exchange contracts	**(2,802)**	1,181
Net loss on foreign exchange	**21**	170
	18,201	12,286
Changes in non-cash working capital items relating to operations		
Accounts receivable	**(1,857)**	(494)
Inventories	**176**	806
Prepaid and other assets	**552**	(1,471)
Accounts payable and accrued liabilities	**487**	(379)
	(642)	(1,538)
Cash provided by operating activities	**17,559**	10,748
INVESTING ACTIVITIES		
Purchases of property and equipment	**(84)**	(34)
Acquisition of business *(note 2(c))*	**-**	(48,140)
Cash received from residual interest in securitization	**2,554**	1,896
Increase in net investment in leases	**(25,515)**	(24,512)
Decrease in security deposits	**(430)**	640
Cash used in investing activities	**(23,475)**	(70,150)

Continued on next page

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007
AND THE PERIOD FROM FEBRUARY 16 2006 TO DECEMBER 31, 2006

(in thousands of dollars)

	FOR THE YEAR ENDED DECEMBER 31, 2007	FOR THE PERIOD FROM FEBRUARY 16, 2006 TO DECEMBER 31, 2006
FINANCING ACTIVITIES		
Issuance of units on initial public offering *(note 2(b))*	**$ -**	$57,782
Expenses related to initial issuance of units *(note 2(b))*	**-**	(6,818)
Proceeds from securitization of leases	**15,206**	13,299
Vehicle financing	**(203)**	(231)
Lease financing	**(2,613)**	5,714
Servicing liability	**184**	153
Mortgage principal payments	**(53)**	(33)
Obligations under capital leases	**(13)**	(13)
Repayment of loans payable to shareholders	**-**	(70)
Payment of financing costs	**-**	(125)
Cash distributions paid to non-controlling interest	**(976)**	(707)
Cash distributions paid	**(7,971)**	(4,625)
Cash provided by financing activities	**3,561**	64,326
Unrealized foreign exchange (loss) gain on cash	**(195)**	(22)
Net increase (decrease) in cash	**(2,550)**	4,902
Cash, beginning of period	**4,902**	-
Cash, end of period	**$2,352**	**$4,902**

Supplemental disclosures of cash flow information
(see note 27)

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 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 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 interests in Lease-Win and Sherway LP, the Fund is involved in leasing automobiles and selling, servicing and leasing Acura automobiles in the Province of Ontario.

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 year ended December 31, 2007. The comparative financial statements in this report are for the period from February 16, 2006 to December 31, 2006. All financial information is presented in Canadian dollars, unless otherwise noted. 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 of Colorado.

Accounting Policy Changes

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.

Effect of adoption
As at January 1, 2007, the lease financing balance was reduced by $453,000 of deferred financing costs which was moved from Prepaid expenses. Amortization of deferred financing costs that was previously reflected in General and administrative expenses is now reflected in Interest on long-term debt.

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.

Hedges
On January 1, 2007, the Fund adopted CICA Handbook Section 1530, "Hedges" which allows optional treatment providing that hedges be designated as either fair value hedges, cash flow hedges or hedges of a self-sustaining foreign operation. The Fund does not have hedging programs in place which qualify for hedge accounting and the adoption of the standard had no effect on the Fund's consolidated financial statements.

Cash Flows
Amendments to CICA Handbook Section 1540, Cash Flow Statements, require entities to disclose total cash distributions on financial instruments classified as equity in accordance with a contractual agreement and the extent to which total cash distributions are non-discretionary. This disclosure requirement became effective for interim and annual financial statements relating to fiscal periods ending on or before March 31, 2007. 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. Distributions declared and paid by the Fund are described in note 25 of the consolidated financial statements.

Accounting Changes
On January 1, 2007, the Fund adopted CICA Handbook Section 1506, "Accounting Changes" which requires that voluntary changes in accounting policy be made only if the changes result in consolidated financial statements that provide more reliable and more relevant information. It also requires prior period errors to be corrected retrospectively. The adoption of the standard had no effect on the Fund's consolidated financial statements.

Variable Interest Entities (VIEs)
On January 1, 2007, the Fund adopted CICA Emerging Issues Committee Abstract No. 163, Determining the Variability to be Considered in Applying AcG-15 (EIC-163). EIC-163 provides additional clarification on how to analyze and consolidate VIEs. The adoption of EIC-163 had no impact on the Fund's consolidated financial statements.

Convertible and Other Debt Instruments with Embedded Derivatives
On April 1, 2007, the Fund adopted CICA Emerging Issues Committee Abstract No. 164, Convertible and Other Debt Instruments with Embedded Derivatives (EIC-164). EIC-164 provides clarification regarding the accounting treatment for certain types of convertible debt instruments, their classification as liabilities or equity, and the implications on earnings per unit. It also provides guidance on whether these instruments contain any embedded derivatives that are required to be accounted for separately. The adoption of EIC-164 had no impact on our consolidated financial statements.

Accounting Policy Choice for Transaction Costs
On July 1, 2007, CICA Emerging Issues Committee issued Abstract No. 166, Accounting Policy Choice for Transaction Costs (EIC-166). This EIC addresses the accounting policy choice of expensing or adding transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held-for-trading. Specifically, it requires the same accounting policy choice be applied to all similar financial instruments classified as other than held-for-trading, but permits a different policy choice for financial instruments that are not similar. EIC-166 became effective for the Fund on September 30, 2007 and requires retroactive application to all transaction costs accounted for in accordance with Section 3855. Our current recognition policy for transaction costs, which was adopted on January 1, 2007, is consistent with this guidance.

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.

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.

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. Generally, 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 reporting unit's goodwill and/or intangible assets not subject to amortization over their carrying amount.

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 who 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, has been presented as equity. The Class B shares issued by a subsidiary of the Fund do not meet the above criteria and has been presented as non-controlling interest.

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

Currency hedging policy
Certain subsidiaries generate cash flows and earn income in Canadian dollars, while other subsidiaries generate cash flows and earn income in U.S. dollars. The currency mix of cash flows and earnings depends on factors, which vary from period to period. Cash flows from a significant majority of the operating earnings of the Fund are in U.S. dollars, while the Fund makes distributions to Unitholders in Canadian dollars. Management of the Fund reduced its exposure to currency fluctuation risks associated with the amount of U.S. dollars flowing to Unitholders in Canadian dollars through the use of currency hedges. Contemporaneous with the completion of the initial public offering the Fund entered into a three year flat forward contract with JP Morgan to hedge approximately 80% of distributable cash received from subsidiaries in U.S. dollars which is to be distributed to the holders of Units in Canadian dollars (these currency hedges were subsequently sold, see note 34). The remaining 20% will not be converted to Canadian dollars, as it will be used to pay distribution in U.S. dollars on the Class B Acquisitionco Shares and the Class C Acquisitionco Shares.

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, impairment of assessments, 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.

Future accounting changes
CICA Handbook Section 1400, General Standards of Financial Statement Presentation, was amended in June 2007 to include guidance on an entity's ability to continue as a going concern. The revised standard is effective for all fiscal periods commencing on or after January 1, 2008. 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 will adopt CICA Handbook Section 1535, Capital Disclosures. This standard requires the disclosure of information related to the objectives, policies and processes for managing capital. There will be no impact to the financial position, results of operations or cash flows of the Fund.

On January 1, 2008, the Fund will adopt CICA Handbook Section 3031, Inventories. Under this new 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 will also be required. The Fund does not expect the adoption of this section to have a material effect on the consolidated financial statements as vehicle inventory is already recorded at lower of cost and net realizable value and the automobile parts is currently recorded on a FIFO basis.

On January 1, 2008, the Fund will adopt CICA Handbook Section 3862, Financial Instruments – Disclosures. This new 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 will be no impact to financial position, results of operations or cash flows of the Fund.

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

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public entities being converged with International Financial Reporting Standards over a transitional period currently expected to be until 2011. The impact this transition will have on the Fund's consolidated financial statements has not been determined; however management continues to monitor these regulatory developments.

2. Acquisition of cars4U Ltd. and Pawnee and Issuance of Fund Units

a) Acquisition of Cars4U Ltd.

On May 10, 2006, under a Plan of Arrangement, the Fund directly acquired all of the assets and undertaking of cars4U Ltd. and its subsidiaries by the issuance of 1,240,523 Fund Units in exchange for the outstanding shares of cars4U Ltd. (an exchange ratio of 18.33 cars4U Ltd. shares per Fund Unit). The acquisition of cars4U Ltd. was accounted for using the purchase method. The purchase price was based on the number of Fund Units issued under the Plan of Arrangement and the offering price of $10 per unit. The net purchase price of $12,405,230 was allocated to the assets and liabilities of cars4U Ltd. at May 9, 2006 based on their fair values as follows:

	($ thousands)
Cash	$1,346
Accounts receivable	899
Inventories	9,078
Prepaid expenses	179
Net investment in leases	10,143
Property and equipment	2,753
Deferred assets	4,673
Intangible assets	
Trade names	454
Customer relationships	1,144
Framework Agreement	1,300
Goodwill (*)	6,626
Accounts payable and accrued liabilities	(5,178)
Security deposits	(320)
Vehicle financing	(7,227)
Loans payable to shareholders	(70)
Long-term debt	(7,214)
Servicing liability	(736)
Obligations under capital leases	(4)
Future income taxes	(5,170)
Deferred purchase consideration	(271)
Total	$12,405

(*) None of the goodwill will be deductible for tax purposes.

The allocation of the purchase price has been restated to eliminate the amount previously allocated to contributed surplus as it represented additional goodwill.

b) Initial Public Offering

The Fund filed a prospectus dated May 2, 2006 for the sale to the public of 5,778,193 Fund Units at a price of $10 per unit for net proceeds of $49,731,554, after deducting expenses of the offering and related transactions and underwriters' fees totaling approximately $8.0 million. cars4U Ltd. utilized approximately $1.2 million of its own funds to cover expenses of the initial public offering prior to May 10, 2006.

c) Acquisition of Pawnee

The Fund indirectly acquired Pawnee through U.S. Acquisitionco for a combined total of US$43.4 million in cash and US$13.3 million through the issue of approximately 1.3 million Class B shares of U.S. Acquisitionco (which are to be exchangeable, for no additional consideration, on a one-for-one basis for Fund Units from and after November 8, 2008) and approximately 204,000 Class C shares of U.S. Acquisitionco (which have the same exchange rights as the Class B shares, but are exchangeable at any time); and provided US $1.0 million to Pawnee for working capital and US$1.5 million to Pawnee for the reimbursement of outstanding stock appreciation rights at Pawnee.

The acquisition of Pawnee was accounted for using the purchase method. The purchase price of US$56.7 million was allocated to the assets and liabilities of Pawnee at May 9, 2006 as follows:

	US$	CDN$
	($ thousands)	
Cash and cash equivalents	$381	$422
Investment in direct financing leases, net of allowance for doubtful accounts	76,084	84,415
Furniture, fixtures and equipment, net of accumulated depreciation	191	212
Other assets	835	928
Intangible assets		
Trade name	5,400	5,991
Broker relationships	3,500	3,883
Back-end systems software	200	222
Goodwill (***)	36,271	40,242
Accounts payable and accrued liabilities	(2,155)	(2,391)
Security deposits	(10,074)	(11,177)
Future income taxes	(9,624)	(10,678)
Bank debt	(45,130)	(50,072)
Capital lease obligations	(25)	(27)
Total	$55,854	$61,970
Consideration:		
Cash	$43,389	$48,141
Class B shares of U.S. Acquisitionco (**)	10,627	11,790
Class C shares of U.S. Acquisitionco	1,838	2,039
Total	$55,854	$61,970

(**) The Class B shares of U.S. Acquisitionco are subordinated until November 8, 2008 and entitle the holders to distributions provided that certain minimum distributions have been made. Thus they have been valued with a discount rate of 7.5 percent.
(***) None of the goodwill will be deductible for tax purposes.

3. Operating Lines of Credit

At December 31, 2007, Sherway LP and Lease-Win had authorized lines of credit of $1,500,000 and $500,000, respectively. 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 10 and 11 for additional credit facilities available to Sherway LP, Lease-Win and Pawnee.

4. Inventories

	December 31, 2007	December 31, 2006
	($ thousands)	
New and demonstrator vehicles	**$5,955**	$6,260
Used vehicles	**1,995**	1,869
Parts and other	**146**	142
	$8,096	$8,271

5. Net Investment in Leases

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

	December 31, 2007	December 31, 2006
	($ thousands)	
Total minimum lease payments for non-securitized leases	**$110,292**	$133,720
Estimated residual values of leased equipment	**10,177**	9,990
Initial direct costs of lease acquisition	**5,371**	6,705
	125,840	150,415
Unearned income	**(38,062)**	(46,356)
	87,778	104,059
Allowance for doubtful accounts	**(7,850)**	(6,753)
	79,928	97,306
Securitized lease receivable	**2,649**	2,337
Net investment in leases	**82,577**	**99,643**
Less: Current portion	**(24,041)**	(29,550)
Net investment in leases - long-term portion	**$58,536**	$70,093

	For the year-ended December 31, 2007	For the period from May 10, 2006 to December 31, 2006
	($ thousands)	
The activity in the allowance for doubtful accounts is as follows:		
Opening balance	**$6,753**	$6,489
Provision for credit losses	**10,871**	4,535
Impact of change in foreign exchange rates over period	**(1,391)**	(267)
Direct write-downs, net of recoveries	**(8,383)**	(4,004)
Ending balance	**$7,850**	$6,753

Securitization lease receivable - Lease-Win sells financing leases through securitization transactions. In all of those securitizations, Lease-Win retained 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, 2007	December 31, 2006
	($ thousands)	
Assets under administration from the securitization of leases	**$40,120**	$46,560

During the year, the Fund recognized pre-tax gains of $560,631 (2006 - $566,221), which is net of estimated servicing liabilities of $262,196 (2006 - $231,119) on the securitization of the financing leases. Estimated servicing liabilities of $284,745 (2006 - $149,722) 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, 2007 and 2006 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, 2007	December 31, 2006
		($ thousands)	
Carrying amount of retained interests	$	**3,498**	3,917
Fair value of retained interests	$	**3,815**	4,290
Weighted average lease term (in years)		**2.56**	2.56
Expected credit losses (annual rate)	%	**0.88**	1.25
Impact on fair value of a 10% adverse change	$	**34**	55
Impact on fair value of a 20% adverse change	$	**67**	111
Residual cash flows discount rate (annual)	%	**6.75**	6.50
Impact on fair value of a 10% adverse change	$	**34**	39
Impact on fair value of a 20% adverse change	$	**68**	77

6. Property and Equipment

	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**

	Cost	Accumulated Amortization	December 31, 2006 Net
		($ thousands)	
Land	$357	$-	$357
Building and improvements	1,439	(48)	1,391
Leasehold improvements	467	(56)	411
Service equipment	176	(21)	155
Furniture and equipment	271	(48)	223
Service vehicles	15	(3)	12
Computer hardware and software	206	(32)	174
Computer hardware, software and service equipment under capital lease	68	(13)	55
	$2,999	($221)	$2,778

The cost and carrying amount of property and equipment as at May 10, 2006 have been restated to reflect the fair value of the assets on the date of acquisition. Previously the fair value was presented in relation to amounts brought forward from the predecessor entities. This restatement had no impact on the net book value of property and equipment.

7. Intangible Assets

Listed below are the identifiable intangible assets recognized upon the acquisition by the Fund of Pawnee and the cars4U group of companies. The Fund engaged an independent valuation firm to determine the fair value of its identifiable intangible asset values. Trade names and the framework agreement are indefinite-lived assets and are not amortized, but rather are evaluated for impairment at least annually.

As a result of the 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**

	Cost	Cumulative Foreign Exchange Adjustment	Accumulated Amortization	Accumulated Impairment	December 31, 2006 Net
			($ thousands)		
Trade names	$6,445	$302	$-	$-	$6,747
Broker relationships	3,883	195	(388)		3,690
Customer relationships	1,144		(153)	(503)	488
Framework agreement	1,300		-		1,300
Back-end systems software	222	11	(22)		211
	$12,994	$508	($563)	($503)	$12,436

8. 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 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.

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**

(**) 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.

9. Loans Payable to Unitholders

Loans payable to unitholders in the amount of $70,000, which accrued interest at the prime bank rate plus 1%, were repaid during the period ended December 31, 2006.

10. Vehicle Financing

	December 31, 2007	December 31, 2006
	($ thousands)	
Acura Sherway floor plan facilities	**$6,496**	$6,659
Lease-Win warehouse credit facility	**298**	338
	$6,794	$6,997

Sherway LP has an $8.5 million floor plan facility available, bearing interest at the bank's prime rate plus ¼%, secured by the related vehicles and a general security agreement over the dealership operation's other assets. The 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 1/2% and is secured by the underlying assets and an assignment of book debts and a general security agreement over all assets of Lease-Win.

11. Lease Financing

	December 31, 2007	December 31, 2006
	($ thousands)	
Pawnee credit facility	**$42,810**	$53,604
Lease-Win credit facility	**2,177**	1,896
Lease financing	**$44,987**	$55,500

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.$43.5 million was utilized at December 31, 2007 (2006 U.S.$46.0 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, 2010. 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 19 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.

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, 2007 and 2006, these facilities were not utilized.

For a summary of the aggregate amount of minimum payments required on all debt, please see note 17.

12. 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, 2007	December 31, 2006
	($ thousands)	
Security deposits that will be utilized within one year	**$1,437**	$1,782
Security deposits that will be utilized in future years	**8,461**	10,355
Customer security deposits	**$9,898**	$12,137

13. 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.

14. 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 US$15.6 million (2006 - US$23.3 million) until 2010 at a weighted average exchange rate of CDN$1.0914 per US $1.00 (2006 - $1.0905). There is a net unrealized gain of $1,504,589 (2006 – unrealized loss of $1,180,773) from these hedge contracts at December 31, 2007.

Gain / (Loss) on foreign exchange on the income statement is comprised of the following:

	For the year-ended December 31, 2007	For the period ended December 31, 2006
	($ thousands)	
Unrealized gain/(loss) on revaluation of foreign exchange contracts	$2,802	($1,181)
Unrealized (gain)/loss on conversion of certain balance sheet and income statement balances and transactions during the year	**(91)**	56
Sub-total of unrealized foreign exchange items affecting income	**2,711**	(1,125)
Actual loss on foreign exchange on movement of funds from the United States during the year	**70**	(226)
Net gain (loss) on foreign exchange	**$2,781**	($1,351)

15. Mortgage Payable

The mortgage, which had an original principal amount of $1.1 million bears interest at the rate of 7.25% per annum, is payable in monthly installments of principal and interest of $9,975, is due December 18, 2013 and is secured by the land and building located at 4077 Chesswood Drive, Toronto, Ontario.

16. 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.

Debentures in the principal amount of $2.2 million (out of the aggregate $3.5 million principal amount of the Fund Issued Debentures) were issued to directors of Chesswood GP Limited, which is a 100% owned subsidiary of the Fund.

During the year-ended December 31, 2007, interest of $315,000 (2006 - $202,808) was expensed relating to these Debentures of which $196,200 (2006 - $120,526) pertained to related parties.

17. Minimum Payments

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

($ thousands)	2008	2009	2010	2011	2012 and beyond	Total
Lease-Win's lease financing (*)	$ 2,177	$ -	$ -	$ -	$ -	$ 2,177
Pawnee's lease financing credit facility	-	-	42,810	-	-	42,810
Mortgage payable	57	61	65	70	657	910
Convertible debentures	3,500	-	-	-	-	3,500
Total	$ 5,734	$ 61	$ 42,875	$ 70	$ 657	$ 49,397

(*) $2.2 million of the lease financing would only be payable in 2008 if the bank called the loan, which is not anticipated, otherwise the loan is payable over the term of the underlying leases.

18. Income Taxes

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

Income tax expense consists of the following for:

	For the year ended December 31, 2007	For the period ended December 31, 2006
	($ thousands)	
Current income tax expense	**$2,493**	$2,552
Future income tax (recovery) expense	**(2,785)**	(618)
Total income tax (recovery)expense	**($292)**	$1,934

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 $4,020,000 for the year-ended December 31, 2007 and $2,895,500 for the period ended December 31, 2006.

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 were 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, 2007 that will remain outstanding as of January 1, 2011 is approximately $3 million. The recording of this future tax asset related to these temporary differences resulted in the Fund recording a non-cash recovery to future income tax expense and a future tax asset of $914,000 during the second quarter of 2007, based on an effective tax rate of 30.5%. The Fund's estimate of its future income taxes will vary based on actual results of the factors described above, and such variations may be material.

The table below shows the reconciliation between income tax expense reported in the Statement of Income and the income tax expense that would have resulted from applying the Canadian federal tax rate of 36.12% to pre-tax income.

	For the year ended December 31, 2007	For the period ended December 31, 2006
	($ thousands)	
(Loss)/Income before income taxes and non-controlling interest	**($4,810)**	$7,242
Less: Income of the Fund taxable to the recipient	**(6,096)**	(5,720)
(Loss)/Income before income taxes and non-controlling interest	**(10,906)**	1,522
Canadian income tax rate	**36.12%**	36.12%
Expected income tax expense (recovery)	**(3,939)**	550
Dividend income in recipient income above on which taxes were paid	**1,245**	1,426
Tax cost of non-deductible items		
Unrealized foreign exchange (gain) loss	**(1,012)**	426
Amortization and impairment of intangible assets	**4,877**	63
U.S. withholding taxes paid	**45**	52
Unit based compensation	**-**	27
Capital taxes paid	**5**	10
Tax cost of deductible items		
IPO costs	**(582)**	(507)
SIFT – future tax asset	**(914)**	-
Reduction in income taxes	**58**	(424)
Other timing differences	**(137)**	219
Higher effective income tax rates in foreign jurisdictions	**62**	92
Provision for (recovery of) income taxes	**($292)**	$1,934

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

	For the year ended December 31, 2007	For the period ended December 31, 2006
	($ thousands)	
Future tax assets		
Leased assets	**$29,584**	$35,537
Allowance for doubtful accounts	**2,829**	2,407
Amount related to tax losses carried forward	**1,433**	1,821
Difference in goodwill and intangible asset base	**914**	-
Accrued liabilities	**158**	-
Differences in share issuance and financing costs basis	**59**	-
	34,977	$39,765
Future tax liabilities		
Direct financing lease receivables	**$44,842**	$53,649
Difference in goodwill and intangible asset base	-	1,495
Accrued liabilities	-	11
	$44,842	$55,155
Net future taxes payable	**$9,865**	$15,390

19. 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.

Effective Date	Notional Amount U.S.$	Annual Fixed Rate	Maturity Date	Bank Call Date
October 2005	5,000,000	4.66%	October 2008	October 2007
March 2007	15,000,000	5.14%	March 2009	n/a
March 2007	15,000,000	5.09%	March 2010	n/a

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 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.

20. Financial Instruments

a) 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, 2007 and 2006, the estimated fair value of other financial assets and liabilities approximates their carrying values.

b) Credit risk

Accounts receivable, which totaled $3.2 million at December 31, 2007 (2006 - $1.4 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 limited to the concentration of the receivable with the automotive manufacturer.

Pawnee's lease receivables predominantly serve 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, the value of the equipment is less than $30,000, at least one personal guarantee is obtained for each lease, and having diversification by geographic location (within the United States), by types of equipment funded and significant diversification in terms of the industries in which Pawnee's lessees operate with no concentration with any one customer.

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 ability to repossess vehicles for non-payment.

Credit risk also exists at Lease-Win as a result of using only one financial company to securitize its lease receivable and that company's ability to source funding for its financing especially at fixed rates. This risk is mitigated with having a long-standing relationship with our bank where we could obtain financing if the need arises.

c) Interest rate risk

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.

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 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 19 or more information relating to interest rate swaps affiliated with this credit facility.

Lease-Win finances its activities using both fixed rate and floating rate funds. To the extent Lease-Win finances fixed rate leases with fixed rate funds, it is not exposed to fluctuations in interest rates. All of Lease-Win's $2.2 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 11 for further disclosure of facility and rates). The leases financed through securitization can be financed at fixed or floating rate. As at December 31, 2007, approximately $4.5 million of Lease-Win's $46.7 million securitized gross lease receivables were funded on a floating rate basis. Lease-Win has the right to convert all or any part of the floating rate pool to a fixed rate basis at any time.

d) Foreign exchange risk
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.

21. 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 C shares may be exchanged at any time and the Class B shares may be exchanged after November 8, 2008. The exchangeable shares have been classified as a non-controlling interest in these consolidated financial statements. The Class B shares are entitled to distributions provided that certain minimum distributions on the outstanding Fund Units and the Class C shares have been made.

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 payable to 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. If Pawnee's distributable cash exceeds a targeted increased annual level, the holders may be entitled to be paid all or a portion of the reduction amount.

The Fund announced on October 30, 2007, that it reduced its monthly distributions commencing with the November 2007 distribution paid on December 17, 2007, to 5.70 cents from 9.58 cents per unit. 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 to such shares if the distributions to unitholders were reduced. The decision to reduce monthly distributions was made as a result of the impact of the current competitive environment faced by the Fund's U.S. commercial equipment leasing subsidiary, Pawnee, as well as the change in certain sectors of the U.S. economy.

The non-controlling interest was comprised of:

	Units # *(000's)*	Amount	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	-	-	(788)	(788)
Non-controlling interest at December 31, 2007	**1,275**	**$10,582**	**($2,555)**	**$8,027**

22. 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	Number of Class C US Acquisitionco Ltd. shares	Total
	(000's)	*(000's)*	*($000's)*
Opening Fund Units	-	-	$ -
Fund units issued on initial public offering	5,778	-	2
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	22	-	175
Fund Units – December 31, 2007 and 2006	**7,041**	**204**	**$65,558**

23. 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.

24. 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 invest equally over three years following the grant of awards. There were no amounts accrued for under the LTIP for the year-ended December 31, 2007 and the period ended December 31, 2006.

b) Unit based compensation

Certain key employees and officers of certain of the Funds 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 and end of period	113,639	$9.88
Options exercisable at December 31, 2006 and 2007	113,639	$9.88

Grant date	Number of options	Vested	Expiry date	Exercise price
May 10, 2006	100,000	100,000	May 9, 2016	$10.00
May 10, 2006 (*)	13,639	13,639	October 20, 2014	$8.98

Included in salary expense and contributed surplus in the period ended December 31, 2006 is $74,045 relating to 113,639 options granted during the period. The weighted average grant date fair value of the options was $0.65.

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	Converted cars4U Options
Number of options granted	100,000	13,639
Expected annual distribution	$1.15	$1.15
Expected volatility	20.0%	20.0%
Risk-free interest rate	4.46%	4.07%
Expected life	10 years	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 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.

25. 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.

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. If Pawnee's distributable cash exceeds a targeted increased annual level, the holders may be entitled to be paid all or a portion of the reduction amount.

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 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 year-ended December 31, 2007:

Unitholder Record Date	Total Distribution	Per Unit
	($ thousands)	
January 31, 2007	$675	$0.0958
February 28, 2007	675	$0.0958
March 31, 2007	675	$0.0958
April 30, 2007	675	$0.0958
May 31, 2007	675	$0.0958
June 30, 2007	674	$0.0958
July 31, 2007	674	$0.0958
August 31, 2007	674	$0.0958
September 30, 2007	674	$0.0958
October 31, 2007	674	$0.0958
November 30, 2007	401	$0.0570
December 31, 2007	401	$0.0570
	$7,547	
Distributions declared to Class C shareholders during the year	135	
Distributions	$7,682	

26. Earnings Per Unit

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

27. Cash Flow Supplementary Disclosure

	For the year-ended December 31, 2007	For the period from May 10, 2006 to December 31, 2006
	($ thousands)	
Interest paid	**$4,501**	$3,006
Income tax installments paid	**$3,462**	$4,192
Non-cash transactions		
Issuance of units for business acquisition *(see Note 2(a))*	-	($12,405)
Issuance of Class C shares of U.S. Acquisitionco for business acquisition *(see Note 2©)*	-	(2,039)
Issuance of Class B shares of U.S. Acquisitionco for business acquisition *(see Note 2©)*	-	(11,790)
Issuance of units for deferred purchased consideration *(see Note 23)*	-	(175)
Deferred purchased consideration accrual *(see Note 23)*	-	271
Unit-based compensation	-	(74)
		($26,212)

28. 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, 2007 and 2006 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.

29. Contingencies and Commitments

Contingencies

In the normal course of business activities, the subsidiary operating entities of the Fund are subject to a number of claims and legal actions that may be made by customers, suppliers and others in respect of which 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, 2007
	($ thousands)
2008	$521
2009	539
2010	563
2011	446
2012	192
Thereafter	-
Total	$ 2,261

30. Related Party Transactions

1) Debentures in the principal amount of $2.2 million (out of the aggregate $3.5 million principal amount of the Fund Issued Debentures) were issued to 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.

31. 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.

32. 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 and the estimates routinely require adjustments, and may require material adjustment.

33. 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, 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)
Gain on foreign exchange	2,781	-	2,781
Net loss before income taxes	**(1,145)**	**(3,665)**	**(4,810)**
Provision for (recovery of) income taxes	(1,110)	818	(292)
Loss before non-controlling interest	(35)	(4,483)	(4,518)
Net loss	**(30)**	**(3,812)**	**(3,842)**
Total Assets	30,016	107,813	137,829
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

	For the Period from May 10, 2006 to December 31, 2006 (*) ($ thousands)		
	Canada	**U.S.**	**Total**
Revenue	$36,069	$21,338	$57,407
Gross profit	5,932	21,338	27,270
Interest expense	550	2,419	2,969
Amortization	325	459	784
Corporate overhead	1,332	-	1,332
Income (loss) before other items	**(210)**	**9,822**	**9,612**
Goodwill and intangible asset impairment	781	-	781
Unrealized loss on interest rate swaps	-	(238)	(238)
Loss on foreign exchange	1,351	-	1,351
Net income (loss) before income taxes	**(2,342)**	**9,584**	**7,242**
Provision for (recovery of) income taxes	(9)	1,943	1,934
Income (loss) before non-controlling interest	(2,333)	7,641	5,308
Net income (loss)	**(1,984)**	**6,498**	**4,514**
Total Assets	31,648	148,181	179,829
Net investment in leases	7,086	92,557	99,643
Goodwill	6,252	42,266	48,518
Intangible assets	2,242	10,194	12,436
Property and equipment expenditures	19	15	34

(*) there were no operating results for the period February 16, 2006 through May 10, 2006.

34. Subsequent Event

On March 19, 2008, the Fund sold its U.S. dollar foreign exchange forward contracts and received $1.2 million on settlement.

Trustees, Directors and Officers

Fund Executive Team

Barry Shafran
President & C.E.O.

Lisa Stevenson
Director of Finance

Other Information

Auditors
BDO Dunwoody LLP

Transfer Agent
Equity Investment Services Inc.

Corporate Counsel
McCarthy Tétrault LLP

Website
www.chesswoodfund.com

Toronto Stock Exchange Symbol
CHW.UN

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

Chesswood
Income Fund

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