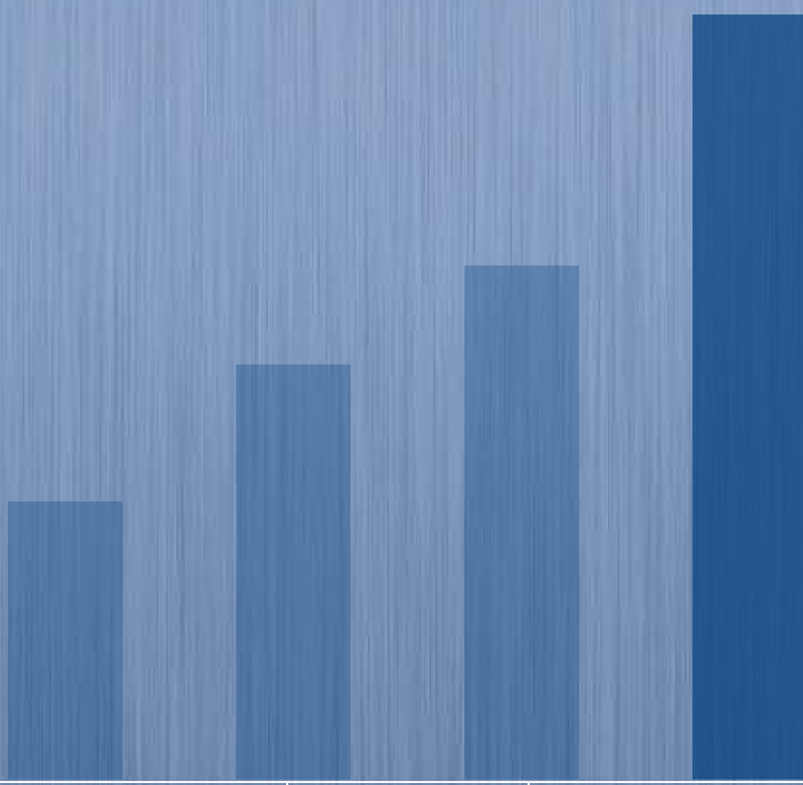
Disciplined



annual report | 2008 | **exchange industrial**

Our profile

Exchange Industrial Income Fund ("EIIF" or "Fund") is an acquisition-oriented income trust, focused on opportunities in the transportation and industrial products sectors which are ideally suited for public markets except for their size. The Fund is currently operating in two niche business segments: Aviation and Manufacturing.

Our Mission is to provide stable and growing cash distributions to unitholders through disciplined investment in private, well-established niche market companies with strong defensible cash flows.

We are disciplined

In our acquisition strategy

In the management of our businesses

We are focused

On niche markets with strong defensible cash flows

On providing stable and growing cash distributions to our unitholders

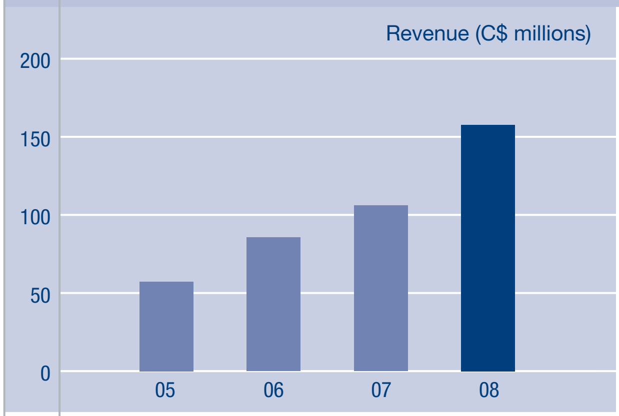
On creating value for our unitholders

We are diversified

With two core business segments providing consistent financial performance despite current economic turbulence

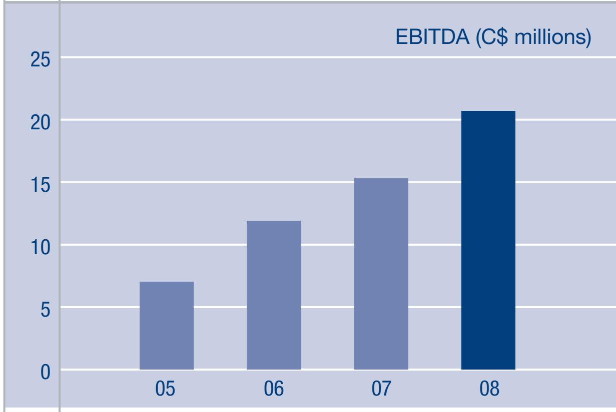
Delivering results

financial highlights



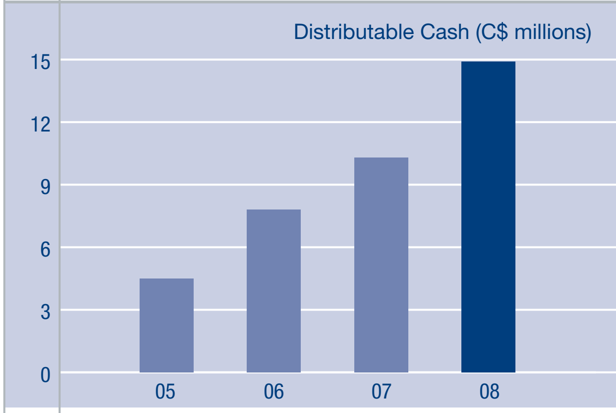
29% (CAGR)

Revenue increased 48.7% to $157.7 million
in fiscal 2008 compared to $106.0 million in fiscal 2007



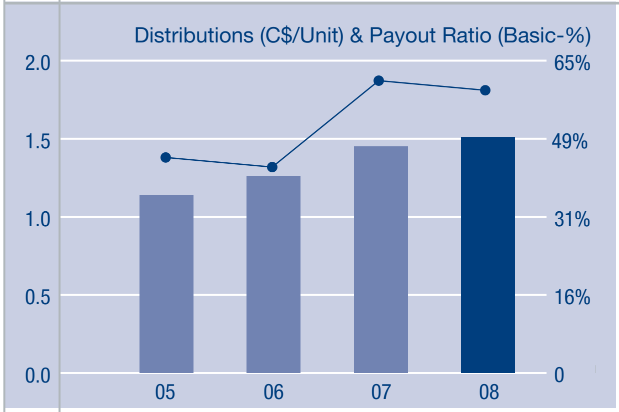
44% (CAGR)

EBITDA increased 35.9% to $20.8 million
in fiscal 2008 compared to $15.3 million in fiscal 2007



49% (CAGR)

Distributable cash increased 44.4% to $14.9 million
in fiscal 2008 compared to $10.3 million in fiscal 2007



10% (CAGR)

Distributions per unit totaled $1.51, representing a 4%
increase over fiscal 2007 of $1.45. 2008 payout ratio (basic)
of 59% compares to 2007 payout ratio of 61%

Four consecutive quarters of improved year-over-year financial performance

Distributions increased for the fifth consecutive year

In spite of distribution increase, payout ratio decreased
to 59% from 61% in 2007

Transitioned to the Toronto Stock Exchange from the Venture Exchange
in March 2008

Completed the Fund's first American and largest acquisition
to date… Stainless Fabrication, Inc.

Completed the acquisition of Kistigan Air and related party assets

Subsequent to year-end, closed the acquisition of Calm Air International Ltd.,
doubling the size of the Fund's Aviation segment

Operating as one

company at a glance

	Perimeter Aviation Ltd. ("Perimeter")	Keewatin Air Limited ("Keewatin")	Calm Air International Ltd. ("Calm Air")
			
Year Acquired	May 2004	July 2005	April 2009
Assets	35 turbo-prop aircraft (up to 36 seats)	9 turbo-prop aircraft (up to 19 seats)	15 turbo-prop aircraft (up to 50 seats)
Products / Services	Scheduled & chartered air transportation service for passengers & cargo; air ambulance services; commercial flight training school	Medical evacuation service under the Nunavut Lifeline brand; scheduled transportation service for passengers & cargo	Scheduled & chartered air transportation service for passengers & cargo
End Customer / Industry Served	Remote communities in northern Manitoba & Nunavut Territory; Provincial, territorial, and federal governments		
Competitive Advantage	First Nations ownership in EIIF; strong relationships with the First Nations community; adjustable aircraft for quick reconfiguration to accommodate varying numbers of passengers vs. cargo; operates from own terminal at Winnipeg Airport enabling it to cater to customers' needs	Staffed with highly experienced medical professionals & flight crew; exclusive ownership of hangar facility at the Rankin Inlet airport; specially equipped aircraft for medical transport	Direct route between Winnipeg and Thompson, Manitoba; scheduled Nunavut service; strong reputational franchise; fleet specially adapted for passenger & freight configuration in the Arctic; state-of-the art hangar facility in Winnipeg, Thompson, & Churchill

Jasper Tank Ltd. ("Jasper")	Overlanders Manufacturing LP ("Overlanders")	Water Blast Manufacturing Group ("Water Blast")	Stainless Fabrication, Inc. ("Stainless")
			
September 2005	October 2006	March 2007	January 2008
40,000 sq. ft. (owned) manufacturing facility in Edmonton, Alberta	38,000 sq. ft. (leased) manufacturing facility in Langley, British Columbia	57,000 sq. ft. (leased) manufacturing facility in Edmonton, Alberta; 7 retail locations in Alberta & British Columbia	85,000 sq. ft. (leased) manufacturing facility in Springfield, Missouri
Custom-made, high quality steel, stainless steel, or aluminum tanks & trailers for transportation of various fluids; pressure trucks	Precision sheet metal products made from mild steel, stainless steel, aluminum, & specialty metals	Custom design & manufacturer of high-pressure washer, cleaning & steam systems	Design & manufacture stainless steel tanks, vessels, & processing equipment (mixers, storage tanks, reactors, hoppers, dryers, cyclones, kilns, pressure vessels, bag houses)
Oil & Gas, Municipal Water, Food & Beverage, Sewage	Gas fireplaces, Turf/Agriculture, Telecom/Cable, Video Surveillance/Security, Restaurant, Industrial OEMs	Agriculture, Transportation, Infrastructure, Manufacturing, Construction, Truck & Automotive services, Mining, Oil & Gas	Pharmaceutical, Chemical, Food, Ethanol, Biodiesel, Dairy, Health, Cosmetics, Beverage, Drinking Water
Customization: multiple pumping systems; separate water/oil pumping tubes; separate hydraulic systems	Laser inspection to ensure customer tolerances up to 0.002" are met; leading edge manufacturing system software; strong, long-term customer relationships	Exclusive dealer in Alberta & British Columbia for "Hotsy" hot & cold water pressure washer cleaning equipment used in commercial & industrial applications; strong repair & service presence supported by availability of parts	Provide in-house (up to 60,000 gallon capacity) & field (up to 600,000 gallon capacity) fabrication services; provide field repairs & modifications to existing tanks; electropolishing to increase resistance to corrosion & bacteria

Building value

chairman's message

2008 was a challenging year for the financial markets and the global economy. Nevertheless, it was another year in which the Fund continued to thrive. This success is the result of our commitment to our disciplined growth strategy, and a strong management team backed by an experienced Board.

At EIIF, we will not acquire assets just for the sake of growth. Instead, we believe that all acquisitions must satisfy the underlying principles of our strategy for the Fund: to consistently grow distributions through strategic acquisitions while maintaining a low payout ratio.

In order for an acquisition to meet our strict standards, it has to satisfy four basic requirements: i) it must be in a proven market niche; ii) it must have strong defensible cash flows; iii) it must have a strong management team which will remain intact following the acquisition; and iv) it must be available at a price that is accretive to our unitholders. The acquisition of Stainless that closed in January 2008 met all of these criteria. In the first year under EIIF's management, revenue contribution from Stainless was approximately 20%. Later within the year, the company completed its first Canadian project which is a new market for Stainless. Management is excited that the Fund was able to open this market for Stainless, and believes it is well positioned to be considered for similar projects in the future.

Subsequent to the year ended December 31, 2008, the Fund closed the acquisition of Calm Air, a regional airline providing essential transportation service to remote communities in northern Manitoba and the Nunavut Territory. This acquisition not only met all of our acquisition criteria, but it is also in a market well understood by EIIF. Its fleet of mid-sized aircraft complements the fleet of Perimeter and Keewatin, and it services the remaining Manitoba routes not already serviced by Perimeter. In addition, with access to a larger fleet, EIIF's Aviation segment is well positioned to aggressively target additional domestic (Manitoba and Nunavut) and North American charter opportunities.

Although our expectation is for continued weakness in the global economy in the near term, we believe that growth from our Aviation segment will mitigate the expected slowdown in the Manufacturing segment. We remain well capitalized with cash and cash equivalents of $4 million as at December 31, 2008, and available credit of $25 million, after closing the Calm Air acquisition. We will continue to carefully consider any opportunities that fit with our overall strategy, and apply the highest standards of fiscal responsibility as we strive to grow the Fund and maximize long-term returns for our valued unitholders.

Gary Filmon

Gary Filmon P.C., O.M.
Chairman, Board of Trustees

We are very pleased with EIIF's results in 2008. Not only did we graduate to the TSX from the Venture Exchange and complete our first U.S. acquisition, but we also increased our distribution for the fifth consecutive year, and delivered four consecutive quarters of improved performance over the corresponding period in 2007. Our model of diversified growth both organically and through disciplined acquisition has allowed us to increase our distributions and distributable cash per unit while reducing our payout ratio.

2008 marked record levels of revenue, EBITDA and distributable cash in spite of the challenges faced in the general economy. Revenue increased 49% to $158 million from $106 million in 2007, driven by: i) manufacturing revenues doubled to approximately $73 million from $37 million in the previous year largely as a result of closing the Missouri-based Stainless acquisition in January 2008; ii) aviation revenues of $85 million was 23% higher than $69 million in 2007, attributable to the acquisition of a small airline in the third quarter, as well as organic growth resulting from an improved fleet, a new contract with the Nunavut government, and enhanced relations with the First Nations communities we service.

EBITDA also increased significantly in 2008, again with contributions from both our Manufacturing and Aviation sectors. Manufacturing EBITDA increased 29% to $10.2 million as a result of the Stainless acquisition, offset somewhat by a significant decline at Jasper. Aviation EBITDA increased 39% to $13.9 million, largely as a result of increased market share, higher load factors, and efficiencies of the larger aircraft fleet. These increases were partially offset by higher head office costs as staffing was increased to oversee the growing operations of the Fund.

Distributable cash also hit an all time high in 2008, increasing 44% to $14.9 million compared to 2007. Of greater importance, distributable cash on a per unit basis increased 8% to $2.56 from $2.38 in 2007. On a fully diluted basis, distributable cash per unit increased 12% to $2.29. With the growth in distributable cash, our Board of Directors approved a 4% increase to monthly distributions in the fourth quarter to $0.13 (or $1.56 annualized). In spite of this increase, our payout ratio declined in 2008 to 59% (or 66% fully diluted) from 61% (or 71% fully diluted) in 2007.

We believe that 2008 showcases the strength of our business model as the Fund was able to record improved performance while the economy slid into recession. Our operations were not without challenges as our manufacturers dealt with softening demand, our Aviation segment dealt with rapidly rising and then falling fuel prices, and Jasper went through a management change during a dramatic decline in the oil and gas sector. The Fund was able to meet these challenges because of two main reasons: i) our subsidiaries were purchased at attractive prices thus affording them the flexibility to deal with inevitable challenges; and ii) the diversity of our subsidiaries result in different business cycles which are not affected by the general economy in the same way at the same time. The discipline of our acquisition and operating strategy combined with the diversity of our subsidiaries has enabled us to provide reliable, growing distributions to our unitholders.

Subsequent to year-end, we announced and closed the acquisition of Calm Air. We are excited about the addition of this airline to our aviation segment. Similar to Perimeter and Keewatin, Calm Air has a strong reputational franchise in a niche market, and they bring expertise in a larger class of airplane and a dedicated management team with decades of experience. We look forward to Calm Air's contribution to the future of the Fund.

2009 will undoubtedly have a greater number of challenges than most periods with the world economy in a significant slowdown. EIIF will not be immune to these challenges, but we believe that we are well positioned to meet them and continue to provide reliable distributions to our unitholders.

Mike Pyle
President & Chief Executive Officer

acquisition strategy

Our disciplined approach: All opportunities considered must be a proven niche company with strong defensible cash flows that would be income fund candidates on their own except for their size. They must also meet the following criteria:

- Attractive margins
- Defensible market position
- Low maintenance capital expenditures
- Identifiable competitive advantage
- Barriers to entry
- Strong management team under the owner
- Accretive to unitholders on a per unit basis, before synergies

Calm Air

Subsequent to the year ended December 31, 2008, the Fund announced that it has closed the acquisition of Calm Air International Ltd. for approximately $59 million. Based out of Thompson, Manitoba, Calm Air has been operating as a regional airline carrier since 1962 with primary hubs in Winnipeg and Churchill, Manitoba, as well as Rankin Inlet, Nunavut. Similar to the Fund's Perimeter and Keewatin airlines, Calm Air provides essential passenger and freight service to isolated communities throughout northern Manitoba and Nunavut. Over the last five years, Calm Air has demonstrated sustained growth in its fleet size, geographic reach, number of passengers carried, kilograms of cargo shipped, and total air time hours flown.

The strategic acquisition of a competitor in a market that is well understood by EIIF reinforces the Fund's position as a dominant regional carrier in Manitoba and Nunavut. Calm Air's mid-sized planes are a complement to Perimeter and Keewatin's fleet of smaller aircraft, and with access to a larger fleet, the Fund is well positioned to aggressively target additional domestic (Manitoba and Nunavut) and North American charter opportunities. As well, Calm Air's scheduled flights will provide service to the remaining Manitoba routes not already serviced by Perimeter. The acquisition of Calm Air will also provide critical mass enabling EIIF's airline operations to take advantage of economies of scale and benefit from operating synergies. The acquisition of Calm Air will essentially double EIIF's Aviation segment.

aviation

EIIF's Aviation segment operates in a niche market, providing essential transportation services to remote communities in northern Manitoba and Nunavut. As such, it is recession resilient and continues to demonstrate organic growth.

Perimeter

Perimeter Aviation Ltd. is a niche regional airline providing scheduled passenger and freight services to small communities in eastern and northern Manitoba. Its main terminal and cargo facility is located at the Winnipeg James Armstrong Richardson International Airport, with a terminal hub and cargo facility located at the Thompson Airport. In addition to its scheduled service, Perimeter also provides Medevac services to northern Manitoba communities; operates a flight training school; and undertake charter work. With focus on its metro platform, the company has the ability to perform virtually all maintenance internally. Unlike most of its competitors, the planes in Perimeter's fleet can be easily reconfigured to accommodate varying numbers of passenger vs. cargo, thus allowing for higher aircraft load factors, particularly on northbound flights.

Keewatin

Keewatin Air is a niche regional airline with a focus on providing Medevac services to remote communities in Nunavut Territory, under the Nunavut Lifeline brand. Keewatin has a contract with the Government of Nunavut for all of its air medical evacuations in the central region. The airline prides itself on staffing its specially equipped aircrafts with highly experienced medical professionals and flight crew to provide superior medical transport services. A well-equipped hangar facility located in Rankin Inlet, Nunavut and Churchill, Manitoba has staff accommodations for the medical professionals and flight crew. In addition to the Medevac services, Keewatin also provides scheduled passenger and freight service between the Kivalliq region in Nunavut Territory and Manitoba under a contract with the Nunavut government.

manufacturing

EIIF's Manufacturing segment is comprised of four businesses that are focused on the industrial sector. Each of these businesses can provide value-added service by customizing products to customer's needs. The industries served by EIIF's Manufacturing segment is diverse, ranging from pharmaceutical, chemical, oil and gas industries, to food and beverage, cosmetics, and telecom/cable industries, to name a few.

Jasper

Jasper Tank is a specialty tank manufacturer located in Edmonton, Alberta specializing in high value, mild steel, stainless steel, or aluminum tanks and trailers for transportation of various fluids. The company can provide customization of the tanks with features including multiple pumping systems; separate water/oil pumping tubes; separate hydraulic systems; and silencers to minimize noise for operation in urban areas. While its customer base is diverse to include the chemical, sewage, and municipal water, its primary focus is in the oil field services industry. In addition to manufacturing specialty tank, Jasper also provides service work for new and existing customers.

Overlanders

Overlanders Manufacturing Ltd. is an ISO-9001 certified leading fabricator of precision sheet metal and tubular products. Precision sheet metal products are made from mild steel, stainless steel, aluminum, and specialty metals. Using leading-edge manufacturing system software that produces 3D modeling, the designs are sent to automated laser cutting and punching machines which produce products that meet laser inspection tolerances up to 0.002 inches, as required by some customers. With its location in the greater Vancouver region of British Columbia, its proximity to the U.S./Canada border allows for easy access to servicing markets in both British Columbia and the Pacific Northwest of the United States. However, its customer base is primarily Canadian.

manufacturing

Water Blast

Acquired by EIIF in 2007, the Water Blast group of companies has three revenue streams: i) custom manufacturing of specialized heavy-duty pressure washer and steam systems; ii) exclusive dealer in Alberta and British Columbia for "Hotsy" hot and cold water pressure washer cleaning equipment used in light commercial and industrial applications; and iii) providing parts and services to customers. The pressure washer and steam systems are used in practically all industries in North America including the oil and gas industry to thaw gas wells in the winter, and the mining industry for hydro excavation. Water Blast is headquartered in Edmonton, Alberta, with seven retail locations in Alberta (five) and British Columbia (two).

Stainless

Stainless Fabrication, Inc. is a Missouri-based company providing custom design and manufacturing of stainless steel tanks, vessels, and processing equipment which are sold throughout the United States. EIIF acquired Stainless in 2008, providing the Fund its first entry into the U.S. market and a natural hedge to U.S. currency exposure. Fabrication of the tanks is conducted both in-house (for tanks up to 60,000 gallon capacity), as well as on-site (for tanks up to 600,000 gallon capacity). The company's unique approach to on-site building of custom stainless steel tanks using jacking devices instead of cranes allows the company to service client sites that are not accessible by cranes. For customers who require extremely sanitary, non-contamination conditions for their manufacturing applications, Stainless can provide electropolishing services to increase the tank's resistance to corrosion and bacteria.

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March 31, 2009

This Management's Discussion and Analysis supplements the audited consolidated financial statements and related notes for the year ended December 31, 2008 ("Consolidated Financial Statements") of Exchange Industrial Income Fund ("EIIF" or "the Fund"). Unless otherwise indicated, results are reported in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Forward Looking Statements

This annual report contains forward looking statements. The use of any of the words anticipate, continue, estimate, expect, may, will, project, believe and similar expressions are intended to identify forward looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward looking statements. Management believes that the expectations reflected in those forward looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward looking statements included in this report should not be unduly relied upon. These statements are made as of the date of this report and the Fund assumes no obligation to update or revise them except as required by law, either publicly or otherwise to reflect new events, information or circumstances.

Non-GAAP Financial Measures

EBITDA and Distributable Cash are not recognized measures under Canadian GAAP and are therefore defined below. EBITDA is defined as earnings before interest, income taxes, unrealized foreign exchange gains or losses, asset impairment, depreciation and amortization. EBITDA is a performance measure utilized by many investors to analyze the cash available for distribution from operations before allowance for debt service, capital expenditures and income taxes. It is also used to compare the Distributable Cash of other income funds and companies. Distributable Cash is a performance measure used to summarize the funds available to unitholders of an income fund and is used by management to evaluate the ongoing performance of the Fund in addition to GAAP defined measures such as net income for the period. Investors are cautioned that EBITDA and Distributable Cash should not be viewed as an alternative to measures that are recognized under Canadian GAAP such as net income, or cash from operations. EIIF's method of calculating EBITDA and Distributable Cash may differ from that of other income funds and therefore may not be comparable to measures utilized by them. A reconciliation of cash flow from operating activities to Distributable Cash is provided in section 3 of this document below.

Additional Information

Additional information relating to EIIF is on SEDAR at www.sedar.com

1. FINANCIAL HIGHLIGHTS

FINANCIAL PERFORMANCE $000's (except per unit data)	2008	per unit basic	per unit fully diluted	2007	per unit basic	per unit fully diluted
Year ended December 31						
Revenue	$ 157,663			$ 106,013		
EBITDA	20,797			15,304		
Net earnings (A)	3,188	0.55	0.55	7,594	1.75	1.63
Distributable cash	14,917	2.56	2.29	10,331	2.38	2.04
Distributions paid to unitholders	8,862	1.51		6,464	1.45	
FINANCIAL POSITION						
Working capital	$ 25,871			$ 23,407		
Capital assets	65,026			56,448		
Total assets	161,330			121,622		
Senior debt	40,911			26,051		
Equity	62,754			62,123		

A – Net Earnings are affected by three non-cash items that are not indicative of future earnings. The first item is amortization of intangible assets which reduced net earnings by $1.9 million in 2008 and $0.8 million in 2007. Intangible assets of the businesses acquired by the Fund are required to be valued to comply with GAAP. These intangible assets are subsequently amortized and reduce earnings, but do not have to be replaced or replenished and accordingly there will be no future cash expense. The second item is changes to substantively enacted tax rates that resulted in a onetime recovery for the future income taxes, which increased net earnings by $0.2 million in 2008 and $0.7 million in 2007. The third item is impairment charges, as these charges are onetime non-cash items. In 2008 the impairment charge was $5.7 million (or $5.5 million after tax) and there was no impairment charge in 2007. After reflecting these items, normalized net earnings are $10.8 million in 2008 and $7.6 million in 2007, resulting in 2008 adjusted earnings per unit of $1.79 or $1.72 on a fully diluted basis and 2007 adjusted earnings per unit of $1.76 or $1.64 on a fully diluted basis.

2. OVERVIEW

EIIF

The Fund is an unincorporated, open-ended, limited purpose trust created on March 22, 2004 by a Declaration of Trust made under, and governed by, the laws of the Province of Manitoba. It is the Fund's mandate to pursue investments in profitable, well-established companies with strong cash flows operating in niche markets in Canada and/or the United States. The objectives of the Fund are (i) to provide Unitholders with stable and growing cash distributions, payable monthly; (ii) to maximize unit value through on-going active management of the companies that the Fund invests in, and (iii) the continuing acquisition of additional companies or interests therein in order to expand and diversify the Fund's investments.

The Fund's reportable business segments are strategic business units that offer different products and services. The Fund has two reportable business segments: Aviation and Manufacturing. The Aviation segment provides airline services to communities in Manitoba and Nunavut. The Manufacturing segment produces specialized tanks, pressure equipment and precision metal parts in Western Canada and throughout the United States.

Acquisitions

The following acquisitions were made by the Fund during the year ended December 31, 2008:

- January 2, 2008: The Fund closed the acquisition of 100% of the shares of Stainless Fabrication, Inc. (“Stainless”) for preliminary aggregate consideration of approximately US $22.0 million. The first adjustment that was determined in the second quarter of 2008 based on the two year average ending December 31, 2007 and the finalization of the working capital adjustment resulted in a payable of US $1.8 million. This price is to be finalized within the first six months of 2009. Management does not expect any material adjustments to the purchase price upon finalization. Based out of Missouri, Stainless designs and manufactures stainless steel tanks, vessels and processing equipment which are sold throughout the United States in a variety of industries.
- On July 8, 2008, the Fund acquired the assets of a small competitor in the Aviation segment together with certain real estate assets owned by parties related to the competitor for aggregate consideration of $3.0 million.

On March 10, 2009, the Fund announced that it had entered into a letter of intent to acquire Calm Air International Ltd. (“Calm Air”), a regional airline carrier that provides both regularly scheduled and chartered passenger and cargo flights to 16 communities in Manitoba and Nunavut. The acquisition cost of approximately $59.3 million, subject to certain adjustments, will be paid partially by way of issuance of Class A units of the Fund to the vendor, and the balance will be financed with proceeds from a public offering of Fund units and convertible debentures, as well as a partial draw from the Fund’s senior debt facility. As a result, also on this date the Fund issued a preliminary short-form prospectus offering of Class A units of the Fund and of subordinated secured convertible debentures redeemable for units of the Fund. The units of the Fund are offered at $9.50/unit including one full warrant entitling the holder to purchase a unit of the Fund for $10.00 within 2 years of the issuance date of the offering. The Fund has offered a minimum of 1,052,632 units ($10.0 million value) and a maximum of 2,105,263 ($20.0 million value). The convertible debentures offered have a minimum aggregate principal amount of $5.0 million and a maximum aggregate principal amount of $15.0 million. Contingent on the closing of the acquisition, the Fund will obtain a new credit facility of $96 million with a syndicate of four banks, including an increased pricing grid. The acquisition is expected to close at the end of the first quarter or the beginning of the second quarter of 2009.

The following are the acquisitions made by the Fund during the 2007 year:

- March 16, 2007: The Fund closed the acquisition of certain assets of Water Blast Manufacturing (1990) Ltd and 100% of the shares of 894092 Alberta Ltd, which together comprise the business known as “Water Blast”, for aggregate consideration of approximately $20.3 million. Water Blast is the exclusive distributor of Hotsy pressure washing equipment for most of the Province of Alberta, and is a manufacturer and distributor of custom applications of pressure related equipment.
- May 1, 2007: The Fund closed the acquisition of 100% of the shares of 368994 Alberta Ltd (Hotsy Grande Prairie), which operates as “Water Blast Grande Prairie”, for aggregate consideration of approximately $2.4 million. Water Blast Grande Prairie has exclusivity for the only Hotsy territory in Alberta, which is not already serviced by Water Blast.
- September 14, 2007: The Fund completed the acquisition of MCS Industries Ltd. (“MCS”) and renamed it Water Blast Manufacturing BC Ltd. (“Water Blast BC”). The business will carry on the Water Blast operations for British Columbia. The purchase price of approximately $1.5 million, including $0.3 million that will be paid if certain financial thresholds are met over individual fiscal periods ending in 2011.

3. KEY PERFORMANCE INDICATORS

Distributable Cash

$000's (except per unit data)	2008	2007
Earnings before income tax	$ 3,126	$ 6,861
Interest expense	5,155	4,014
Amortization of intangible assets	1,927	768
Depreciation	4,921	3,661
Impairment loss	5,668	–
EBITDA	20,797	15,304
Interest on bank debt	2,854	2,069
Interest on debentures	311	–
Interest on convertible debentures	1,164	1,220
Maintenance capital expenditures	1,581	1,659
Cash taxes	(30)	25
Distributable cash	$ 14,917	$ 10,331
Distributable cash per unit		
Basic	$ 2.56	$ 2.38
Diluted	$ 2.29	$ 2.04
Distributions declared per unit	$ 1.51	$ 1.45

The Fund generated Distributable Cash of $14.9 million during the 2008 year, which is an increase of $4.6 million or 44% over the 2007 year. The increase in Distributable Cash for 2008 can be attributed to the acquisition of Stainless at the beginning of the year, organic growth of the Aviation segment that operated with greater market share, and the implementation of price increases to recoup increased operating costs. These were offset by the decline in revenues and margins at Jasper and the increased costs associated with additional staffing at the Fund's head-office as a result of the growth of the Fund.

Distributable Cash when calculated on a per unit basis increased to $2.56 per unit or $2.29 per unit fully diluted from $2.38 or $2.04 fully diluted in 2007. This is an increase of 8% and 12% respectively. The Fund normally utilizes either units of the Fund, convertible debentures, or a combination of both along with debt to finance acquisitions. Accordingly the Fund believes that the appropriate comparison of per unit amounts is on a fully diluted basis rather than a simple basis.

Distributable Cash is not a term defined by GAAP, and as such is not calculated in a common manner by income funds. EIIF believes that it is most appropriate to calculate Distributable Cash by starting with a measure of cash profit (EBITDA) and subtracting cash interest, cash taxes and the capital expenditures required to maintain the operation at its current level. These sustaining capital expenditures are classed as maintenance capital expenditures. Other capital expenditures which are incurred to grow the enterprise and are expected to generate additional EBITDA are not included in the calculation of Distributable Cash. It should be noted that the Fund recorded an impairment write-down of goodwill and certain intangible assets in the fourth quarter of 2008. This write-down is non-cash and has no impact on Distributable Cash.

During 2008 the Fund invested a total of $1.6 million in maintenance capital expenditures. Significant items included computer upgrades, manufacturing equipment, automotive vehicles, aviation hangar improvements and aviation ground equipment.

In addition to the investments in maintenance capital expenditures, the Fund invested $7.5 million in growth capital expenditures. The Aviation segment invested in the new terminal and hanger for Keewatin ($2.0 million), purchased a King Air aircraft for Keewatin ($1.6 million) to replace an aircraft that was returned to the lessor at the end of its lease, expanded the passenger lounge and improved hanger facilities at Perimeter ($1.5 million), purchased the flight simulator used for Perimeter's pilots training ($0.6 million), and purchased a medevac hanger in Island Lake ($0.4 million). The Manufacturing segment made investments in manufacturing equipment for the expansion of Stainless ($0.5 million), completed a sand blasting facility at Jasper ($0.3 million), purchased additional manufacturing equipment at Overlanders ($0.2 million) and purchased additional service vehicles to facilitate the geographic expansion of Water Blast.

Fourth Quarter Distributable Cash

The company generated Distributable Cash of $4.0 million in the fourth quarter of 2008 which was an increase of 42% over the $2.8 million generated during the same period in 2007. Consistent with the explanation given for the full year's results, the increase in the fourth quarter of 2008 is a result of the addition of Stainless, which had no results during the comparative period in 2007, and the improved results for the Aviation segment.

On a per unit basis Distributable Cash was $0.68 in the fourth quarter, or $0.61 when calculated on a fully diluted basis. Distributable Cash was $0.59 and $0.52 respectively in the fourth quarter of 2007. This is an increase of 15% and 17% respectively.

The Fund invested $1.3 million in capital expenditures in the fourth quarter of 2008. Approximately $0.6 million was classed as maintenance capital expenditures with the balance of $0.7 million classified as growth expenditures.

Reconciliation of Cash Flow from Operations to Distributable Cash

$000's (except per unit data)	2008	2007
Cash flow from (used in) operating activities	$ 19,039	$ 7,821
Overhaul accrual	(2,094)	(806)
Long-term debt discount paid (accretion)	19	(801)
Other	(4)	559
Changes in non-cash operating working capital items	(462)	5,217
Maintenance capital expenditures, net of gain on sale/disposal of capital assets	(1,581)	(1,659)
Distributable cash	$ 14,917	$ 10,331

The following table provides disclosure regarding the relationship between cash flows from operating activities and net earnings for the year to historical distributed cash amounts for the same periods.

$000's (except ratios)	2008	2007	2006
Cash flow from operating activities	$ 19,039	$ 7,821	$ 10,676
Net earnings for the year	3,188	7,594	5,017
Distributions declared	8,862	6,464	3,337
Excess (shortfall) of			
Cash flows from operating activities over distributions declared	10,177	1,357	7,339
Net earnings for the year over distributions declared	$ (5,674)	$ 1,130	$ 1,680
Payout ratios			
Distributions declared/cash flow from operating activities	46.5%	82.6%	31.3%
Distributions declared/net earnings for the year	278.0%	85.1%	66.5%

The shortfall of net earnings for the year over distributions declared is mainly a result of three non-cash items that are not indicative of future earnings. The first item is amortization of intangible assets which reduced net earnings by $1.9 million in 2008. Intangible assets of the businesses acquired by the Fund are required to be valued to comply with GAAP. These intangibles assets are subsequently amortized and reduce earnings, however these intangible assets do not have to be replaced or replenished and accordingly there will be no future cash expense. The second item is changes to substantively enacted tax rates that resulted in a onetime recovery for the future income taxes, which increased net earnings by $0.2 million in 2008. The third item is impairment charges, as these charges are onetime non-cash items. In 2008 the impairment charge was $5.7 million (or $5.5 million after tax). After reflecting these items, normalized net earnings are $10.8 million in 2008. This would eliminate the shortfall and leave a surplus of $2.0 million.

The distributions declared during the 2008 year are not considered to be an economic return of capital. There is excess cash flow from operations generated by the Fund over distributions declared for the year.

No debt obligations were incurred by the Fund to satisfy distribution payments. Additionally, no covenants were breached and no waivers or consents were required. The net cash position of the Fund is $4.0 million as at December 31, 2008, which is an increase of $2.8 million over the net cash position of $1.2 million as at December 31, 2007.

Distributions and Payout Ratio

Distributions declared in the 2008 year totaled $8.9 million which was an increase of 37% over the $6.5 million paid in the 2007 year (166% over the $3.3 million paid in the 2006 year). Distributions on a per unit basis were $1.51 in the 2008 year which was an increase of 4% over the $1.45 paid in the 2007 year. Distributions were paid at $0.12 per unit monthly from December of 2006 until November of 2007, when they were increased by 4% to $0.125 per unit. They were paid at that level until November of 2008 when they were increased by 4% to $0.13 per unit.

The 2008 distributions declared per unit of $1.51 represent a payout ratio of 59%, or 66% of Distributable Cash when calculated on a fully diluted basis. This payout ratio is considered to be prudent and is reviewed by the Trustees of the Fund on a quarterly basis. The current rate of distribution is $0.13 per unit per month. Management expects to generate sufficient cash from operating activities and net earnings generated in 2009 to continue to meet or exceed the current distribution rate.

Distributions declared in the fourth quarter of 2008 totaled $2.3 million which was an increase of 25% over the $1.9 million paid in the fourth quarter of 2007. Distributions on a per unit basis were $0.385 in 2008 which was an increase of 4% over the $0.37 paid in 2007. Distributions declared in the fourth quarter of 2008 represent a payout ratio of 57% or 63% when calculated on a fully diluted basis (2007 – 63% or 71% fully diluted).

The amounts and record dates of distributions declared during the year were:

$000's (except per unit data)	2008			2007		
		Distributions			Distributions	
Month	Record date	Per unit	Amount	Record date	Per unit	Amount
January	January 31, 2008	$ 0.125	$ 726	January 31, 2007	$ 0.12	$ 332
February	February 29, 2008	0.125	726	February 28, 2007	0.12	477
March	March 31, 2008	0.125	726	March 30, 2007	0.12	525
April	April 30, 2008	0.125	727	April 27, 2007	0.12	529
May	May 30, 2008	0.125	727	May 29, 2007	0.12	540
June	June 30, 2008	0.125	727	June 29, 2007	0.12	544
July	July 31, 2008	0.125	730	July 31, 2007	0.12	550
August	August 29, 2008	0.125	730	August 31, 2007	0.12	557
September	September 30, 2008	0.125	730	September 28, 2007	0.12	559
October	October 31, 2008	0.125	751	October 31, 2007	0.12	563
November	November 28, 2008	0.13	780	November 30, 2007	0.125	587
December	December 31, 2008	0.13	782	December 31, 2007	0.125	701
Total		$ 1.51	$ 8,862		$ 1.45	$ 6,464

4. ANALYSIS OF OPERATIONS

	2008				2007			
$000's	Aviation	Mfg	Fund[2]	Consolidated	Aviation	Mfg	Fund[2]	Consolidated
Revenue	$ 84,678	$ 72,985	$ –	$ 157,663	$ 68,992	$ 37,021	$ –	$ 106,013
Expenses[1]	70,768	62,816	3,282	136,866	58,970	29,114	2,625	90,709
EBITDA	$ 13,910	$ 10,169	$ (3,282)	$ 20,797	$ 10,022	$ 7,907	$ (2,625)	$ 15,304

1 Expenses exclude amortization, interest expense, impairment losses and unrealized foreign exchange gains or losses.
2 Fund is not a separate reportable segment. Fund includes expenses incurred at head office and is presented for reconciliation purposes.

Revenue

Revenue for the 2008 year reached $157.7 million, an increase of $51.7 million or 49% over the 2007 year. The Aviation segment generated revenues of $84.7 million which was an increase of $15.7 million or 23% from the previous year. The Manufacturing segment contributed revenues of $73.0 million which was an increase of $36.0 million or 97% over the previous year.

The 23% growth in revenues in the Aviation segment came mainly from organic growth at both airlines. The barriers to entry that exist in the Aviation market are reflected in the increased revenues for the segment. Specific factors that have contributed to the increase are the following. First, both Perimeter and Keewatin experienced growth in market share. Perimeter experienced increased passenger loads particularly in its Thompson operation, while Keewatin was awarded a medical passenger contract with the Government of Nunavut which increased passenger loads in the final nine months of the year. The awarded contract for Keewatin was signed in the first quarter of 2008 to provide medical related travel on scheduled service to communities in the Kivaliq region of the Nunavut territory. Second, the segment has been able to recoup increased operating costs that were incurred, in particular fuel, through ticket surcharges. Lastly, the segment has benefited from the increases in the size of their fleets and availability of aircraft to perform additional charter work which in prior years the segment was restricted from doing because of capacity constraints. In the prior year, the segment was faced with capacity shortages and new competitors which subsequently ceased operations in 2008.

The Manufacturing segment almost doubled in size with the acquisition of Stainless at the beginning of the 2008 year and revenue grew by 97% overall. Stainless contributed sales of $32.2 million in 2008 from operations throughout the United States and also from its entry into the Canadian market place with a project completed in Manitoba during the summer of 2008. The Manufacturing segment also recognized increased sales of $9.7 million in 2008 from Water Blast. This was mainly as a result of operating as part of the Fund for a full twelve months in 2008, as well as from organic growth. The entities within Water Blast were acquired throughout 2007. Water Blast showed increased market penetration for its larger customized machines and began to launch new product lines in new markets. These increases in revenue were offset by a decrease of $6.2M at Jasper which was impacted by the decrease in customer demand as a result of the decline in the Alberta oil and gas industry. This market for Jasper changed from one that was focused on delivery times as product demand was so high, to a much more competitive market that is more price sensitive.

EBITDA

EBITDA for the 2008 year totaled $20.8 million, which was an increase of $5.5 million or 36% over the 2007 year. The increase was the result of increases in both segments of the Fund. The Aviation segment generated EBITDA of $13.9 million (an increase of 39%) and the Manufacturing segment generated EBITDA of $10.2 million (an increase of 29%). The increase from the operating segments of the Fund was reduced by an increase of $0.7 million (or 25%) in the expenses incurred at the Fund's head-office.

The increase in EBITDA generated by the Aviation segment is the result of several factors. Firstly, and most importantly as set out in the revenue section above, the Aviation segment experienced significant increase in revenue. This lead to significantly higher EBITDA margins as they increased to 16.4% from 14.5%, an increase of 13.1%. The higher EBITDA margins are driven from increased market share at both airlines. This has resulted in both enhanced load factors resulting in higher margins, as well as significantly improved EBITDA margins given that a substantial portion of the Aviation segment's costs are fixed. Secondly, the completion of fleet changes at Perimeter and Keewatin not only allowed both companies to take advantage of charter opportunities, but also virtually eliminated the need for either company to charter third party aircraft, to meet the needs of their customers. Thirdly, both airlines were able to pass on increases in fuel costs through fuel surcharges. Fuel prices fell significantly in the fourth quarter and while these surcharges were reduced, fuel price decline was so abrupt that it still resulted in enhanced profitability. Finally, the slowdown of the economy in general and aviation in particular in the second half of the year reduced the demand for pilots which in turn reduced turnover, and thereby reduced pilot training and recruiting costs.

The Manufacturing segment operated in a challenging environment during 2008 but overall still generated $2.3 million growth in EBITDA. Consistent with the explanation for the growth in the Manufacturing segment's revenues, the EBITDA growth in 2008 is mainly attributed to the operations of Stainless which was purchased at the beginning of 2008. In spite of a market shift in which some customers are delaying or cancelling projects, Stainless generated EBITDA of $5.6 million in 2008. The Canadian operating entities in the Manufacturing segment also felt the economic pressures. Most affected by this was Jasper which operates in the oil and gas markets in Alberta. Jasper generated an EBITDA loss of $1.0 million for 2008, which was a decrease of $3.1 million from 2007. As production capacity in this market became more available with declining customer demand, pricing pressures led to lower margins and increased difficulties for the Jasper sales team. Changes were made to the Jasper management team which led to improvements to the sales team, and increased efficiency in its production. As well, production process improvements have been implemented (such as a new more efficient environmentally sensitive sandblasting system) that will improve quality and help put Jasper in a better position in dealing with this market environment.

The EBITDA generated for Water Blast's core Alberta market during 2008 was relatively consistent with 2007. Water Blast experienced some margin pressure as a result of a strengthening US dollar. As well, General and Administrative costs were higher because Water Blast expanded its facilities and increased personnel costs to structure itself for future growth. The continued penetration into the British Columbia ("BC") geographic region has been more difficult as a result of several factors. The company is moving the focus from cold water systems that are lower margin product to the higher margin customized units and Hotsy products. Also during 2008 the production of the Storm line of cold water washers was moved to Edmonton from BC where it was when the business was purchased by the Fund in September 2007. The EBITDA result for Overlanders in 2008 was stable compared with the prior year with only a minimal decrease in EBITDA margin.

The cost of operating the head-office of the Fund increased by 25% from $2.6 million in 2007 to $3.3 million in 2008. The increase is the result of additional personnel and professional fees.

Changes to Tax Expense

In 2008 the Federal Government approved by royal enactment changes to the tax rates. These changes reduce the tax rate that will be in effect when future income tax assets and liabilities of the Fund will reverse. The effect of this resulted in a onetime $0.2 million decrease to the Fund's future income tax expense and a corresponding decrease to its future income tax liability. This adjustment to the future income tax expense resulted in a $0.02 per unit decrease in the 2008 net earnings ($0.02 per unit decrease fully diluted).

In 2007 there were two changes proclaimed by the Federal Government which had a significant impact on the future tax expense of the Fund. First, in April 2007, the Federal Government included the proposed Trust Taxation in the Federal Budget ("Bill C-52"), which would result in certain income trusts, including the Fund, paying taxes after fiscal 2010, similar to those paid by taxable Canadian corporations. The payment of such taxes will, in the future, reduce the distributable cash of the Fund. Bill C-52 received third reading on June 12, 2007 and then Royal Assent on June 22, 2007, thus fully enacting the tax measures. Secondly, in December 2007 the Federal Government approved by royal enactment the changes in the tax rates that would be in effect when future income tax assets and liabilities of the Fund reverse. The combined effect of these two items resulted in a $0.7 million onetime decrease in the Fund's future income tax expense and a corresponding decrease to its future income tax liability. This adjustment resulted in a $0.17 per unit increase in the 2007 net earnings (2007 – $0.13 per unit fully diluted).

5. SUMMARY OF QUARTERLY RESULTS

	2008				2007			
$000's (except per unit data)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	$ 40,793	$ 41,455	$ 40,995	$ 34,420	$ 29,407	$ 26,595	$ 28,194	$ 21,817
EBITDA	5,597	5,712	5,657	3,831	4,126	4,223	4,548	2,407
Net earnings/(loss) (A)	(2,968)	1,688	3,095	1,373	2,607	2,010	2,012	965
Distributable cash	4,005	4,165	4,412	2,335	2,813	2,980	3,281	1,257
Earnings/(loss) per unit: (A)								
Basic	(0.51)	0.29	0.53	0.24	0.54	0.44	0.45	0.28
Diluted	(0.51)	0.29	0.50	0.24	0.50	0.41	0.42	0.28
Distributable cash per unit:								
Basic	0.68	0.71	0.76	0.40	0.59	0.65	0.74	0.37
Diluted	$ 0.61	$ 0.64	$ 0.67	$ 0.38	$ 0.52	$ 0.56	$ 0.62	$ 0.33

A – Net Earnings: During the fourth quarter of 2008, the Fund recorded an impairment write-down of $5.7 million ($5.5 million after-tax) for certain intangible and goodwill assets within the Manufacturing segment that contributed to a net loss for the period. The impairment write-down negatively impacted basic earnings per unit by $0.95 (after-tax). See Note 16 – Segmented Information of the consolidated financial statements of the Fund for further details on the impairment recorded.

6. REVIEW OF FOURTH QUARTER 2008 RESULTS

The first and fourth quarters of the year are typically weaker than the second and third. This is the result of a number of factors. Firstly, the fourth quarter contains the Christmas and New Years holidays which result in the loss of one week of production in the Manufacturing segment, without any corresponding reduction in labor or overhead costs. Secondly the beginning of the fourth quarter is usually marked by a significant slowdown in the Aviation segment during freeze up. A number of the airports which service certain First Nation communities are located on islands and not on the mainland where the population live. During the period while the lake is freezing the only way to get to the airport is by helicopter which is very expensive and as such, travel is postponed in all but the most urgent situations. Finally the holiday season is exceptionally busy for the airlines, as passengers return to their communities with significant amounts of extra freight (holiday gifts, special foods etc.). While this drives up revenue, it is not as positive for margins as the vast majority of the volume is northbound. Extra flight segments are usually required to meet the customer demand northbound, but traffic southbound is very light which results in weaker than average margins.

The Fund had a strong fourth quarter in 2008 as revenues increased by 39% to $40.8 million compared to $29.4 million in 2007. EBITDA also had very strong growth, as it increased by 36% to $5.6 million from $4.2 million in 2007. This revenue and EBITDA growth was the result of improvements in both the Aviation and Manufacturing segments.

Revenues in the Aviation segment increased by 23% to $22.6 million. The increase in revenues in the Aviation segment was caused by the same factors set out in the section on 12 month revenues. The Aviation segment generated EBITDA of $3.6 million which is up by 20% from 2007. The improvement in EBITDA in the Aviation segment was largely attributable to the increased revenues. EBITDA margins were down slightly from 16.5% in the fourth quarter of 2007 to 16.1% in 2008. This slight decrease is the result of higher maintenance costs, and a change in revenue mix at Keewatin.

Revenues in the Manufacturing segment increased by 66% to $18.2 million and the EBITDA increased by 45% to $2.8 million. The increase in the Manufacturing segment is the result of $10.0 million in sales and $2.0 million in EBITDA at Stainless, which was not owned by EIIF in the comparable period. This was Stainless' best performance since acquired at the beginning of 2008, as Stainless experienced strong sales in its field operations which also generated higher operating margins. The increase in revenue from Stainless was offset by declining sales at Jasper, as well as Jasper putting some product on consignment, which does not result in a sale for financial statement purposes. Jasper has experienced a significant decline in demand for its product as a result of the reduced activity in the oil and gas industry. This has led to a decline in sales and has also resulted in Jasper putting tanks on consignment to increase its selling network. The increase in EBITDA from Stainless was offset by negative EBITDA from Jasper and the BC operation of Water Blast in the fourth quarter. The lower sales at Jasper resulted in negative EBITDA of $0.5 million and the BC operation of Water Blast lost $0.3 million in EBITDA as it sought to gain market share in the BC region.

The costs incurred at the Fund's head-office during the fourth quarter of 2008 were consistent with the same period in 2007.

7. LIQUIDITY & CAPITAL RESOURCES

Liquidity

As at December 31, 2008, the Fund had a net cash position of $4.0 million and net working capital of $26.0 million, which represents a current ratio of 2.0 to 1. During the 2008 year the Fund generated $19.2 million of cash flow from operations, which is an improvement over the $7.8 million generated in the 2007 year. The Fund's ongoing cash requirements during 2008, outside of growth initiatives and acquisitions, were $8.8 million for cash distributions and $1.6 million for maintenance capital expenditures. After these cash outflows, the Fund had a surplus of $8.9 million to fund other initiatives. In 2008 the Fund fully funded its growth capital expenditures and paid down debt.

During the next 12 months, the Fund will have its first series of convertible debentures mature, which currently have a balance outstanding of $1.5 million, and the $2.0 million (US $1.6 million) Stainless vendor note is anticipated to be settled. The convertible debentures have a forced conversion option at the Fund's discretion and therefore can be paid in units of the Fund if management deems that to be in the best interest of our unitholders. The Fund's current liquidity and its ability to generate cash flow from operations leave the Fund with more than adequate liquidity to settle both these obligations with cash at maturity if deemed appropriate.

Capital Resources

During 2008 the Fund filed a prospectus and closed an offering of $9.7 million of five year Series E Subordinate Secured Debentures ($7.5 million closed on August 13, 2008 and $2.2 million closed on September 26, 2008) consisting of 9,691 debentures with a face value of $1 (thousand). The debentures bear interest at 9.0% paid semi-annually, mature in five years, and are not convertible into equity of the Fund. Net proceeds of $8.9 million were received by the Fund after transaction costs of $0.8 million. Approximately $2.7 million of the proceeds from these debentures were used to fund the acquisition of certain aviation assets, while the balance is available for general corporate purposes.

The Fund has a $66.0 million syndicated secured debt facility that is split into a $55.7 million Canadian dollar facility and US $10.3 million facility. As at December 31, 2008 the Fund has $32.4 million of its Canadian debt facility outstanding and US $7.5 million of its USD debt facility outstanding ($9.1 million). Both these amounts are shown on the balance sheet in Canadian dollars net of unamortized transaction costs of $0.5 million and unamortized discount on Bankers Acceptances of $0.1 million. During 2008 the Fund utilized the debt facility to assist in funding the acquisition of Stainless for US $20.0 million as well as to purchase an additional aircraft for US $1.5 million. These amounts were subsequently repaid within the 2008 year. As in prior years, the Fund also utilized the debt facility to purchase fuel for its Aviation segment of $1.8 million. This fuel is trucked into remote northern communities for use over the ensuing year. This portion of the facility is repaid over the year as the fuel is utilized in operations.

Overall during 2008 the Fund made repayments of $10.3 million using proceeds from debentures issued and cash generated from operations during the year.

The following summarizes the changes in the units outstanding of the Fund over 2008:

	Date issued	Number of units
Units outstanding, beginning of year		5,607,688
Units issued to Stainless vendors	January 2, 2008	202,860
Units issued to vendors of Aviation assets acquired	July 9, 2008	27,877
Units purchased under the Employee Unit Purchase Plan	October 22, 2008	30,951
Units issued upon conversion of debentures	various	3,088
Units outstanding, end of year		5,872,464

The following summarizes the convertible debentures outstanding as at December 31, 2008 and the changes in the amount of convertible debentures outstanding during 2008:

Convertible Debentures ($000's, par value)	Debentures Outstanding
9% SENIOR SECURED, MAY 7, 2009 MATURITY CONVERTIBLE AT $9.00, outstanding beginning of year	$ 1,531
Debentures converted into units	(20)
Debentures outstanding, end of year	1,511
8% SENIOR SECURED, JULY 8, 2010 MATURITY CONVERTIBLE AT $11.50, outstanding beginning of year	3,395
Debentures converted into units	(10)
Debentures outstanding, end of year	3,385
8% SENIOR SECURED, SEPTEMBER 1, 2010 MATURITY CONVERTIBLE AT $13.25	2,500
8% SENIOR SECURED, AUGUST 12, 2011 MATURITY CONVERTIBLE AT $13.25	7,000
Total convertible debentures outstanding, December 31, 2008	$ 14,396

The following summarizes the contractual obligations of the Fund and its subsidiaries as at December 31, 2008:

	Payments Due by Period ($000's)				
Contractual Obligations	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Long-term debt	$ 41,523	$ –	$ 41,523	$ –	$ –
Vendor note payable	2,008	2,008	–	–	–
Debentures – series A–D	14,396	1,511	12,885	–	–
Debentures – series E	9,691	–	–	9,691	–
Operating leases	10,738	2,638	3,869	2,123	2,108
Total contractual obligations	$ 78,356	$ 6,157	$ 58,277	$ 11,814	$ 2,108

8. RELATED PARTY TRANSACTIONS

The Fund enters into transactions with 2811065 Manitoba Ltd., which is owned by a director of EIIF Management GP Inc. These transactions are in the normal course of operations and at market terms and conditions. Market terms and conditions are based on the way a deal would be structured with an arms length third party. The Fund incurred aircraft lease expenses and other aviation operating costs of $0.1 million in 2008 (2007 – $0.1 million) from 2811065 Manitoba Ltd. The payable to 2811065 Manitoba Ltd. recorded as at December 31, 2008 is less than $0.1 million (2007 – less than $0.1 million).

The Fund has a marketing agreement with Tribal Council Investment Group ("TCIG"), whose President is a director of EIIF Management GP Inc. The agreement is in the normal course of operations and at market terms and conditions, except that the compensation is payable to TCIG in units rather than cash. The compensation to TCIG is conditional on the annual increase in sales at Perimeter. The Fund paid commissions of $0.3 million during 2008 (2007 – $0.1 million). The payable to TCIG at December 31, 2008 is $0.8 million (2007 – $0.5 million).

Certain Water Blast retail and manufacturing locations in Alberta are leased from the current president of Water Blast who was the vendor that sold Water Blast to the Fund in March 2007. The terms of these leases are considered to be at market terms and recognized in the consolidated financial statements at the exchange amounts. The remaining length of term for the leases range between two to four years. The total costs incurred in 2008 under these leases are $0.7 million (2007 – $0.3 million) and recorded under general and administrative expenses, and at December 31, 2008 there is no related party balance recorded on the balance sheet. The total future minimum lease payments under these leases are described further in Note 20.

With the acquisition of Stainless effective January 2, 2008, certain buildings are leased by Stainless from the vendors, one of whom is the current president of Stainless. The terms of the lease are considered to be at market terms and are recognized in these consolidated financial statements at their exchange amount. The length of term for the lease is five years commencing at the time of acquisition. The total costs incurred during 2008 are approximately $0.4 million and recorded under general and administrative expenses. As at December 31, 2008, there is no related party balance recorded on the balance sheet. The future minimum lease payments under the lease are approximately US $0.3 million annually for the remaining four years of the lease term.

9. ACCOUNTING POLICIES AND ESTIMATES

Critical Accounting Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates are deemed critical when a different estimate could have reasonably been used or changes in accounting estimates are reasonably likely to occur from period to period and these different estimates would have a material impact on the Fund's consolidated balance sheet, results of operations, or statement of cash flows.

The significant areas requiring the use of management estimates are disclosed in note 2 of the notes to the consolidated financial statements. The Fund's management believes that the following accounting estimates are critical as described above.

Business Combination

The Fund's acquisitions have been accounted for using the purchase method of accounting. Under the purchase method, the acquiring company adds to its balance sheet the estimated fair values of the acquired company's assets and liabilities. There are various assumptions made when determining the fair values of the acquired company's assets and liabilities. The most significant assumptions, and those requiring the most judgment, involve the estimated fair values of intangible assets. The intangible assets acquired that require critical accounting estimates are customer contracts, customer relationships, customer lists and brand name. To determine the fair value of these intangible assets, the Fund adopted the excess earning method. This valuation technique values the intangible assets based on the capitalization of the earnings which are calculated to be in excess of what a reasonable amount of earnings would be on the tangible assets used to generate the earnings associated with the intangible asset. Significant assumptions include, amongst others, the determination of projected revenues, cash flows, customer retention rates, discount rates, and anticipated average income tax rates.

Goodwill and Intangible Asset Impairment

Goodwill and certain intangible assets are not amortized. Goodwill and all intangibles are assessed for impairment at least annually. Any potential impairment is identified by comparing the fair value of the business to its carrying value. An impairment loss would be recognized to the extent that the carrying value of goodwill or intangibles exceeds the implied fair value. Fair value of goodwill or intangibles is estimated in the same manner that the Fund uses to determine fair value upon the acquisition of a business. Significant assumptions include, amongst others, the determination of normalized earnings and earnings multiples.

Overhaul Provision

The purpose of the reserve is to ensure that the cost to overhaul an engine and to perform the hot section inspection is expensed evenly over the period that the engine is used. An amount is accrued for every hour flown. The accrual rate is set so that when the expenditure is incurred, the liability approximates the amount of the required expenditure. To calculate the accrual rate, management estimates the cost to perform a standard overhaul and hot section inspection on the engine and divides this by the time before overhaul on the engine. The accrual rate is reviewed annually to ensure that the costs have not changed significantly.

Stainless Revenue Recognition

Stainless operates under long-term contracts of production and revenue is recognized on a percentage of completion basis. The percentage of completion for each contract is based on contract costs incurred to date compared with total estimated contract costs. The percentage complete is then applied to total anticipated revenues for that contract to determine the period's revenue recognized. The percentage complete, estimated contract costs and estimated contract revenues are reviewed monthly.

Changes in Accounting Policies

The critical accounting policies are substantially unchanged from those identified in the MD&A for the year-ended December 31, 2007 with the exception of the adoption of the new accounting standards and new accounting policies described below.

Revenue Recognition – Long-term Contracts

Revenues from long-term contracts associated with manufacturing products from Stainless, acquired on January 2, 2008, are recognized on a percentage of completion basis. The percentage complete is calculated based upon contract costs incurred to date compared with total estimated contract costs. The percentage complete is then applied to total anticipated contract revenue to determine the period's revenue. A provision for the estimated loss is made when contract costs are expected to exceed estimated contract revenue.

Foreign Currency Translation

The Fund translates the financial statements of Stainless, considered a self-sustaining US subsidiary, in accordance with the current rate method, under which assets and liabilities are translated at the currency exchange rate in effect at the balance sheet date and earnings statement items are translated at the average currency exchange rate for the period. Translation adjustments arising from currency exchange rate fluctuations are recorded as a component of other comprehensive income and are shown in accumulated other comprehensive income under equity until realized, at which time they are transferred to income.

Other monetary assets and liabilities denominated in U.S. dollars have been translated into Canadian dollars at the rate of exchange at the balance sheet date. Gains and losses from translation are recognized in income in the period they occur.

Inventory

The CICA issued Section 3031, Inventories, which replaced Section 3030, Inventories. This new standard was adopted by the Fund on January 1, 2008. Section 3031 provides more extensive guidance on measurement, and expands disclosure requirements to increase transparency. The Fund's previous accounting policy for inventories is consistent with measurement requirements in this new standard and therefore the results of the Fund will not be materially impacted; however, additional disclosures are made around inventory below.

The main features of the new standard, which impact the Fund, include:

- Measurement of inventories at the lower of cost and net realizable value, with guidance on the determination of costs.
- Reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories.
- Disclosure of the accounting polices used, carrying amounts, amounts recognized as an expense, write-downs, and the amount of any reversal of any write-downs recognized as a reduction in expenses.

Raw material and parts inventories have been valued at the lower of cost and net realizable value. Work in progress and finished goods inventories have been valued at the lower of cost of materials and labour, plus systematically allocated overhead, and net realizable value.

The Fund classifies its inventory into the following categories:

- Parts and other consumables: this includes the inventory of the Aviation segment subsidiaries and represents items utilized in the operations and repair of the aircraft.
- Raw materials: this includes items used in the manufacturing of products by the Manufacturing segment subsidiaries that have no labour work performed on them.
- Work in process: this includes items that have begun to be utilized in production by the Manufacturing segment subsidiaries.
- Finished goods: this includes items that have completed the manufacturing process and are available for sale or items purchased for resale by the Manufacturing segment subsidiaries.

Capital Disclosures and Financial Instruments – Presentation and Disclosure

The CICA issued three new accounting standards: Section 1535 – Capital Disclosures, Section 3862 – Financial Instruments – Disclosures, and Section 3863 – Financial Instruments – Presentation and the Fund adopted these sections on January 1, 2008.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 replaced section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections will place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

International Financial Reporting Standards ("IFRS")

In February 13, 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS in place of GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. The Fund has established a changeover plan to convert to these new standards according to the timetable set with these new rules. A project team has been created that is led by finance management at the Fund's head-office. Third party advisors have also been engaged to provide professional services and training to our staff during the project.

The implementation project consists of three primary phases, which in certain cases will be in process concurrently as IFRS is applied to specific areas from start to finish:

- Scoping and diagnostic phase —This phase involves performing a detailed diagnostic comparing Canadian GAAP to IFRS and identifying key areas that may be impacted by the transition to IFRS.
- Impact analysis and design phase — In this phase, each area identified from the scoping and diagnostic phase will be addressed. This phase will determine changes required to existing accounting policies, information systems and business processes, together with an analysis of policy alternatives allowed under IFRS and development of draft IFRS financial statement content. The Fund is also assessing the impact of the conversion on our business activities including the effect on information technology and data systems, internal controls over financial reporting and disclosure controls.
- Implementation and review phase — This phase will include execution of changes to information systems and business processes, completing formal authorization processes to approve recommended accounting policy changes and training programs across the Fund's finance and other staff, as necessary. The ultimate objective is being able to provide IFRS compliant financial information.

The Fund has commenced the scoping and diagnostic phase. The Fund's analysis of IFRS in comparison to Canadian GAAP has identified some differences but at this time, the impact on the Fund's future financial position and results of operations is not reasonably determinable or estimable.

Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as of the date of the first comparative balance sheet presented based on standards applicable at that time.

IFRS 1, "First-Time Adoption of International Financial Reporting Standards", provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. The Fund is analyzing the various accounting policy choices available and will implement those determined to be most appropriate in the Fund's circumstances.

10. CONTROLS AND PROCEDURES

Internal Controls Over Financial Reporting

Management is responsible for establishing and maintaining internal controls over financial reporting ("ICFR") in order to provide reasonable assurance with regards to the reliability of financial reporting and preparation of financial statements in accordance with Canadian GAAP.

An assessment of internal controls over financial reporting was conducted by the Fund's management, under supervision by the Chief Executive Officer and Chief Financial Officer. Management has used the Internal Control – Integrated Framework to evaluate the effectiveness of internal controls over financial reporting, which is recognized as a suitable framework developed by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Management has evaluated the design and operation of the Fund's internal controls over financial reporting as of December 31, 2008, and has concluded that such ICFR are effective, with the exception of the following internal control design weaknesses which require further improvement:

- Control weaknesses surrounding the security of information have been identified within key information technology systems. The Fund has implemented a formal strategic plan and is currently addressing the remediation of all significant weaknesses; and
- Control weaknesses exist around inventory management, specifically around the existence, accuracy, valuation of inventory and the related payable cut-off. Management is committed to implementing proper inventory controls and will be focusing on this effort over the next six months. Certain controls have been put in place to help mitigate the risk of material misstatement.

Management has limited the scope of its evaluation of ICFR to exclude the controls, policies and procedures of its most recent acquisition in January 2008. Stainless had revenue of $32.2 million and EBITDA of $5.5 million included in the consolidated results of the Fund for the 2008 year. As at December 31, 2008, it also had current assets and current liabilities of $13.5 million and $6.3 million, respectively.

During 2008, a new financial software system was implemented for the companies within the Fund's Aviation segment. There have been no other material changes to the Fund's internal controls during the 2008 year that have materially affected or are likely to materially affect the ICFR.

Disclosure Controls and Procedures

Management has established and maintained disclosure controls and procedures for the Fund in order to provide reasonable assurance that material information relating to the Fund is made known to management in a timely manner and that information required to be disclosed by the Fund is reported within the time periods prescribed by applicable securities legislation. The above disclosed control weaknesses in internal controls over financial reporting have been mitigated by certain disclosure controls and procedures in order to provide reasonable assurance that the financial statements do not contain a material misstatement. These controls and procedures were evaluated by management as at December 31, 2008 and were determined to be effective.

11. BUSINESS RISKS

Risk Management

EIIF and its subsidiaries are subject to a number of business risks. These risks relate to the structure of the Fund and to the operation of the subsidiary companies.

Economic Growth

It is expected that the slower Canadian economic growth seen at the end of 2008 will continue into much of 2009, reflecting a significant reduction in commodity prices, a U.S. economy in recession, weakened global economic growth, and continued tight global credit conditions. The principal risk to the current view of the Canadian economy is the impact of the continued negative developments occurring globally on Canadian business and consumer confidence, and thus is expected to impact both the business and consumer sectors.

An extended economic downturn may cause the Manufacturing segment entities to lose large projects and general production work. This could include projects being put on hold or cancelled and making it more difficult to find new customers, which would negatively impact results for this segment. A number of initiatives are being pursued by the management of the Manufacturing segment to mitigate this risk, such as expanding products offered to find additional customers, increasing focus on service work in response to customers reduced demand for purchasing new manufactured products, and maximizing efficiency and cost controls.

Interest Rates

After the acquisition of Stainless, the Fund has outstanding net secured bank debt of $39.9 million from its syndicate credit facility and US $1.6 million of vendor notes that bear interest at a floating rate. A one-percentage point increase in average interest rates would cost the Fund approximately $0.4 million per annum for the credit facility and US $0.2 million per annum for the vendor notes. The convertible debentures have fixed interest rates which are not affected by changes in rates. The Fund is examining alternatives with its lenders to fix the rate on all or a portion of its floating rate debt. The Fund paid out 60% of its distributable cash in 2008 (67% if calculated on a fully diluted basis). Management believes that this relatively low payout ratio mitigates the risk of increasing interest rates.

Fuel Prices

Fuel is a very significant cost component in the operation of the Aviation segment. Each $0.01 increase per litre in the average cost of fuel increases the operating costs of the segment by approximately $0.2 million. While most of the travel by Perimeter and Keewatin customers is not discretionary (i.e. for medical or other necessary reasons) and overland travel from and to many of the communities serviced is only possible for brief periods of the year over winter roads, if prices were to escalate significantly it may impact demand for services. Second, if the competitive environment was to change, and the companies were unable to pass these increased costs on to the customer, future profits would be negatively impacted.

The Alberta manufacturing operations act somewhat as a hedge to changes in the fuel prices. As oil prices are low, the Aviation segment benefits from lower input costs but lower oil prices have a negative impact on Jasper as the lower oil prices hurt the Alberta oil and gas market that Jasper operates in. As oil prices increase, fuel costs increase for the Aviation segment but this will increase demand for Jasper's products.

Competition

The Fund believes it is an industry leader in its Aviation segment and strives to be in its Manufacturing segment. The Fund recognizes that there are threats in the operating environment, which will challenge the segments' ability to sustain their market leadership positions.

The Aviation segment currently focuses on niche markets in Manitoba and Nunavut. The Aviation segment would be exposed to downside earnings risk if a well capitalized competitor were to startup operations in the niche markets where Perimeter and Keewatin currently operate. This risk factor is mitigated by two key factors: Perimeter's relationship with TCIG, which enables Perimeter to focus on its customers' demands; and Keewatin's positive relationship with the Nunavut government, which is based on their strong service record. Perimeter has also expanded its involvement with the First Nation communities as a marketing effort which will also help mitigate these risks.

The Manufacturing segment focuses on specific geographical regions where some regions like Alberta have seen a downturn in the oil and gas industry. As well, the US economy downturn specifically impacts the operations of Stainless. Water Blast and Jasper are both working to provide high levels of service and maintain customer relationships which will benefit them in the longer term. Stainless is expanding its product offering and large scale field projects that were previously not able to be produced.

Government of Nunavut Contracts

Keewatin has a medical evacuation contract with the Government of Nunavut, which provides Keewatin with the exclusive rights to provide medical evacuations (“medevacs”) in the Kivalliq region of Nunavut. The contract provides Keewatin with a fixed base fee to cover the costs of operating in Nunavut plus a variable fee per hour flown. During 2008 the contract was extended to 2010 and there is a risk that Keewatin will not retain or extend the contract, which would have a significant negative effect on the business of Keewatin at that time.

Keewatin also has a contract with the Government of Nunavut for a certain share of medical travel market, where Keewatin provides medical related travel on scheduled services to communities in the Kivaliq region of the Nunavut territory. The current contract expires in 2011 and there is a risk that Keewatin will not retain its share of the medical travel market or extend the contract, which could have a significant negative effect on the business of Keewatin at that time.

This risk factor is mitigated by Keewatin’s long standing relationship with the Government of Nunavut and their proficiency in long distance medical evacuation for the most acute level of care. Keewatin has been performing Medevac services in the Kivalliq region since 1971 and has integrated their services into the Government of Nunavut’s medical program by providing medical training, medical supplies, and medical evacuation statistics to the communities it services.

Key Personnel

The success of the Fund is dependent on a number of key senior employees both at the Fund level and at the Fund’s subsidiary level. The loss of any one of these key employees would impair the Fund’s ability to operate at its optimum level of performance. Management recognizes this dependency and has been developing a strong second level of managers that would be able to fill the void if a key employee departed.

Income Tax Matters

In the normal course of the Fund’s activities, the tax authorities are carrying out ongoing reviews. In that respect, the Fund is of the view that all expenses claimed by the different entities of the group are reasonable and deductible and that the cost amount and capital cost allowance claims of such entities’ depreciable properties have been correctly determined. There is no assurance that the tax authorities may not challenge these positions. Such challenge, if successful, may have an adverse effect on future earnings of the Fund.

On June 22, 2007, Bill C-52 received Royal Assent. The SIFT Rules contained in Bill C-52 are not expected to apply to the Fund until 2011 as the government has allowed a transition for publicly-traded trusts that existed prior to November 1, 2006. To qualify for the interim period, the Fund must continue to comply with the Normal Growth Guidelines regarding equity capital as outlined by the government. The Normal Growth Guidelines provide for a safe harbour amount for each of the 2008 to 2010 calendar years equal to either $50 million or 20% of the October 31, 2006 Market Capitalization. These amounts of safe harbour are cumulative during the interim period. The Fund has assumed, for the purposes of this summary, that the Fund will not be subject to the SIFT Rules until January 1, 2011. The Fund intends to fully comply with these guidelines. However there can be no assurance that the Fund will be able to retain the benefit of the deferred application of the SIFT Rules until 2011. If the Fund is deemed to have undergone undue expansion during the period up to December 31, 2010, as described in the Normal Growth Guidelines, the SIFT Rules would become effective on a date earlier than January 1, 2011. As well, there is no assurance that the Fund will not decide to undergo a process by which the Fund will be converted into a form other than an income trust sometime before January 1, 2011.

Capital Markets

One of the objectives of the Fund is continuing to acquire additional companies or interests therein in order to expand and diversify the Fund’s investments. The ability to execute this objective is dependent on the Fund’s ability to raise funds in the capital market. If the capital markets desire for income producing investments, such as EIIF’s units, were to significantly decrease, the Fund would have difficulty in executing its acquisition objective. The current economic downturn in the credit markets in North America has already put constraints on the Fund and added costs associated with obtaining financing.

Hotsy Distributorship Contract
Water Blast has an exclusive distributorship agreement for the Hotsy line of products for all of Alberta and British Columbia. The loss of this distributorship agreement would have a significant negative impact on Water Blast's business. This risk factor is mitigated by Water Blast's long-term relationship with Hotsy, as well as the length of the distributorship agreement. The distributorship agreement has a revolving 10 year term, expiring in 2017, for exclusivity as it relates to third parties and has a revolving 20 year term, expiring in 2027, for exclusivity from Hotsy, subject to reasonable performance criteria.

Foreign Exchange
The Fund's financial results are sensitive to the changing value of the Canadian dollar. In particular, the Fund's subsidiaries have significant annual net outflow of US dollars and is affected by fluctuations in the Canada/US dollar exchange rate. Outflows for expenses include items such as aircraft related parts purchased for the Aviation segment and Hotsy machines and parts purchased by the Manufacturing segment. A significant deterioration of the Canadian dollar relative to the US dollar would result in increased costs and adversely affect the profitability of the Fund.

Prior to the addition of Stainless in January 2008, the majority of revenue was denominated in Canadian dollars, but now with the acquisition of Stainless, revenues are generated in US dollars through its operations and this will act as a natural hedge that will mitigate the foreign currency risk for the Fund.

12. OUTLOOK

Acquisition strategy
The deterioration of the capital markets may impact the Fund's ability and/or timing to raise capital in the near term to execute its acquisition strategy. The recovery of the capital markets can not be accurately estimated at this time.

Aviation Segment
The outlook for the Aviation segment remains strong as a number of challenges faced in 2008 have been reduced as a result of changes in the economy, fuel prices, enhanced relations with our First Nations customers, and the rationalization of Perimeter's and Keewatin's fleets.

During 2008 and particularly in the first nine months of the year, the demand for trained pilots was very high. Many airlines were undergoing expansion and were looking to hire pilots from other smaller airlines. This hit Perimeter and Keewatin very hard as many pilots took advantage of the opportunity to move to a larger carrier such as Air Canada or WestJet. This movement of pilots significantly increases recruiting and training costs. It also makes it difficult to maintain enough experienced pilots to deal with some of the harsh flying conditions in which the companies operate. The slowdown of the economy has resulted in a pronounced reduction in the demand for pilots. It is expected that this lower level of demand will persist for the balance of 2009. In the event that this demand were to unexpectedly increase Perimeter is in a much better position to deal with it having purchased and installed a Metro flight simulator to train new pilots on the aircraft type.

Perimeter and Keewatin have each completed upgrades to their fleets over the last year, and now have the equipment necessary to adequately meet the demands of their customers. Rapid growth over the last number of years has resulted in Perimeter occasionally utilizing charters from other air carriers to meet the needs of its customers. This is expensive and does not provide customers with confidence. The completion of the fleet upgrade enabled the airlines to enhance the service provided to their customers, which in turn increased market share and the exit of competitors from the marketplace. While it is likely that other competitors will attempt to enter into the marketplace, both Perimeter and Keewatin now have the necessary equipment to meet the challenge. The Dash 8 aircraft have not yet been painted in Perimeter colors. The demand for capacity to meet the markets expectations has to date prevented taking the aircraft out of service for several weeks. Perimeter has decided that they will be painted in the first quarter of 2009 during the seasonally slower winter road season. While the company would likely be able to meet demand utilizing other internal aircraft resources during this period, Perimeter does not want to risk failing to meet the expectations of our customers. As such, it has arranged to wet lease another Dash 8 aircraft for most of the first quarter of 2009. The cost of this wet lease is expected to negatively impact the results of Perimeter during this period.

Perimeter has made specific efforts to enhance its relationship with its First Nations customers not only through enhancing service levels, but also by entering into community agreements through which the airline provides benefits to not only the individual traveler but to the First Nations communities and Tribal Councils. Perimeter is investing with its partner communities in economic development, discounted bereavement charters, community benefit tickets and other programs. The relations with the leaders of these communities have improved and assist Perimeter in maintaining its strong market position.

Fuel prices rose dramatically in the first half of 2008 before declining just as rapidly in the last quarter of the year and into early 2009. The focus on enhancing customer relations resulted in delays in implementing fuel price surcharges as communities need to be consulted and given adequate notice before changes in prices are implemented. Fuel surcharges were implemented in 2008 to cover the increased fuel costs incurred in the first nine months of the year. Falling fuel prices allowed a reduction in these surcharges late in 2008. Should prices fall further the airlines may be able to implement further price reductions.

Keewatin's five year contract with the Nunavut Government to provide medical evacuation services in the Kiviliq region expired in March of 2008. The Government has subsequently extended this contract into the second quarter of 2010. Requests for proposals for this work will not likely be requested by the Government until late 2009 or early 2010. When this does occur however Keewatin's management believes that their continued focus on high level medical services and existing operations together with a strong relationship with the Government position it well to have the contract renewed. Requests for proposals for medical evacuation contracts in other regions of Nunavut are expected in 2009. Keewatin intends to examine these other regions for opportunities to grow their core business.

Manufacturing Segment

The 2008 year was a year of challenges for the entities in the Manufacturing segment of the Fund. Having the operations of Stainless for basically a full year and having Water Blast operating for a full year both contributed positively to the Fund compared to the prior year but this was offset by softer economies, in particular in the Alberta oil and gas market. The Canadian economy was beginning to slow during the last quarter of 2008 and is expected to continue into 2009. During this time customers have begun to push off capital projects to later dates and at times have even cancelled the capital investment projects overall as a result of the economic uncertainty that Canada, the US and other countries are currently in. The softer economies that exist in 2009 are expected to have a direct impact on the entities within the Manufacturing segment.

The dramatic declines in commodity prices, in particular for the oil and gas industry in the Alberta market, which took place in 2008 are continuing into 2009. This has a significant impact on the Alberta market overall which is the main market that both Water Blast and Jasper operate in. This has already caused the customer's demands and product requests to change at Jasper and the indication of this change at Water Blast began to appear at the very end of 2008.

As a result of these events and economic factors that are expected to continue well into 2009, it will be a challenging year in 2009 for the Manufacturing segment.

In response to this situation, the management of the Manufacturing segment's entities are all focused on minimizing the impact on each of their operations and for the segment overall. Several initiatives are planned and begun to be put in place in 2009 as described below.

Overall the Manufacturing segment is focusing on new revenue streams that can be entered that previously were not available or were less desired as production capacity was being utilized.

Stainless continues to target the Canadian market place after its successful field work that took place in Gimli, Manitoba. Opportunities for Stainless exist in Canada as there is limited competition. Plans are also being made to give Stainless the ability to increase the size of products that it can produce in the field which will allow it to bid on larger scale field erections that previously were beyond its capabilities. Lastly, Stainless is beginning to manufacture products that are outside of exclusively stainless steel, such as aluminum and carbon steel, thus allowing Stainless to bid on more projects.

The servicing of existing products for customers will play a more significant role for both Jasper and Water Blast during 2009 while operating in this economy. Customers demand for new products will be less as customers focus on service and repair of their existing machines. At the beginning of 2009 Jasper established a servicing arrangement with a tank producer based in eastern Canada as the authorized servicing depot in that geographic market. Other businesses and customers are also seeing the benefits of quality and customer care that Jasper offers, which is lacking from other competitors in that region. Water Blast has a similar approach where they have the parts and servicing available for customers' existing products, a competitive advantage for Water Blast in Alberta and British Columbia in this type of economy.

The operations of Overlanders are expected to continue with delivery of its product on-time and of the highest quality. The slowdown in the North American economy has impacted certain major customers of Overlanders and available capacity has been filled in by a non-traditional customer group with smaller runs from multiple customers. It continues to focus on finding new production opportunities in the lower mainland Vancouver market and the outlook remains stable for Overlanders.

The manufacturing segment has an overall focus of capitalizing on identified profitable synergies. This would include, but not limited to, Stainless and Overlanders providing manufactured products to both Water Blast and Jasper.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Exchange Industrial Income Fund for the year ended December 31, 2008 and all information in this annual report are the responsibility of management. Financial information contained elsewhere in the annual report is consistent with that shown in the consolidated financial statements. The consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles, applied on a consistent basis. The significant accounting policies, which management believes are appropriate for the Fund, are described in note 2 to the consolidated financial statements.

Management is responsible for the integrity and objectivity of the consolidated financial statements. Estimates are necessary in the preparation of these statements and, based on careful judgments, have been properly reflected. Management has established systems of internal control which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and to produce reliable accounting records for the preparation of financial information.

The Fund's independent auditors, Deloitte & Touche, LLP have been appointed by the unitholders to audit the financial statements and express an opinion thereon.

The board of trustees is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The board of trustees carries out this responsibility principally through its audit committee, composed entirely of outside and unrelated trustees. The audit committee meets regularly with financial management of the Fund and with the independent auditor to discuss internal controls, audit matters, financial reporting issues and reports to the board of trustees thereon. The audit committee also reviews and approves the consolidated financial statements for inclusion in the annual report. The independent auditor has full and free access to the audit committee.

March 31, 2009

Adam S. Terwin
Chief Financial Officer

Michael C. Pyle
President & Chief Executive Officer

Auditors' Report

To the Unitholders
Exchange Industrial Income Fund

We have audited the consolidated balance sheets of Exchange Industrial Income Fund as at December 31, 2008 and 2007, and the consolidated statements of operations, comprehensive income, equity, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants
Winnipeg, Manitoba
March 31, 2009

Consolidated Balance Sheets

(amounts in thousands of dollars) As at December 31	2008	2007
ASSETS		
CURRENT		
Cash and cash equivalents	$ 4,034	$ 1,153
Accounts receivable	21,863	15,429
Inventory (Note 4)	24,773	18,638
Prepaid expenses	1,033	823
Future income tax (Note 14)	769	299
	52,472	36,342
CAPITAL ASSETS (Note 5)	65,026	56,448
INTANGIBLE ASSETS (Note 6)	8,548	6,907
GOODWILL (Notes 3 & 7)	35,284	21,925
	$ 161,330	$ 121,622
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ 18,898	$ 12,404
Deferred revenue	4,207	531
Vendor note payable (Note 3)	2,008	–
Current portion of convertible debentures (Note 9)	1,488	–
	26,601	12,935
LONG-TERM DEBT (Note 8)	40,911	26,051
CONVERTIBLE DEBENTURES (Note 9)	11,927	13,008
DEBENTURES (Note 10)	8,912	–
OVERHAUL ACCRUAL	5,060	2,966
CONTINGENT LIABILITIES (Note 22)	167	167
FUTURE INCOME TAX (Note 14)	4,998	4,372
	98,576	59,499
EQUITY	62,754	62,123
	$ 161,330	$ 121,622

The accompanying notes are an integral part of the consolidated financial statements

Duncan Jessiman, Trustee
Signed

Donald Streuber, Trustee
Signed

Consolidated Statements of Operations

(amounts in thousands of dollars, except for per unit information) For the year ended December 31	2008	2007
REVENUE	$ 157,663	$ 106,013
EXPENSES		
Direct operating	105,226	69,548
General and administrative	31,640	21,161
	136,866	90,709
EARNINGS BEFORE THE FOLLOWING	20,797	15,304
Interest	5,155	4,014
Amortization of intangible assets	1,927	768
Depreciation	4,921	3,661
Impairment loss (Note 16)	5,668	–
EARNINGS BEFORE INCOME TAXES	3,126	6,861
INCOME TAX EXPENSE (RECOVERY) (Note 14)		
Current	(30)	25
Future	(32)	(758)
	(62)	(733)
NET EARNINGS FOR THE YEAR	$ 3,188	$ 7,594
EARNINGS PER UNIT (Note 15)		
Basic	$ 0.55	$ 1.75
Diluted	$ 0.55	$ 1.63

The accompanying notes are an integral part of the consolidated financial statements

Consolidated Statements of Comprehensive Income

(amounts in thousands of dollars) For the year ended December 31	2008	2007
NET EARNINGS FOR THE YEAR	$ 3,188	$ 7,594
OTHER COMPREHENSIVE INCOME, net of tax (Note 24)	3,461	–
COMPREHENSIVE INCOME FOR THE YEAR	$ 6,649	$ 7,594

The accompanying notes are an integral part of the consolidated financial statements

Consolidated Statements of Equity

(amounts in thousands of dollars) For the year ended December 31	2008	2007
TRUST UNITS (Note 11)		
Balance, beginning of year	$ 56,745	$ 25,310
Issued for cash and purchase consideration	2,455	28,081
Issued for debenture conversions	31	3,014
Issued under the Employee Unit Purchase Plan ("EUPP")	264	322
Adjustment to opening balance – application of CICA 3855	–	(115)
Change in substantively enacted tax rates	–	133
Balance, end of year	59,495	56,745
CONVERTIBLE DEBENTURES EQUITY COMPONENT		
Balance, beginning of year	1,110	1,344
Issued for debenture conversions	(2)	(234)
Balance, end of year	1,108	1,110
CONTRIBUTED SURPLUS (Note 18)		
Balance, beginning of year	–	–
Fair value benefit from EUPP recognized as compensation expense	96	–
Balance, end of year	96	–
(DEFICIT) RETAINED EARNINGS – CUMULATIVE EARNINGS & DISTRIBUTIONS		
CUMULATIVE EARNINGS		
Balance, beginning of year	16,947	9,243
Net earnings for the year	3,188	7,594
Adjustment to opening balance – application of CICA 3855	–	110
Balance, end of year	20,135	16,947
CUMULATIVE DISTRIBUTIONS (Note 13)		
Balance, beginning of year	(12,679)	(6,215)
Distributions declared	(8,862)	(6,464)
Balance, end of year	(21,541)	(12,679)
TOTAL (DEFICIT) RETAINED EARNINGS	(1,406)	4,268
ACCUMULATED OTHER COMPREHENSIVE INCOME (Note 24)		
Balance, beginning of year	–	–
Other comprehensive income, net of tax	3,461	–
Balance, end of year	3,461	–
	2,055	4,268
EQUITY, end of year	$ 62,754	$ 62,123

The accompanying notes are an integral part of the consolidated financial statements

Consolidated Statements of Cash Flows

(amounts in thousands of dollars) For the year ended December 31	2008	2007
OPERATING ACTIVITIES		
Net earnings for the year	$ 3,188	$ 7,594
Items not affecting cash:		
Amortization of intangible assets	1,927	768
Depreciation	4,921	3,661
Impairment Loss	5,668	
Accretion of interest	830	727
Long-term debt discount (paid) accretion	(19)	801
Overhaul accrual	2,094	806
Cash gain on sale of disposal of capital asset	–	24
Future income tax	(32)	(760)
Other	–	(583)
Changes in non-cash operating working capital items (Note 19)	462	(5,217)
	19,039	7,821
FINANCING ACTIVITIES		
Proceeds from (repayment of) long-term debt, net of issuance costs	12,809	1,301
Proceeds from issuance of debentures, net of issuance costs	8,851	–
Proceeds from issuance of trust units, net of issuance costs	255	28,408
Cash distributions to unitholders	(8,862)	(6,464)
	13,053	23,245
INVESTING ACTIVITIES		
Purchase of capital assets, net of disposals	(9,380)	(10,883)
Purchase of intangible assets	(133)	
Cash outflow for acquisitions and acquisition costs (Note 3)	(20,415)	(23,953)
Cash acquired in acquisitions	717	320
	(29,211)	(34,516)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,881	(3,450)
CASH POSITION, BEGINNING OF YEAR	1,153	4,603
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 2)	$ 4,034	$ 1,153
Supplementary cash flow information		
Interest paid	$ 4,084	$ 3,440
Income taxes paid (recovery)	$ 468	$ (141)

The accompanying notes are an integral part of the consolidated financial statements

(amounts in thousands of dollars, except for per unit information)

1. BASIS OF PRESENTATION

Exchange Industrial Income Fund (the "Fund") is an unincorporated open-ended mutual fund trust governed by the laws of the Province of Manitoba created pursuant to a Declaration of Trust dated March 22, 2004. Each Unitholder participates pro rata in any distribution from the Fund. Income tax obligations related to distributions of the Fund are the obligation of the Unitholders.

As at December 31, 2008, the principal wholly-owned operating subsidiaries of the Fund are Perimeter Aviation Ltd. ("Perimeter"), Jasper Tank Ltd. ("Jasper"), Overlanders Manufacturing LP ("Overlanders"), and Water Blast Manufacturing LP ("Water Blast"). Keewatin Air Ltd. ("Keewatin") and 4873999 Manitoba Ltd. are wholly owned subsidiaries of Perimeter. Stainless Fabrications Inc. ("Stainless") is a wholly owned subsidiary of Jasper. Water Blast Manufacturing Ltd ("Water Blast Ltd") and Water Blast Manufacturing B.C. Ltd ("Water Blast BC") are wholly owned subsidiaries of Water Blast. Through the Fund's subsidiaries, products and services are provided in two business segments: Aviation and Manufacturing.

As described in Note 25, on March 10, 2009, subsequent to December 31, 2008, the Fund entered into a letter of intent for the acquisition of Calm Air International Ltd. ("Calm Air").

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are expressed in thousands of Canadian dollars, have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and reflect the following significant accounting policies:

Adoption of New Accounting Policies

The following standards were adopted effective January 1, 2008.

Revenue Recognition
Revenues from long-term contracts associated with manufacturing products from Stainless (Note 3), acquired on January 2, 2008, are recognized on a percentage of completion basis. The percentage complete is calculated based upon contract costs incurred to date compared with total estimated contract costs. The percentage complete is then applied to total anticipated contract revenue to determine the period's revenue. A provision for the estimated loss is made when contract costs are expected to exceed estimated contract revenue.

Foreign Currency Translation on Stainless
The Fund translates the financial statements of Stainless, considered a self-sustaining US subsidiary, in accordance with the current rate method, under which assets and liabilities are translated at the currency exchange rate in effect at the balance sheet date and earnings statement items are translated at the average currency exchange rate for the period. Translation adjustments arising from currency exchange rate fluctuations are recorded as a component of other comprehensive income and are shown in accumulated other comprehensive income under equity until realized, at which time they are transferred to income. Other monetary assets and liabilities denominated in U.S. dollars have been translated into Canadian dollars at the rate of exchange at the balance sheet date. Gains and losses from translation are recognized in income in the period they occur.

Inventory
The CICA issued Section 3031, Inventories, which replaced Section 3030, Inventories. This new standard was adopted by the Fund on January 1, 2008. Section 3031 provides more extensive guidance on measurement, and expands disclosure requirements to increase transparency. The Fund's previous accounting policy for inventories is consistent with measurement requirements in this new standard and therefore the results of the Fund were not materially impacted; however, additional disclosures are made around inventory below.

The main features of the new standard, which impact the Fund, include:

- Measurement of inventories at the lower of cost and net realizable value, with guidance on the determination of costs.
- Reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories.
- Disclosure of the accounting polices used, carrying amounts, amounts recognized as an expense, write-downs, and the amount of any reversal of any write-downs recognized as a reduction in expenses.

Raw material and parts inventories have been valued at the lower of cost and net realizable value. Work in progress and finished goods inventories have been valued at the lower of cost of materials and labour, plus systematically allocated overhead, and net realizable value.

The Fund classifies its inventory into the following categories:

- Parts and other consumables: this includes the inventory of the Aviation segment subsidiaries and represents items utilized in the operations and repair of the aircraft.
- Raw materials: this includes items used in the manufacturing of products by the Manufacturing segment subsidiaries that have no labour work performed on them.
- Work in process: this includes items that have begun to be utilized in production by the Manufacturing segment subsidiaries.
- Finished goods: this includes items that have completed the manufacturing process and are available for sale or items purchased for resale by the Manufacturing segment subsidiaries, including consignment inventory held at certain entities in the Manufacturing segment.

Capital Disclosures and Financial Instruments – Presentation and Disclosure

The CICA issued three new accounting standards: Section 1535 – Capital Disclosures, Section 3862 – Financial Instruments – Disclosures, and Section 3863 – Financial Instruments – Presentation and the Fund adopted these sections on January 1, 2008.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 replaced section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The following are the remaining accounting policies of the Fund used in generating the financial statements.

a) Principles of Consolidation

The consolidated financial statements include the accounts of the Fund, and its wholly owned subsidiaries Perimeter, Jasper, Overlanders, and Water Blast, and their subsidiaries. All significant inter-Fund transactions have been eliminated for purposes of these consolidated financial statements.

b) Revenue Recognition

The Fund recognizes revenue principally on two types of transactions: provision of flight services in the Aviation segment and sales of manufacturing products in the Manufacturing segment.

The Fund records flight revenue at the time when the flight has been completed. Tickets sold but for which the customer has not flown are reflected on the balance sheet as deferred revenue.

The Fund recognizes manufacturing product revenue when the title has been passed to the customer, at this time the effective control of the product and the risks and rewards of ownership have been passed to the buyer, excluding revenues recognized by Stainless as described above in the new accounting policy above on long-term contracts,. Payments received in advance, including up-front non refundable deposits, are recorded as deferred revenue until the product has been delivered to the customer.

c) Cash and Cash Equivalents

Cash and cash equivalents comprise cash and temporary investments consisting of highly liquid investments having a maturity of three months or less. Interest is recorded on an accrual basis. As at December 31, 2008, cash equivalents was nil (2007 – nil).

d) Capital Assets

Capital assets are recorded at cost less accumulated amortization. Amortization of capital assets has been recorded on a straight line basis using the following annual rates:

Buildings	5%
Aircraft	5%
Equipment	10% – 20%
Other	25% – 30%
Leasehold improvements over the term of lease	

e) Lean Manufacturing Costs

In designing and applying lean manufacturing techniques in the Manufacturing segment, the costs incurred are capitalized as an internally generated intangible and recorded within intangible assets on the balance sheet. The capitalized costs are amortized into income after the completion of the development of the lean manufacturing technique. If the technique being developed is cancelled or determined to no longer provide any future financial benefit, any unamortized amounts would be expensed in the period impaired. During 2008 the unamortized lean manufacturing costs were determined to be impaired and expensed in the year (Notes 6 & 16).

f) Impairment of Long-Lived Assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate their carrying amount may not be recovered. An impairment loss is recognized when the carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is the excess of the carrying value of the asset over its fair value. During 2008 certain intangible assets and goodwill in the Manufacturing segment were determined to be impaired and expensed in the year (Notes 6, 7 & 16)

g) Intangible Assets

Intangible assets are recorded at cost. The Fund has intangible assets with indefinite life and are not amortized. Intangible assets with finite lives are amortized as follows:

- Customer contracts – Pro rata based on expected revenues
- Customer relationships – Pro rata based on expected revenues
- Production backlog – Straight line over 3 months
- Non-compete contracts – Straight line over 5 years
- Lean manufacturing – Straight line over 5 years
- Other – Straight line over 5 years

h) Goodwill

Goodwill is recognized to the extent of the excess of the purchase price over the fair value of the underlying identifiable net assets acquired. Management reviews the carrying value of goodwill for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired. Any excess of carrying value over the fair value will be charged to income in the period in which the impairment is determined. During 2008 certain goodwill in the Manufacturing segment was determined to be impaired and expensed in the year (Notes 7 & 16).

i) Income Taxes

The Fund is a unit trust for income tax purposes and, as such, is only taxable on any taxable income not allocated to the unit-holders. Income tax obligations relating to distributions from the Fund are obligations of the unitholders. Taxable income in the Fund's corporate subsidiaries are taxed at the applicable corporate income tax rate, while taxable income not allocated to the unitholders in the Fund entity is taxed at the highest personal income tax rate.

The Fund accounts for income taxes using the liability method of accounting for income taxes. Under this method, future income tax assets or liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying values of assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which the temporary differences are expected to reverse.

Federal Government's Trust Tax Legislation

In April 2007, the Federal Government included the proposed Trust Taxation in the Federal Budget ("Bill C-52"), which would result in certain income trusts, including the Fund, paying taxes after fiscal 2010, similar to those paid by taxable Canadian corporations. The payment of such taxes will, in the future, reduce the distributable cash of the Fund. Bill C-52 received a third reading on June 12, 2007 and then Royal Assent on June 22, 2007, thus fully enacting the tax measures.

As the new tax rules were enacted in June 2007, the Fund recognized future income taxes on all its assets and liabilities, with a corresponding impact on future income tax expense or recovery based on the temporary differences expected to reverse after the date the tax is effective. The Fund had previously only recognized future income taxes on assets and liabilities that were in its subsidiaries that were structured as corporations. As a result during 2007 the Fund recorded a $0.3 million decrease in earnings and a corresponding increase to its future income tax liability as a result of timing differences within the Fund that have not been previously recognized.

j) Overhaul Accrual

The Fund accrues for the required cost of periodic engine overhauls based on the engine hours flown in the Aviation segment.

k) Financial Instruments and Comprehensive Income

On January 1, 2007, the Fund adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855 – Financial Instruments – Recognition and Measurement, Section 1530 – Comprehensive Income, Section 3861 – Financial Instruments – Disclosure and Presentation, and Section 3865 – Hedges, and Section 3251 – Equity. These sections establish the accounting and reporting standards for financial instruments, including embedded derivatives, and hedging activities, and require the initial recognition of financial instruments at fair value on the balance sheet.

Financial assets and liabilities

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

All financial instruments are classified into one of the following five categories: held for trading, held to maturity investments, loans and receivables, available for sale financial assets or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are measured at fair value with the exception of loans and receivables, held to maturity investments and other financial liabilities, which are measured at amortized cost. Held for trading financial instruments are measured at fair value and all unrealized gains and losses are included in net earnings in the period in which they arise. Available for sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet or deemed impaired.

The Fund has classified its cash and cash equivalents and derivatives as held for trading. Accounts receivable and other receivables are classified as loans and receivables. Accounts payable and accrued expenses, vendor note payable, long-term debt, convertible debentures, and debentures have been classified as other financial liabilities, all of which are measured at amortized cost.

The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration exchanged. Transaction costs and the related cash flow impacts are included in the fair value assessments of each financial asset and financial liability instrument. Subsequent to initial recognition, fair value is determined using generally accepted valuation techniques which refer to observable market data.

Transaction costs are included in the financial asset or liability and recognized over the life of the resulting instrument using the effective interest method. The transaction costs, which have been netted to long-term debt, convertible debentures, and debentures, are being amortized using the effective interest rate method over the life of the related debt.

Embedded derivatives

Derivatives may be embedded in other financial instruments (the “host instruments”). An embedded derivative has economic characteristics and risks that are not closely related to the economic characteristics and risks of the host instrument, and are measured at fair value with subsequent changes generally recognized in net earnings. This fair value measurement does not apply to derivatives that are recorded as equity. The embedded call option in the Fund’s convertible debentures is recorded as equity and is the only material embedded derivative that the Fund has.

Comprehensive income

Comprehensive income is composed of the Fund’s net earnings and other comprehensive income. Other comprehensive income includes unrealized gains and losses on available-for-sale financial assets, foreign currency translation gains and losses on the net investment in self-sustaining operations and changes in the fair market value of derivative instruments designated as cash flow hedges, all net of income taxes. The components of comprehensive income are disclosed in the consolidated statements of comprehensive income.

Hedge accounting

The standard specifies the circumstances under which hedge accounting is permissible, how hedge accounting may be performed and where the impacts should be recorded. The standard introduces three specific types of hedging relationships: fair value hedges, cash flow hedges and hedges of a net investment in self-sustaining foreign operations. The Fund currently does not enter into any such hedges. As a result, there was no impact on the Fund as a result of adopting Section 3865, Hedges.

l) Foreign Currency Translation

Monetary items and non-monetary items carried at market are translated at the rate of exchange in effect at the balance sheet date. Non-monetary items carried at cost are translated at the exchange rate in effect at the date of the transaction. Revenues and expenses are translated at the average rate of the period in which they were incurred. Foreign exchange gains and losses are included in earnings.

m) Use of Estimates

The preparation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of collectibility of accounts receivable, value of work in progress and finished goods, revenue recognition measurements associated with long-term contracts, valuation of intangibles and goodwill, impairment of assets, provision for warranty, engine overhaul accrual rates, useful life for amortization, and future income taxes. Results as determined by actual events could differ from these estimates.

n) Stock-Based Compensation

Employee Unit Purchase Plan

Certain employees of the Fund participate in a stock based compensation plan of the Fund’s units (note 18). The fair value of units granted to employees is recognized as compensation expense with an increase to contributed surplus on a straight-line basis over the applicable vesting period. For a unit granted to an employee who is eligible to retire at the grant date, the fair value of the unit is expensed on the grant date. For a unit granted to an employee who will become eligible to retire during the vesting period, the fair value of the unit is expensed over the period from the grant date to the date the employee becomes eligible to retire.

Deferred Unit Plan

Certain employees of the Fund participate in a stock-based compensation plan of the Fund’s units. The plan consists of individuals being granted “deferred units” which are essentially phantom units that are tracked but not actually issued out of treasury or bought on the market until the time at which the deferred units are redeemed. The deferred units vest evenly over a 3 year period.

The participant has the ability to redeem the vested deferred units for Fund units, cash or a combination of the two. As a result, this plan is accounted for under the liability method in that a liability is generated over the vesting period and the liability is revalued at each period-end based on the market price of the Fund's units at that time. Any changes in market value of the vested deferred units liability is charged through compensation expense in that period. If the deferred units are redeemed for Fund units, then the settlement of the liability is recorded as equity.

The distribution rate declared by the Fund on issued Fund units is also applied on the deferred units. The distribution amount on the deferred units are converted into additional deferred units based on the market value of the Fund's units at the time of the distribution. These additional deferred units vest at the same time as the deferred units that the distribution rate was applied on and the value is charged to compensation expense over the vesting period.

Any forfeited deferred units are adjusted for as a recovery to compensation expense in the time of the forfeiture to the extent that the liability has been recognized.

Future Accounting Standards

The following is an overview of accounting standard changes that the Fund will be required to adopt in future years:

Goodwill and intangible assets
In February 2008, the CICA issued Section 3064 – Goodwill and Intangible Assets, replacing Section 3062 – Goodwill and Other Intangible Assets and Section 3450 – Research and Development Costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Fund will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The Fund is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements but the Fund does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

Business Combinations, Consolidated Financial Statements and Non-controlling Interests
The CICA issued three new accounting standards in January 2009: section 1582, Business Combinations, section 1601, Consolidated Financial Statements, and section 1602, Non-controlling interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Corporation is in the process of evaluating the requirements of the new standards.

Section 1582 replaces section 1581, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3 – Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Sections 1601 and 1602 together replace 1600 – Consolidated Financial Statements. Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27 – Consolidated and Separate Financial Statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

International Financial Reporting Standards
In February 2008, the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") would be required for Canadian publicly accountable enterprises for years beginning on or after January 1, 2011. The Fund is currently evaluating the impact of adopting IFRS.

3. ACQUISITIONS

The following acquisitions were closed during the 2008 year:

Stainless Fabrication, Inc.

On January 2, 2008, the Fund acquired 100% of the shares of Stainless. Stainless designs and manufactures stainless steel tanks, vessels and processing equipment which are sold throughout the United States. The company services the healthcare, pharmaceutical, food, ethanol, dairy, beverage, chemical and transportation industries. The company provides both custom fabrication and field fabrication/erection services to customers.

The aggregate purchase consideration for Stainless will be an amount equivalent to a multiple of the average EBITDA for Stainless during the three fiscal years ending December 31, 2006, December 31, 2007, and December 31, 2008. On closing of the transaction, a preliminary payment of US $22,000 was made by the Fund consisting of US $19,800 cash and units of the Fund of US $2,200.

The first adjustment of the aggregate purchase consideration was determined during the second quarter of 2008 based on the two year average EBITDA ending December 31, 2007 and the finalization of the working capital adjustment. A portion of this adjustment was paid in cash (US $820) and the remaining US $1,640 was setup as a vendor note payable. The note bears interest at a matching rate with the interest on the outstanding US component of the Fund's credit facility. As at December 31, 2008, the rate on the note was a US LIBOR rate of 3.55%. The settlement of the note will come at the time of the finalization of the purchase price with the vendors. The interest charged on the vendor note payable during 2008 was $46.

The purchase price is to be finalized within the first six months of 2009. Management does not expect any material adjustments to the purchase price upon finalization. The settlement of working capital items was finalized during 2008 and resulted in net receipt of US $714.

Consideration given:	
Cash (US $19,908)	$ 19,696
Issue of 202,860 units of the Fund at a price of $10.72 per unit (US $2,200)	2,174
Vendor note payable (US $1,640)	1,668
Acquisition costs	360
Total purchase consideration	$ 23,898

The acquisition was accounted for using the purchase method. Details of the fair values of the net assets acquired in the Canadian dollar equivalent at the time of the transaction are as follows:

Fair value of assets acquired:	
Cash (US $725)	$ 716
Accounts receivable (US $5,213)	5,151
Inventory (US $1,838)	1,816
Prepaid expenses (US $120)	119
Intangible assets (US $3,202)	3,164
Capital assets (US $3,212)	3,174
Future income tax asset (US $133)	131
	14,271
Less fair value of liabilities assumed:	
Accounts payable and accrued liabilities (US $3,130)	3,093
Deferred revenue (US $1,952)	1,929
Fair value of identifiable net assets acquired	9,249
Goodwill	14,649
Total purchase consideration	$ 23,898

The results of operations have been included in the Fund's Consolidated Statement of Operations since the date of acquisition as part of the Manufacturing segment.

Of the US $3,202 of acquired intangible assets, US $2,241 was assigned to customer relationships, US $657 was assigned to production backlog, US $200 was assigned to certifications, and US $104 was assigned to non-compete contracts, which are all subject to amortization.

All of goodwill acquired is expected to be deductible for tax purposes.

Other Acquisitions

Also during 2008 the Fund acquired the assets of a small competitor, Kistigan Air, in the Aviation segment together with certain real estate assets owned by parties related to the competitor for aggregate consideration of $3,020. The acquisition generated an increase to goodwill of $454.

The following acquisitions were closed during the 2007 year:

Water Blast

During 2007, the Fund acquired certain assets owned by Water Blast Manufacturing (1990) Ltd and the shares of 894092 Alberta Ltd, comprising the business known as "Water Blast". The aggregate purchase price was $20,301 and was funded by a combination of $15,301 of cash and the issuance of units having a value of $5,000 (392,773 units at a price of $12.73 per unit – based on market prices at the time of the transaction).

Water Blast is the distributor of Hotsy pressure washing equipment for most of the Province of Alberta, and is a manufacturer and distributor of customer applications of pressure equipment. Water Blast had annual sales of approximately $17.5 million in its last fiscal year prior to acquisition. The results of operations are included in the Fund's Consolidated Statement of Operations and Statement of Equity since the date of acquisition.

The acquisition was accounted for using the purchase method. Details of the fair values of the net assets acquired are as follows:

Consideration given:	
Cash	$ 15,115
Issue of 392,773 units of the Fund at a price of $12.73 per unit	5,000
Acquisition costs	186
Total purchase consideration	$ 20,301

Fair value of assets acquired:	
Cash	$ 73
Accounts receivable	2,387
Inventory	4,690
Prepaid expenses	18
Capital assets	299
Intangible assets	5,300
	12,767
Less fair value of liabilities assumed:	
Accounts payable and accrued liabilities	1,092
Future income taxes – intangible asset	132
Fair value of identifiable net assets acquired	11,543
Goodwill	8,758
Total purchase consideration	$ 20,301

Of the $5,300 of acquired intangible assets, $87 was assigned to customer contracts, and $825 was assigned to customer relationships, which are all subject to amortization. The remaining intangible asset of $4,388 was assigned to brand name and is not subject to amortization.

Of the $8,758 of goodwill acquired, $5,792 is expected to be deductible for tax purposes.

Other Water Blast Acquisitions

Also during 2007 the Fund acquired two additional enterprises, 368994 Alberta Ltd. (Hotsy Grande Prairie) comprising the business the Fund operates as “Water Blast Grande Prairie” and MCS Industries Ltd. (“MCS”) comprising the business the Fund operates as “Water Blast BC”. Water Blast Grande Prairie has exclusivity for the only other Hotsy territory in Alberta not already serviced by Water Blast and it had annual sales of approximately $2.1 million in its last fiscal year prior to acquisition. The operations of Water Blast BC include manufacturing, retail and servicing of cold water pressure washing systems and it had annual sales of approximately $4.5 million in its last fiscal year prior to acquisition. Also during 2007, the Fund obtained the exclusive distribution rights for Hotsy products for the Province of British Columbia which enables Water Blast BC to have the province of British Columbia as its Hotsy territory. The results of operations for the acquired enterprises are included in the Fund’s Consolidated Statement of Operations and Statement of Equity since the acquisition dates.

The aggregate cost of the acquired enterprises was $3,818, including acquisition costs of $95. The aggregate cost was funded by a combination of cash of $3,448, the issuance of units having a value of approximately $203 (15,119 units at a price of $13.39 per unit), and a recorded contingent consideration of $167. The purchase agreement for Water Blast BC includes total contingent consideration of $300 that will be paid upon certain financial thresholds being met by Water Blast BC over the individual fiscal periods ending in 2011 and is further described in Note 22.

Of the $885 of acquired intangible assets, $21 was assigned to customer contracts, and $57 was assigned to customer relationships, which are subject to amortization. The remaining intangible asset of $807 was assigned to brand name and is not subject to amortization.

The aggregate amount assigned to goodwill is approximately $875, which was assigned to the Manufacturing segment and that amount is not be deductible for tax purposes.

4. INVENTORY

The inventory of the Fund's operating subsidiaries is classified into the following categories:

	2008	2007
Parts and other consumables	$ 8,734	$ 7,123
Raw materials	3,857	2,968
Work in process	511	795
Finished goods	11,671	7,752
Total inventory	24,773	18,638

During 2008 inventory with a value of $57,909 was recorded as direct operating expenses (2007 – $33,108).

5. CAPITAL ASSETS

			2008	2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 617	$ –	$ 617	$ 351
Buildings	20,529	3,034	17,495	14,823
Aircraft	38,437	5,792	32,645	32,472
Equipment	17,595	5,778	11,817	7,509
Other	2,079	1,114	965	650
Leasehold improvements	1,971	484	1,487	643
Balance, end of year	$ 81,228	$ 16,202	$ 65,026	$ 56,448

Depreciation for the year ended December 31, 2008 was $4,921 (2007 – $3,661).

6. INTANGIBLE ASSETS

			2008	2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Indefinite Life Assets				
Brand name	$ 5,195	$ –	$ 5,195	$ 5,195
Finite Life Assets				
Customer contracts	370	207	163	232
Customer relationships	4,524	1,981	2,543	856
Lean manufacturing	–	–	–	550
Non-compete agreements	271	39	232	–
Certifications	378	17	361	–
Other	99	45	54	74
Balance, end of year	$ 10,837	$ 2,289	$ 8,548	$ 6,907

Amortization for the year ended December 31, 2008 was $1,927 (2007 – $768).

During the year $509 of intangible assets were written down for impairment. See Note 16 for additional information.

7. GOODWILL

	2008	2007
Balance, beginning of year	$ 21,925	$ 12,292
Goodwill from business acquisitions (Note 3)	18,518	9,633
Goodwill impairment	(5,159)	–
Balance, end of year	$ 35,284	$ 21,925

During the year $5,159 of goodwill was written down for impairment. See Note 16 for additional information.

8. LONG-TERM DEBT

	2008	2007
Revolving term facility		
Canadian dollar amounts drawn	$ 32,400	$ 26,600
United States dollar amounts drawn (US $7,450)	9,123	–
Total credit facility debt outstanding, principal value	41,523	26,600
less: unamortized transaction costs	(547)	(503)
less: unamortized discount on outstanding BA's	(65)	(46)
Long-term debt balance	$ 40,911	$ 26,051

The Fund's senior debt consists of a revolving term facility with a syndicate of Canadian banks. The facility provides for an authorized 3 year revolving debt facility of $66.0 million, of which $39.9 million is drawn at December 31, 2008 ($32,400 and US $7,450). The interest rate is determined by a pricing grid which is based on the Fund's EBITDA to net senior debt ratio and the Fund has the ability to choose the base interest rate between Prime, Bankers Acceptances ("BA's") or London Inter Bank Offer Rate (LIBOR). As at December 31, 2008, the weighted average interest rate of the debt facility was 4.05%. The facility is secured by a general security agreement over the assets of the Fund, subject to customary terms, conditions, covenants, and other provisions for an income trust.

During 2008 the revolving term facility was approved to be extended and the new term ends in June 2011. The transaction costs incurred in the approval of the extension was $55 and will be amortized over the remaining extended term.

Also during 2008 transaction costs of $292 were recorded as a result of the purchase price accounting for the acquisitions during the year (Note 3) and will be amortized over three years from the acquisition dates.

The total syndicate facility includes a revolving operating line of credit up to a maximum of $5,000. At December 31, 2008, the operating line of credit was not drawn upon by the Fund (2007 – nil).

Interest expense related to long-term debt recorded during the year ended December 31, 2008 was $3,137 (2007 – $2,366). The principal payments in each of the next three years are: 2009 – nil, 2010 – nil, and 2011 – $41,523.

9. CONVERTIBLE DEBENTURES

Convertible Debentures – Debt Component	2008	2007
Series A – 2004: *9% SENIOR SECURED*		
MAY 7, 2009 MATURITY CONVERTIBLE AT $9.00		
Balance, beginning of year	$ 1,494	$ 2,875
Accretion charges	28	36
Debentures converted into units	(21)	(1,417)
Balance, end of year	1,501	1,494
Series B – 2005: *8% SENIOR SECURED*		
JULY 8, 2010 MATURITY CONVERTIBLE AT $11.50		
Balance, beginning of year	3,247	4,686
Accretion charges	55	58
Debentures converted into units	(10)	(1,497)
Balance, end of year	3,292	3,247
Series C – 2005: *8% SENIOR SECURED*		
SEPTEMBER 1, 2010 MATURITY CONVERTIBLE AT $13.25		
Balance, beginning of year	2,385	2,350
Accretion charges	40	35
Debentures converted into units	–	–
Balance, end of year	2,425	2,385
Series D – 2006: *8% SENIOR SECURED*		
AUGUST 12, 2011 MATURITY CONVERTIBLE AT $13.25		
Balance, beginning of year	6,584	6,493
Accretion charges	101	91
Debentures converted into units	–	–
Balance, end of year	6,685	6,584
Total convertible debentures balance, December 31, 2008	13,903	13,710
less: unamortized transaction costs	(488)	(702)
	13,415	13,008
less: current portion – Series A	(1,488)	–
Convertible Debentures – Debt Component, end of year	$ 11,927	$ 13,008

The debentures are convertible, at the option of the holders, into units at a predetermined conversion price per unit. The Fund has the option to settle all or a portion of the convertible debenture obligation at maturity, through the issuance of units at a price based on the weighted average 20 day trading price for the previous days that the units traded.

Since the convertible debentures contain a conversion feature available to the holder to convert debenture principal into units of the Fund, the debenture obligation is classified partly as debt and partly as unitholders' equity. The debt component represents the present value of interest and principal payments over the life of the convertible debentures discounted at a rate approximating the rate which would have been applicable to non-convertible secured debentures at the time the convertible debentures were issued. The difference between the interest paid and payable on the convertible debentures and the present value of interest and principal payments over the life of the convertible debentures is accreted over the term of the convertible debentures through periodic charges to the debt component, such that, on maturity the debt component equals the principal amount of the convertible debentures.

Convertible Debentures – Equity Component	2008	2007
Series A – 2004	$ 113	$ 115
Series B – 2005	261	262
Series C – 2005	193	193
Series D – 2006	541	540
Convertible Debentures – Equity Component, end of year	$ 1,108	$ 1,110

The convertible debentures are secured, subordinate only to senior security, by a charge on the assets and undertakings of the Fund and subsidiaries.

During the year, convertible debentures with a face value of $31 were converted into 3,088 units of the Fund (2007 – $3,045 into 300,140 units). Interest expense during the year ended December 31, 2008 was $1,600 (2007 – $1,648).

10. DEBENTURES

During the year the Fund issued 5 Year Series E Subordinate Secured Debentures (the "Debentures") totaling $9,691 ($7,500 from the first closing on August 13, 2008 and $2,191 from the second closing on September 26, 2008) consisting of 9,691 debentures with an individual face value of $1 (thousand). Net proceeds of $8,851 were received by the Fund after transaction costs of $840.

The debentures bear interest at a rate of 9.0% per annum payable semi-annually, mature in five years from the first closing date and contain no conversion terms into units of the Fund.

The debentures are secured, subordinate only to senior security, by a charge on the assets and undertakings of the Fund and subsidiaries.

Interest expense during the year from the dates of closing was $372.

11. TRUST UNITS

The Fund's Declaration of Trust authorizes the Trustees, in their discretion and from time to time, to issue an unlimited number of units. Each unit is transferable and represents an equal fractional undivided interest in any distributions from the Fund, and in any net assets of the Fund in the event of termination or winding-up of the Fund. All units have equal rights and privileges. Each unit is transferable, entitles the holder thereof to participate equally in distributions, including the distributions of net income and net realized capital gains of the Fund and distributions on termination or winding-up of the Fund, is fully paid and non-assessable and entitles the holder thereof to one vote at all meetings of unitholders for each unit held.

Trust units are redeemable any time at the option of the holder based on the redemption price as defined in the Declaration of Trust, subject to a maximum of ten thousand dollars in cash redemptions by the Fund in the same calendar month.

Units issued and outstanding are as follows:

		2008
	Number of units	Amount
Balance, beginning of year	5,607,688	$ 56,745
Issued for purchase consideration (Note 3)	230,737	2,455
Issued upon conversion of debentures (Note 9)	3,088	31
Issued under the Employee Unit Purchase Plan (Note 18)	30,951	264
Balance, end of year	5,872,464	$ 59,495

		2007
	Number of units	Amount
Balance, beginning of year	2,763,113	$ 25,310
Adjustment to opening balance as a result of application of CICA 3855 (Note 2)	–	(115)
Issued for cash and purchase consideration (net of issuance costs of $2,122)	2,516,992	28,081
Issued upon conversion of debentures	300,140	3,014
Issued under the Employee Unit Purchase Plan (Note 15)	27,443	322
Change in substantively enacted tax rates	–	133
Balance, end of year	5,607,688	$ 56,745

12. CAPITAL MANAGEMENT

The Fund manages its capital to utilize prudent levels of debt. The Fund has an approach of a level of senior debt to operate within a range of 1.5–2.5 times funded senior debt to proforma earnings before interest, income taxes, unrealized foreign exchange gains or losses, asset impairment, depreciation and amortization.

The Fund's objective in managing capital is to:

- ensure flexibility in the capital structure to fund the operations, distributions to unitholders, the capital investments and to support the external growth strategy;
- maintain adequate liquidity at all times; and
- maintain a diversified capital structure.

The approach used by the Fund is to not raise equity in advance because of the resulting pressure to make acquisitions or otherwise utilize the raised funds.

The Fund actively manages and monitors the capital structure and makes adjustments based on the objectives described above in response to changes in economic conditions and the risk characteristics of the underlying assets.

The following is considered by the Fund as capital and may not be comparable to measures presented by other public companies and income trusts:

	2008	2007
Total debt outstanding, principal value	$ 41,523	$ 26,600
Convertible debentures outstanding, face value	14,396	14,426
Debentures outstanding, face value	9,691	–
Trust units	59,495	56,745
Total capital, end of year	$ 125,105	$ 97,771

The change in capital during 2008 is mainly a result of the consideration given in the acquisition of Stainless on January 2, 2008, including cash withdrawn from its credit facility and the issuance of units of the Fund (Note 11), and also the debentures issued during the year (Note 10).

This approach is also followed to fund acquisitions. A proforma 12 month cash flow is used by the Fund in determining the acquisition financing so that debt levels are considered appropriate. Any capital required beyond the debt drawn is obtained through some form of equity, such as an offering of Fund units or forms of debentures.

The Fund considers the existing level of equity capital to be adequate in the context of current operations and the Fund's strategic plan. The Fund expects that its distributions to unitholders during 2009 will be funded by earnings and operating cash flows generated by its operating subsidiaries.

There are certain capital requirements of the Fund coming from the Fund's credit facility that includes financial covenants and ratios, including leverage ratios that assess the funded senior debt to adjusted earnings before interest, income tax expense, unrealized foreign exchange gains or losses, asset impairment, depreciation, and amortization ("EBITDA") ratio. Management uses these capital requirements in the decisions made in managing the level and make-up of the Fund's capital structure. The Fund has been in compliance with all of the capital requirements during the year.

13. DISTRIBUTIONS TO UNITHOLDERS

The Fund's policy is to make distributions to unitholders equal to cash flows from operations after making allowances for debt servicing requirements, working capital, and for growth and capital expenditure requirements as deemed prudent by its board of Trustees.

Cumulative distributions are as follows:

	2008	2007
Balance, beginning of period	$ 12,679	$ 6,215
Distributions during the period	6,549	4,613
Balance, end of period	$ 19,228	$ 10,828

The amounts and record dates of the distributions were:

	2008			2007		
		Distributions			Distributions	
Month	Record date	Per unit	Amount	Record date	Per unit	Amount
January	January 31, 2008	$ 0.125	$ 726	January 31, 2007	$ 0.12	$ 332
February	February 29, 2008	0.125	726	February 28, 2007	0.12	477
March	March 31, 2008	0.125	726	March 30, 2007	0.12	525
April	April 30, 2008	0.125	727	April 27, 2007	0.12	529
May	May 30, 2008	0.125	727	May 29, 2007	0.12	540
June	June 30, 2008	0.125	727	June 29, 2007	0.12	544
July	July 31, 2008	0.125	730	July 31, 2007	0.12	550
August	August 29, 2008	0.125	730	August 31, 2007	0.12	557
September	September 30, 2008	0.125	730	September 28, 2007	0.12	559
October	October 31, 2008	0.125	751	October 31, 2007	0.12	563
November	November 28, 2008	0.13	780	November 30, 2007	0.13	587
December	December 31, 2008	0.13	782	December 31, 2007	0.13	701
Total		$ 1.51	$ 8,862		$ 1.45	$ 6,464

14. INCOME TAX

The Fund, as a publicly traded income trust, is considered a specified investment flow-through as defined in the Income Tax Act, and will become subject to tax commencing January 1, 2011. The Fund may become subject to tax prior to 2011 if equity capital increases beyond the limits established by the Government (Safe Harbour Limits). As the Fund has not exceeded its safe harbour amount, future income tax will be assessed based on temporary differences expected to reverse after 2011 at the substantively enacted tax rate for that period.

a) Future income tax of the Fund relate to the following items:

	2008	2007
Current future income tax assets:		
Non-capital loss carryforward (1)	$ 496	$ 299
Non-deductible accruals	273	–
	769	299
Long-term future income tax assets:		
Deferred charges	229	427
Non-deductible accruals	1,313	838
Non-capital loss carryforward (1)	1,256	1,045
Intangible assets	532	–
	3,330	2,310
Long-term future income tax liabilities:		
Capital assets	(7,968)	(6,160)
Intangible assets	–	(522)
Other comprehensive income	(321)	–
US witholding tax	(39)	–
	(8,328)	(6,682)
Financial Statement Presentation:		
Current future income tax assets	769	299
Long-term future income tax liabilities	(4,998)	(4,372)

b) The Fund's income tax expense for the year is as follows:

	2008	2007
Earnings before provision for income taxes	$ 3,126	$ 6,861
Combined Canadian federal and provincial tax rates	33.0%	34.0%
Income tax expense at statutory rates	1,032	2,333
Increase (decrease) resulting from:		
Net earnings of the Fund subject to tax in the hands of the unitholders	(2,907)	(2,198)
Permanent differences	1,813	156
Timing differences in non-taxable entities	–	(308)
Effect of enacted future rates on temporary differences and effect of Trust Taxation	–	(716)
Provision (recovery) for income taxes	$ (62)	$ (733)

15. EARNINGS PER UNIT

The computation for basic and diluted earnings per unit for the year is as follows:

	2008	2007
Net earnings available to unitholders	$ 3,188	$ 7,594
Dilutive effect of convertible debentures	1,601	1,648
Add back impact from anti-dilutive factors	(1,601)	–
Diluted earnings available to unitholders	$ 3,188	$ 9,242
Basic weighted average number of units		
Dilutive effect of convertible debentures	5,831,073	4,333,309
Add back impact from anti-dilutive factors	1,181,569	1,324,478
Average number of units outstanding – diluted basis	(1,181,569)	–
Earnings per unit:	5,831,073	5,657,787
Basic	$ 0.55	$ 1.75
Diluted	$ 0.55	$ 1.63

During 2008 the Fund recorded impairments totaling $5,668 ($5,520 after-tax) against goodwill and intangible assets (Note 16) that impacted basic earnings per unit in 2008 negatively by $0.95 per unit (after-tax).

16. SEGMENTED INFORMATION

The Fund's reportable business segments are strategic business units that offer different products and services. The Fund has two reportable business segments: Aviation and Manufacturing. The Aviation segment provides airline services to communities in Manitoba and Nunavut. The Manufacturing segment consists of niche specialty metal manufacturers in markets throughout Alberta, British Columbia and throughout the United States with the acquisition of Stainless during the first quarter of 2008 (Note 3). See Note 25 for the letter of intent for the acquisition of Calm Air subsequent to December 31 2008, which will be part of the Aviation segment and will earn revenues in Canada.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Fund evaluates each segment's performance based on EBITDA. There are no inter-segment revenues and segment revenues presented in the tables below are from external customers. The Fund is not a separate segment and is only presented as a reconciliation to enterprise revenues, EBITDA, total assets, capital asset additions and goodwill. The Fund includes expenses incurred at head office.

				2008
	Aviation	Manufacturing	Fund	Consolidated
Revenue	$ 84,678	$ 72,985	$ –	$ 157,663
EBITDA	13,910	10,169	(3,282)	20,797
Interest expense				5,155
Amortization of intangible assets				1,927
Depreciation				4,921
Impairment loss				5,668
Earnings before tax				$3,126

				2007
	Aviation	Manufacturing	Fund	Consolidated
Revenue	$ 68,992	$ 37,021	$ –	$ 106,013
EBITDA	10,022	7,907	(2,625)	15,304
Interest expense				4,014
Amortization of intangible assets				768
Depreciation				3,661
Earnings before tax				$ 6,861

During the fourth quarter of 2008, the annual review for impairment of goodwill and intangible assets for the manufacturing segment was performed. Due to changes in the Alberta oil and gas industry and environment, revenues, EBITDA and cash flows were lower than expected, which impacted the results for Jasper Tank which operates in that industry and market. As a result, the earnings forecast has been revised to incorporate these changes and has resulted in the fair value of the Jasper Tank business to be decreased to a point where the goodwill and certain intangible assets of Jasper Tank became impaired. As a result the Fund has recorded an impairment loss during this year of $5,668 ($5,159 against goodwill and $509 against intangible assets).

				As at December 31, 2008
	Aviation	Manufacturing	Fund	Consolidated
Total assets	$ 83,836	$ 78,255	$ (761)	$ 161,330
Net capital asset additions	7,703	1,653	24	9,380
Goodwill (Note 3)	5,648	29,636	–	35,284

				As at December 31, 2007
	Aviation	Manufacturing	Fund	Consolidated
Total assets	$ 71,068	$ 49,222	$ 1,332	$ 121,622
Net capital asset additions	9,881	877	125	10,883
Goodwill	5,194	16,731	–	21,925

The following is the geographic breakdown of revenues for the year, based on location of the customer, and the capital assets and goodwill as at December 31, 2008:

	2008	2007
Canada	$ 124,378	$ 104,026
United States	33,285	1,987
Total revenue for year	$ 157,663	$ 106,013

	As at December 31, 2008		As at December 31, 2007	
	Capital Assets	Goodwill	Capital Assets	Goodwill
Canada	$ 60,850	$ 17,220	$ 56,448	$ 21,925
United States	4,176	18,064	–	–
	$ 65,026	$ 35,284	$ 56,448	$ 21,925

17. DEFERRED UNIT PLAN

Under the plan the Fund has authorized 18,819 deferred units with a fair value of $227 at the grant date based on the market price of the Fund's units at that time. The deferred units vest evenly over three years at each annual anniversary after the grant date.

During 2008 the Fund recorded a net compensation recovery of $12 in General and Administrative expenses in the consolidated statement of operations. As at December 31, 2008, a total of 22,719 deferred units were outstanding under the plan and a total of 4,633 of the deferred units have vested. A liability equal of $135 was recorded as a current liability in Accounts Payable and Accrued Liabilities in the consolidated balance sheet.

18. EMPLOYEE UNIT PURCHASE PLAN

Certain employees of the Fund participated in an Employee Unit Purchase Plan (EUPP). Under the EUPP, employees make contributions of up to 5% of their base salaries to purchase Fund units out of Treasury, and upon the employees remaining employed with the Fund or its subsidiaries during the 18 month vesting period they are entitled to receive an additional number of units ("additional units") equal to 33.3% of the number of units they purchased.

At the decision of the employee, any distributions paid on the additional units over the vesting period are either paid to the employee upon the units vesting or units are purchased using these distribution funds.

The plan is offered to employees annually and 30,951 units were issued out of Treasury, effective October 22, 2008 (2007 – 27,443 units). The fair value of the compensation associated with the additional units that will be awarded upon the vesting conditions of the plan being attained is estimated at approximately $88 or the equivalent of 10,317 units (2007 – $107 or the equivalent of 9,148 units) and will be recognized in the head-office expenses of the Fund over the 18 month vesting period beginning in November 2008.

19. CHANGES IN WORKING CAPITAL ITEMS

The changes in non-cash operating working capital items are as follows:

	2008	2007
Accounts receivable	$ 275	$ (1,049)
Inventory	(3,910)	(1,969)
Prepaid expenses	(61)	(221)
Accounts payable and accrued charges	2,780	(1,735)
Deferred revenue	1,148	(243)
	232	(5,217)
Foreign currency adjustments	230	–
	$ 462	$ (5,217)

20. COMMITMENTS

The Fund and its subsidiaries rent premises and equipment under operating lease agreements. The minimum lease payments under these contractual obligations are as follows:

	Commitments
2009	$ 2,638
2010	2,180
2011	1,689
2012	1,469
2013	654
Thereafter	2,108
Total convertible debentures outstanding, December 31, 2008	$ 10,738

Included in the table above are commitments obligated to related parties in association with leased property used in the operations of Water Blast for $2,411 and Stainless for $1,763 (US $1,440), both of which are described further in Note 23.

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency, interest rate and other price risk.

Currency Risk

During 2008, the Fund managed its capital outstanding partially by withdrawing US dollars ("USD") from its credit facility. As at December 31, 2008, there was US $7,450 outstanding in the credit facility. The USD funds were used for the cash portion of the purchase price for the acquisition of Stainless. The outstanding funds in USD results in currency risk that the future cash flows will fluctuate with the changes in market currency rates. The exposure is offset by the cash generated through the operations of its Manufacturing segment subsidiaries, in particular the operations of Stainless throughout the United States. The Fund does not use derivative instruments to reduce its exposure to the currency risk.

Included in the results of the Fund for 2008, a net foreign exchange loss of $151 was recorded on the income statement and a currency translation adjustment of $3,461 (Note 24) was recorded as a credit through Other Comprehensive Income on the translation of the Stainless financial statements into Canadian funds.

A $0.01 weakening in the value of the Canadian dollar in relation to the US dollar applied to the Fund's financial instruments outstanding at December 31, 2008 would have an impact of approximately less than $0.1 million on future net earnings and decrease the foreign currency translation adjustment in Other Comprehensive Income by approximately $0.1 million.

Interest Rates

The Fund is subject to the risk that future cash flows associated with the debt facility outstanding (Note 8) will fluctuate due to fluctuations in interest rates and the degree of volatility of the rates. The Fund manages this risk and seeks financing terms in individual arrangements that are most advantageous. The Fund has not used derivative instruments to mitigate this risk.

The terms of the debt facility allow for the Fund to choose the base interest rate between Prime, Bankers Acceptances or London Inter Bank Offer Rate (LIBOR). At December 31, 2008, $30,000 was outstanding under Bankers Acceptances with maturities in January 2009, $2,400 was outstanding under Canadian Prime, and US $7,450 was outstanding under a LIBOR agreement that expires January 2009.

The interest rate on the Stainless vendor note (Note 3) floats consistently with the interest rate incurred by the Fund on the USD portion of the credit facility. The convertible debentures outstanding (Note 9) and debentures outstanding (Note 10) all have fixed interest rates.

Based on the outstanding debt facility at December 31, 2008, net of cash and cash equivalents, a 1% increase in interest rates for the Fund would decrease the net earnings for the next twelve months by approximately $0.4 million.

Credit Risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. In addition, the Fund is exposed to credit risk from its customers. While the operations serve markets in Western Canada and the United States, the Fund has a large number of customers, which minimizes the concentration of credit risk. As at December 31, 2008, the Fund's credit risk exposure consists mainly of the carrying amounts of accounts receivable.

As at December 31, 2008, $1.3 million of the outstanding receivables were greater than 90 days outstanding. The majority of this relates to receivables from the Aviation segment of which management considers to be low risk based on the receivables with certain government agencies. Management at each of the Fund's subsidiaries monitor accounts receivables overdue amounts on a daily basis and respond accordingly. The Fund's subsidiaries maintain an adequate allowance for doubtful accounts and review the allowance on a monthly basis.

Liquidity Risk

Liquidity risk is the risk that the Fund is not able to meet its financial obligations as they become due or can do so only at excessive cost. The Fund's growth is financed through a combination of the cash flows from operations, borrowing under existing credit facilities, the issuance of either or a combination of debentures and equity. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through adequate amount of committed credit facilities. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as cash flows. Due to the nature of the business, the Fund aims to maintain flexibility in funding by keeping committed credit facilities available (Note 8).

The Fund's financial liabilities and related capital amounts have contractual maturities which are summarized below:

	Payments due for the periods ending December 31					
	Total	2009	2010	2011	2012	Thereafter
Accounts payable and accrued expenses	$ 18,898	$ 18,898	$ –	$ –	$ –	$ –
Vendor note payable	2,008	2,008	–	–	–	–
Long-term debt	41,523	–	–	41,523	–	–
Convertible debentures	14,396	1,511	5,885	7,000	–	–
Debentures	9,691	–	–	–	–	9,691
Distributions paid to unitholders	$ 86,516	$ 22,417	$ 5,885	$ 48,523	$ –	$ 9,691

The Fund is subject to risk that it will encounter difficulty in renegotiating a renewal of its existing senior debt facility (Note 8) or funds to meet the commitment associated with the debt facility that becomes due in 2011. The Fund does not anticipate any significant problem in renegotiating a credit facility to renew or replace the credit facility at the end of its term. The Fund has the ability to settle all the issued convertible debentures with units of the Fund or cash, at the Fund's option.

Fair Value

For the Fund's current financial assets and liabilities, which are subject to normal trade terms, the historical cost carrying values approximate the fair values due to the immediate or short-term maturities of these financial instruments. For the Fund's long-term debt, the historical cost carrying values approximate the fair values, since the interest rate is derived from floating rates.

The fair value for the Fund's debentures will change based on the movement in bond rates. The fair value of the embedded call option in the convertible debenture was determined using the Black-Scholes Option Pricing Model. The fair value of the cash flows associated with the debentures and the embedded call option in the convertible debentures is $23,478 at December 31, 2008 (2007 – $14,419).

22. CONTINGENCIES

During the ordinary course of business the Fund and its subsidiaries may be made party to certain claims and become contingently liable for various matters. Management believes that adequate provisions have been recorded in the accounts where required.

Contingent Purchase Price
As part of the acquisition of MCS from 2007 described in Note 3, the purchase price contained a contingent payment that is payable to the vendor upon certain financial thresholds being met by the acquired company subsequent to the acquisition date of September 14, 2007. The financial thresholds are assessed on the individual fiscal periods ending in 2011. The maximum contingent payment is $300 and would consist of $100 in cash and $200 in units.

The purchase price allocation for the MCS acquisition resulted in excess of the fair value of the acquired net assets over the cost ("excess goodwill"). In accordance with the guidance of CICA Handbook Section 1581 – Business Combinations, in this situation when excess goodwill is determined, an amount equal to the lesser of the maximum amount of contingent consideration and the excess goodwill should be recognized as if it were a liability. As a result, a contingent liability of $167 is recorded on the balance sheet. The remaining $133 portion of the contingent liability will be added to the purchase consideration if and when paid.

23. RELATED PARTY TRANSACTIONS

The Fund enters into transactions with 2811065 Manitoba Ltd., which is owned by a director of EIIF Management GP Inc. These transactions are in the normal course of operations and at market terms and conditions. Market terms and conditions are based on the way a deal would be structured with an arms length third party. The Fund incurred aircraft lease expenses and other aviation operating costs of $120 in 2008 (2007 – $84) from 2811065 Manitoba Ltd. The payable to 2811065 Manitoba Ltd. recorded as at December 31, 2008 is $17 (2007 – $3).

The Fund has a marketing agreement with Tribal Council Investment Group ("TCIG"), whose President is a director of EIIF Management GP Inc. The agreement is in the normal course of operations and at market terms and conditions, except that the compensation is payable to TCIG in units rather than cash. The compensation to TCIG is conditional on the annual increase in sales at Perimeter. The Fund incurred commissions of $252 during 2008 (2007 – $102). The payable to TCIG at December 31, 2008 is $770 (2007 – $466).

Certain Water Blast retail and manufacturing locations in Alberta are leased from the current president of Water Blast who was the vendor that sold Water Blast to the Fund in March 2007. The terms of these leases are considered to be at market terms and recognized in the consolidated financial statements at the exchange amounts. The remaining length of term for the leases range between 2 to 4 years. The total costs incurred in 2008 under these leases are $723 (2007 – $286) and recorded under general and administrative expenses, and at December 31, 2008 there is no related party balance recorded on the balance sheet. The total future minimum lease payments under these leases are described further in Note 20.

With the acquisition of Stainless effective January 2, 2008, certain buildings are leased by Stainless from the vendors, one of whom is the current president of Stainless. The terms of the lease are considered to be at market terms and are recognized in these consolidated financial statements at their exchange amount. The length of term for the lease is five years commencing at the time of acquisition. The total costs incurred during 2008 are approximately $384 and recorded under general and administrative expenses. As at December 31, 2008, there is no related party balance recorded on the balance sheet. The future minimum lease payments under the lease are approximately US $360 annually for the remaining four years of the lease term.

24. OTHER COMPREHENSIVE INCOME

During 2008 the Fund had Other Comprehensive Income of $3,461 (net of $321 tax). This relates to foreign currency translation adjustments of the operations of Stainless from US dollars to the Canadian dollar reporting currency. The resulting translation adjustments are included in other comprehensive income and are only included in the determination of net income when a reduction in the investment in these foreign operations is realized.

25. SUBSEQUENT EVENT

On March 10, 2009, the Fund announced that it has entered into a letter of intent to acquire Calm Air International Ltd. ("Calm Air"), a regional airline carrier that provides both regularly scheduled and chartered passenger and cargo flights to sixteen communities in Manitoba and Nunavut. The acquisition cost of approximately $59.3 million, subject to certain adjustments, will be paid partially by way of issuance of Class A units of the Fund to the vendor, and the balance will be financed with proceeds from a public offering of Fund units and convertible debentures, as well as the Fund's senior debt facility. The acquisition is expected to close at the end of the first quarter or the beginning of the second quarter of 2009.

Exchange Industrial Income Fund Corporate Information

Trustees and Directors

Hon. Gary Filmon P.C., O.M.
Trustee & Chairman

Duncan D. Jessiman Q.C.
Trustee & Executive Vice-Chairman

Gary Buckley
Trustee & Director

Donald Streuber
Trustee & Director

Edward Warkentin
Director

Michael Pyle
Director

William Wehrle
Director

Allan McLeod
Director

Management

Michael Pyle
President & Chief Executive Officer

Adam Terwin
Chief Financial Officer

Duncan D. Jessiman Q.C.
Executive Vice-Chairman

Darwin Sparrow
Vice-President & Chief Operating Officer, Manufacturing

David Patrick
Manager, Financial Reporting

Dianne Spencer
Manager, Compliance & Corporate Secretary

Mark Bullion
Manager, Internal Controls

Jeremy Bomboff
Manager, Taxation

Gary Bell
Director, Acquisitions

Cheryl Lynne Lawrence
Director, Special Projects

Stephen Ellwein
Director, Special Projects, Operations

Breanne Routly
Associate Manager, Risk

Officers

Michael Pyle
President & Chief Executive Officer

Adam Terwin
Chief Financial Officer

Darwin Sparrow
Vice-President & Chief Operating Officer – Manufacturing

Dianne Spencer
Corporate Secretary

Legal Counsel

Aikins, MacAulay & Thorvaldson LLP
Winnipeg, Manitoba

Auditors

Deloitte & Touche LLP
Winnipeg, Manitoba

Bankers

TD Canada Trust
Roynat Inc.
RBC Capital Markets

Transfer Agent

CIBC Mellon Trust Company
Calgary, Alberta

Stock Exchange Listing

Exchange Industrial Income Fund
EIF.UN TSX

Annual General Meeting

Friday, May 15, 2009
10:30 AM at the Victoria Inn & Suites
1808 Wellington Avenue, Winnipeg, Manitoba

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Stainless Fabrication, Inc.: www.stainlessfab.com

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