PERIMETER

KIVALLIQ AIR NUNAVUT LIFELINE
KEEWATIN AIR

Annual Report 2006

Jasper TANK

Exchange Industrial Income Fund

OMI

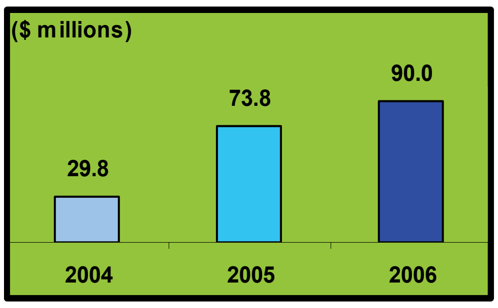
EIF.UN

WATER BLAST

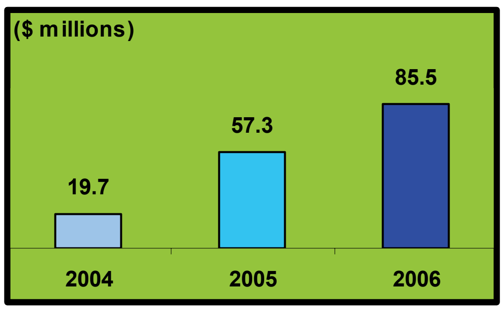
2006 Highlights

- Distributable Cash per unit grew by 16% to $2.96.
- Distributions per unit increased twice during the year by a total of 20% from $0.10 to $0.12 per month.
- Closed the acquisition of Overlanders Manufacturing in October.
- Completed a $7 million issuance of convertible debentures to assist in funding organic growth and the acquisition of Overlanders.

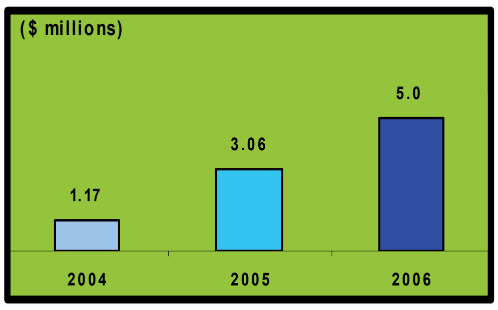
Total Assets



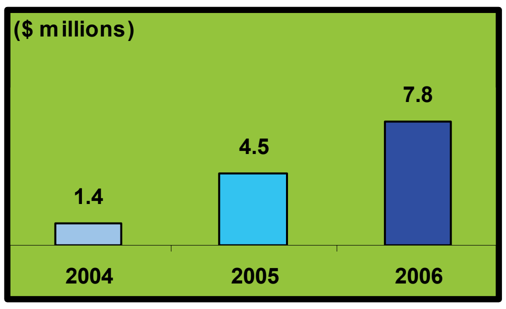
Revenue



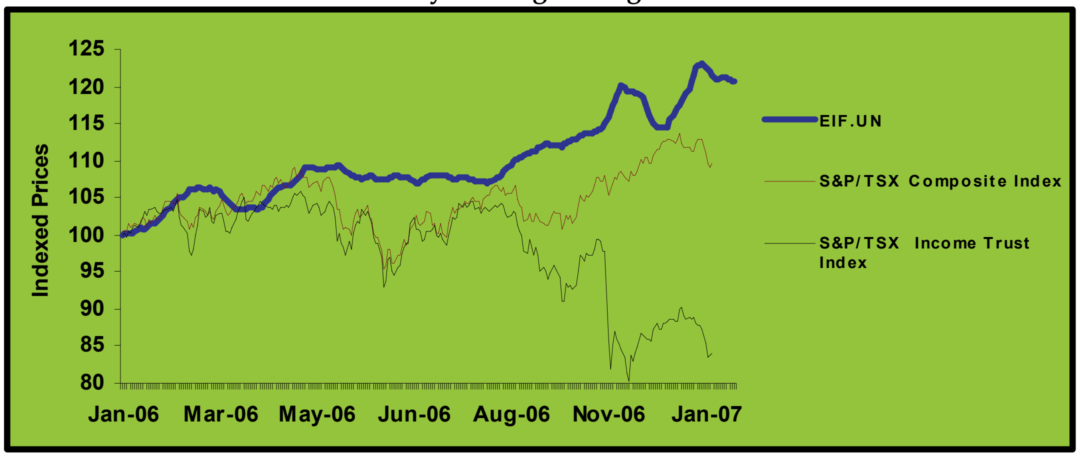
Earnings



Distributable Cash



1-Yr EIIF 20-Day Moving Average vs. Indices



Corporate Profile

OBJECTIVES:

- To provide unitholders with stable and growing cash distributions;
- To maximize unit value through on-going active management of the companies in the Fund's portfolio; and
- To continue to acquire companies or interests therein in order to expand and diversify the Fund's portfolio.

To date the Fund has acquired Perimeter Aviation, an airline operating out of Winnipeg and Thompson, Manitoba; Keewatin Air, an airline operating out of Winnipeg, Manitoba and Rankin Inlet in the territory of Nunavut; Jasper Tank, a manufacturer of steel truck tanks located in Edmonton, Alberta; Overlanders Manufacturing, a fabricator of precision sheet metal and tubular products located in Abbotsford, British Columbia, and Water Blast Manufacturing, a manufacturer and distributor of specialized heavy-duty pressure washer and steam systems headquartered in Edmonton, Alberta, with sales offices in Calgary, Red Deer and Lethbridge, Alberta.

The Fund is governed by four Trustees, a majority of whom must be independent. The current Trustees are Gary Filmon (Chair), Duncan Jessiman (Vice-Chair), Art Mauro and Don Streuber.

The operations of the investee companies are overseen by the Board of Directors of EIIF Management GP Inc., a wholly-owned subsidiary of the Fund. A majority of the Directors must also be independent. The current directors of EIIF Management GP Inc. are Gary Filmon (Chair), Duncan Jessiman, Art Mauro, Don Streuber, Gary Buckley, Mark Buller, Allan McLeod , William Wehrle and the CEO of the Fund, Mike Pyle.

CHAIRMAN'S MESSAGE

Hon. Gary Filmon P.C., O.M.—Chairman, Trustee and Director of EIIF Management GP

Adversity often challenges us to review and rethink our actions, to ensure we have chosen the best path of action. The change in Federal government policy regarding taxation of income trusts provided just that opportunity for Exchange Industrial Income Fund. Investors and markets re-evaluated the entire trust sector and EIIF along with many others had to determine whether or not it would have sufficient access to capital to allow it to carry out its acquisition strategy. Our trustees and senior management examined how these changes would affect our business plan and what adaptations would be necessary to deal with the changes.

"Through a disciplined strategy focused on acquiring strong companies with proven cash flow at reasonable prices, we have been able to ensure that each acquisition is accretive to our unitholders."

Since inception, the Fund's policy has been to provide stable and predictable distributions to our unitholders, while delivering above-average growth through a diverse portfolio of business operations. Our conservative payout ratio has enabled us to maintain the security of our distributions while dealing with the normal challenges of changing business cycles and a competitive marketplace. In addition, this approach has now demonstrated that even if a new tax efficient structure is not available to replace our current model, we will still be able to pay the proposed taxes without jeopardizing our distributions to unitholders.

Our model was never built upon the arbitrage between corporate and trust

Mr. Filmon of Winnipeg, Manitoba holds a Masters Degree in Engineering from the University of Manitoba. He is a trustee of the Arctic Glacier Income Fund and the Pollard Banknote Income Fund. He is a director of Manitoba Telecom Services Inc., a director of FWS Construction Ltd., a director of Wellington West Capital Inc. and a director of Canadian Natural Resources Limited. He is also chair of the Canadian Security Intelligence Review Committee. He was Premier of the Province of Manitoba from 1988 to 1999. Mr. Filmon became a trustee on May 6, 2004, and will serve in that capacity until the next annual general meeting of Unitholders.

tax rates. Rather it was built upon the concept that by building a diversified portfolio of profitable companies that were too small in and of themselves to be public companies, we could build a dependable cash flow stream to distribute to our unitholders. Through a disciplined strategy focused on acquiring strong companies with proven cash flow at reasonable prices, we have been able to ensure that each acquisition is accretive to our unitholders.

Upon review, Fund management and Trustees quickly came to the conclusion that our business model was sound. We knew that we would have to wait to see if the capital markets would agree with our conclusion, and whether we would have access to additional capital for growth. By the end of the year our unit price had recovered to $13.10, up 25% from the $10.50 price at the start of the year. On December 21 we announced a Letter of Intent to acquire Water Blast, a manufacturer and distributor of pressure washing equipment with a plan to fund it through a private placement of Fund units early in 2007. The markets supported the offering and in February 2007 we closed a $15 million offering of units to give us the necessary equity capital to complete not only the Water Blast acquisition, but also to provide sufficient capital for other opportunities that are under investigation.

This year we reorganized our Fund to optimize our corporate structure. We have set up the EIIF Management LP to oversee the operations of all our subsidiaries. All our existing Trustees agreed to serve as directors of EIIF Management GP Inc., providing it with the necessary oversight and guidance. The duties of the Trustees are now limited to the public entity issues at the Trust level. Accordingly, we have reduced the number of Trustees to four, and in line with Toronto Stock Exchange guidance we have ensured that a majority (three of the Trustees) are independent and not involved in the day to day management of the Fund.

2006 was a good year for the Fund and we are very pleased with what has been accomplished. Distributions have been increased on two separate occasions by a total of $.02 per month, or 20% higher than at the start of 2006. EBITDA, earnings, and distributable cash have all increased over 2005, both in absolute terms and on a per unit basis. Perhaps the most telling measure of performance of the Fund is our payout ratio. In spite of the aforementioned increases in monthly distributions, the payout ratio has remained conservative. The actual payout per unit in 2006 of $1.26 is 43% of the distributable cash generated per unit, when calculated on a simple basis and 55% when calculated on a fully diluted basis. This level of payout not only provides stability, but the opportunity to examine increases in our payouts in the future.

In closing, I would like to take this opportunity to thank Art Mauro for his tremendous contributions to EIIF. Art has announced that he will be retiring as a trustee and director following the annual meeting in May. He has been involved with EIIF and its predecessor company Exchange Industrial Group Ltd. since its IPO in 2002. Art has a tremendous wealth of knowledge gathered through an exceptional business career and his input has contributed greatly to the Fund's success to date. On behalf of our trustees, directors, management, employees and unitholders, I thank Art for his guidance over the last five years and we wish him good health and continued achievement in the future.

We are pleased with the progress the Fund has made in the last year. We intend to continue applying the highest standards of duty and care as we strive to grow the Fund, and maximize the long term return to our unitholders.

Gary Filmon

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

Trustees and Directors

Duncan D. Jessiman Q.C. - Executive Vice-Chairman, Trustee and Director of EIIF Management GP - Chairman of the Corporate Governance Committee

Mr. Jessiman of Winnipeg, Manitoba holds a Bachelor of Commerce degree and a law degree from the University of Manitoba. He began his professional career 33 years ago as a lawyer at Pitblado & Hoskin where he was a partner at the time of his leaving in 1998 to join Aikins, MacAulay & Thorvaldson LLP as a partner, where he practiced in the area of corporate, commercial and securities law. Mr. Jessiman is a member of the TSX Venture Exchange Winnipeg Local Advisory Committee; former director of Consolidated Properties Ltd., a TSX listed company; former director of Geocrude Energy Inc., a TSX listed company which was taken over by Canada North West Energy Inc.; former director of Pan Cana Industries Ltd., a TSX listed company which was taken over by Geocrude Energy Inc.; former director of Enerplus Energy Services Ltd. - management company for Enerplus Resources Fund and a former director of Source Life Sciences, a junior capital company listed on the TSXV. Mr. Jessiman joined the Fund on a full-time basis on August 1, 2005. Mr. Jessiman became a trustee on March 22, 2004, and will serve in that capacity until the next annual general meeting of unitholders.

Arthur Mauro, O.C., O.M. - Trustee and Director of EIIF Management GP

Mr. Mauro of Winnipeg, Manitoba, is a graduate of the University of Manitoba with Bachelor of Arts, Bachelor of Laws, and Master of Laws Degrees. He was appointed Chairman of the Royal Commission on Northern Transportation in 1967, and established the Transportation and Communication Law course at the University of Manitoba Faculty of Law and lectured on this subject from 1967 to 1969. Both in his law practice and in business, he sat on the boards of directors of a number of major Canadian corporations, including Investors Group Inc., Great-West Life Assurance Co., Montreal Trust, Federal Industries, Andersen Consulting Advisory Board, Canadian Airlines International Ltd., Atomic Energy of Canada Limited, Canadian Pacific Hotels and United Grain Growers. He is the former Chairman and Chief Executive Officer of Investors Group Inc. and was Chancellor of the University of Manitoba from 1992 to 2001. He is a founding director of the Business Council of Manitoba. Currently, Mr. Mauro is Chairman of the Winnipeg Airports Authority Inc. and is a director of Fort Chicago Energy Management Inc. He also served as counsel to the law firm of Aikins, MacAulay & Thorvaldson LLP until September 30, 2003. Mr. Mauro became a trustee on May 6, 2004, and will serve in that capacity until the next annual general meeting of unitholders.

Donald Streuber, C.A. - Trustee and Director of EIIF Management GP - Chairman of the Audit Committee

Mr. Streuber of Winnipeg, Manitoba, is President and CEO of Bison Transport Inc. Bison is one of Canada's largest truckload carriers of freight and has been recognized as one of Canada's 50 best managed companies for the last 9 years. Mr. Streuber received his C.A. designation in 1985 and has been a lecturer and conference speaker for the Canadian Institute of Chartered Accountants and served on their Professional Development Committee. Mr. Streuber is also the Chairman of Monarch Industries Limited and Chairman of Providence College and Seminary. Mr. Streuber became a trustee of the Fund on May 6, 2004, and will serve in that capacity until the next annual general meeting of Unitholders.

Michael Pyle - Chief Executive Officer of the Fund, President and Director of EIIF Management GP

Mr. Pyle of Winnipeg, Manitoba holds an Arts degree (Economics) and a Masters of Business Administration Degree (Finance) from the University of Manitoba. He served in positions of increasing seniority culminating as President of The Arctic Glacier Income Fund (and its predecessor The Arctic Group Inc.) from 1998 to 2002. He previously worked with RoyNat Capital in Winnipeg from 1990 to 1996 and from 1997 to 1998. Mr. Pyle was employed as the Vice-President of Corporate Development for Westsun International Inc. in Winnipeg from 1996 to 1997. Mr. Pyle has been a full time employee of the Fund and its predecessor Exchange Industrial Group Ltd. (EIG) since the inception of EIG in 2002. Mr. Pyle became a trustee on March 22, 2004, and served in that capacity until December 31, 2006.

Trustees and Directors

William Wehrle – Director of EIIF Management GP

Mr. Wehrle was one of the original founders of Perimeter Aviation in 1960, and serves as Perimeter's President and Chief Executive Officer. Mr. Wehrle is also a commercial pilot with over 30,000 hours of flying experience. Mr. Wehrle became a trustee of the Fund on May 6, 2004 and served in that capacity until December 31, 2006.

Allan McLeod - Director of EIIF Management GP

Allan McLeod is the President and Chief Executive Officer of Tribal Councils Investment Group of Manitoba Ltd. and its group of wholly owned subsidiaries, including Arctic Beverages Limited, First Canadian Health Management Corporation, Rupertsland Holdings Inc., and First Nations Financial Services Inc. Allan also holds this position for the Radisson Hotel Winnipeg Downtown, First Canadian Fuels Ltd., and First Canadian Water & Infrastructure Inc. He is also a Director of Big Freight Systems Inc. and Bieber Securities Inc. Besides being a trustee of EIIF, Allan is also a trustee of Westfield Real Estate Investment Trust. In 2004, Allan was the recipient of Canada's Top 40 Under 40. Mr. McLeod became trustee of the Fund on May 6, 2004 and served in that capacity until December 31, 2006.

Mark Buller - Director of EIIF Management GP

Mr. Buller has served in increasingly senior positions within Kitchen Craft of Canada Limited from 1987 to 1999 when the company joined the Omega Group headquartered in Iowa, USA. Mr. Buller served as President and CEO of the Omega Group of Companies until such companies were acquired by Fortune Brands in April, 2002. Subsequent to that date, he served as the President and CEO of Kitchen Craft of Canada Limited. Mr. Buller resigned from his positions with Kitchen Craft of Canada Limited effective January 1, 2003. Mr. Buller is president and chief executive officer of Norcraft Companies, a company which manufactures cabinets and operates one plant in Canada and five plants in the U.S. Mr. Buller became a trustee on March 22, 2004, and served in that capacity until December 31, 2006.

Gary Buckley - Director of EIIF Management GP
- Chairman of Compensation Committee

Mr. Buckley of Winnipeg, Manitoba, holds a Bachelor of Commerce from the University of Alberta. Mr. Buckley has been involved in the hotel and hospitality industry since 1983. Since 1998, Mr. Buckley has been the co-owner and operator of the Elkhorn Resort & Conference Center in Clear Lake, Manitoba. Mr. Buckley is also the largest shareholder of Genesis Hospitality, which owns various hotel properties in Manitoba and Ontario. Mr. Buckley also owns other commercial and residential properties. Mr. Buckley became a trustee on May 6, 2004, and served in that capacity until December 31, 2006.

EIIF SUBSIDIARIES

AVIATION

Perimeter Aviation Ltd. was the first acquisition of EIIF in May of 2004. The company operates a diverse airline focusing in four main segments 1) Scheduled Passenger and Freight Services 2) Medical Evacuation Services 3) Charters and 4) Flight Training School. It services small communities across Manitoba, but specializes in First Nation Communities in Eastern and Northern Manitoba. The company has a limited number of types of aircraft in order to maximize the efficiency of the operation. The core of the fleet is the 19 seat Metroliner twin engine aircraft which is designed to carry a combination of passengers and freight. The company also operates a number of smaller Beech twin engine aircraft for the flight training school, courier work and to fly into landing strips which are too short to accommodate the Metroliner. In 2005 Perimeter introduced the first Dash 8 into service which is a 39 seat aircraft used to fly into larger communities. The company now owns one Dash 8 and leases a second, with plans to buy the second in Q2 of 2007. The company has approximately 455 employees and had sales of $52.5 million in 2006.

Keewatin Air was acquired by EIIF in July of 2005. The company operates an airline similar to Perimeter in the market segments it serves (with the exception of the Flight Training School). Keewatin's main focus however is the Medical Evacuation Services. The company has a contract with the Government of the Nunavut territory of Canada to provide all of its air medical evacuations in the central region of the territory. It has a significant presence in Rankin Inlet where it has a hanger, office and staff accommodation facilities. It also operates a scheduled business in the Nunavut region as well as from Rankin Inlet to Winnipeg. It has a fleet of King Air 200 aircraft which are used on the medical side of the business. At the end of 2006, Keewatin decided to transition out of its leased single engine Pilatus aircraft utilized in the scheduled and charter segments, into owned Beechcraft 1900C twin engine aircraft. The choice was made due to the limitations of the Pilatus aircraft's nine seats, and the company's concerns about flying single engine aircraft over long distances. The Beechcraft 1900C also provides an economy of scale when combined with the Beechcraft King Airs, on not only parts and maintenance, but also pilots and training. Keewatin has approximately 85 employees and had sales of $17.1 million in 2006.

EIIF SUBSIDIARIES

MANUFACTURING

Jasper Tank was acquired by the Fund in September of 2005. The company is a custom manufacturer of truck-mounted or pull-type tanks. The company specializes in custom design tanks with advanced plumbing, hydraulics and pressurization systems. The tanks are used in a number of industries, but the main focus of the customer base is oil field service business. Although the long term demand for their product does have a positive correlation with the price of oil, the majority of Jasper Tank's customer base is servicing existing wells, so reliance on drilling or new well production is lessened.

Jasper continues to have a strong order book for its products and is continually looking for ways to increase capacity. With the Fund's acquisition of Overlanders, Jasper was able to subcontract the production of many smaller parts to Overlanders and has been able to re-deploy the people and space previously utilized to manufacture the parts into the assembly of tanks.

It is located in Edmonton, and operates from a 40,000 sq foot facility in the Acheson Industrial Park. It has approximately 65 employees and had annual sales of approximately $14.4 million in 2006.

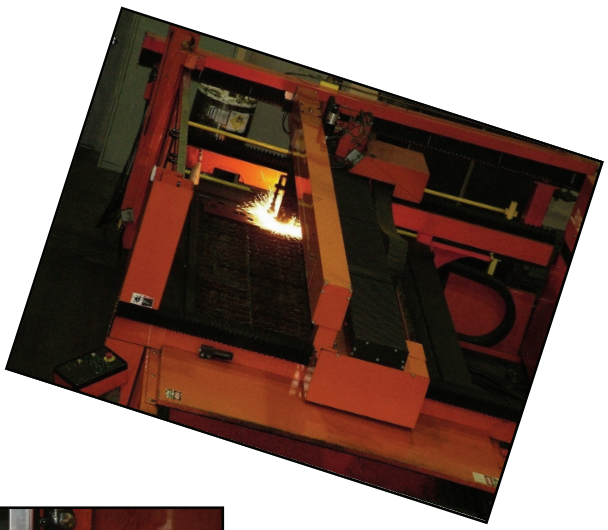
The acquisition of Water Blast was announced Dec. 21, 2006 and closed March 16, 2007. The company is 33 years old and headquartered in Edmonton, with sales offices in Calgary, Red Deer and Lethbridge. The company manufactures specialized heavy-duty pressure washer and steam systems, and is the exclusive dealer in its geographic market for Hotsy pressure washer cleaning equipment, used for a variety of light commercial and industrial applications.

Pressure washing is used in nearly every industry in North America including transportation, infrastructure, manufacturing, construction, truck and automotive services, and farming. In Alberta, in addition to cleaning applications, modified pressure washing equipment is used extensively in the oil and gas industry for hydro-excavating applications and to produce steam for thawing equipment during the winter at the well site. The company's facilities include 40,500 sq ft of leased space plus an additional 30,000 sq ft expansion of leased manufacturing space under construction in Edmonton. Water Blast has over 10,000 accounts, and no one customer who represents more than 4% of sales. The company has approximately 50 employees and had sales of approximately $17.5 million in 2006 while under ownership of the vendors.

EIIF SUBSIDIARIES

MANUFACTURING

Overlanders was acquired by EIIF in October 2006. The company is a 27 year old company in Abbotsford and is an ISO-9001 certified leading fabricator of precision sheet metal and tubular products serving companies in a diversified mix of industries in BC and the Pacific Northwest of the USA. The company's capabilities include: punching, cutting, bending, welding, laser cutting, stamping and insertion. It operates from a leased 38,000 sq ft facility. Overlanders has a diversified group of customers across a broad range of industries including: Industrial equipment OEM's, video surveillance/security, restaurant equipment (ovens/rotisseries), cable/telecom equipment, home construction/renovation and turf/ag equipment. The company is capable of tolerances within a couple thousandths of an inch and has 98% on time delivery. When purchased by EIIF, Overlanders had a bottleneck in its production in the laser cutting department. As part of the acquisition, a second, more automated machine was added, more than doubling the capacity of this department. Overlanders has approximately 35 employees and had annual revenues of $8 million in 2006 while under the ownership of the vendors and EIIF.



CEO AND PRESIDENT'S MESSAGE

2006 was an exciting year for Exchange Industrial Income Fund. We continued to show the strength of our business model with organic growth within our existing subsidiary operations and further diversification of our portfolio of subsidiaries with the acquisition of Overlanders in October, and the announcement of a deal to acquire the Water Blast group in late December which was subsequently closed in March 2007. The financial results for the 2006 year are the best in the short history of our Fund and allowed two increases in monthly distributions.

EIIF was built on the premise that there are strong privately held companies where the owners are coming to the point in their business career where they may wish to sell the business and there is no insider or strategic buyer readily available. Many of these companies have proven defensible market niches, with strong levels of free cash flow. Were these companies larger they could have been ideal income trust candidates on their own (before the change in trust taxation announced at the end October by the federal government). We believe that by creating a portfolio of such companies the Fund can build a diverse income stream that will provide a growing reliable distribution to our unit holders. In addition, we have seen that by providing access to capital and a desire for growth in the business it can revitalize the management team to explore all opportunities available to the company to expand.

> "The financial results for the 2006 year are the best in the short history of our Fund and allowed two increases in monthly distributions."

Although other Funds subscribe to this basic model, we believe that there are two basic tenets that we have followed that have resulted in the success that has been achieved to date. Firstly, while we pay vendors fair market value for the companies we acquire, we strive to avoid bidding wars or pressures from vendors to stretch our model. If the acquisition can not be completed on a basis where it is accretive to our unit holders, then we are not interested in proceeding with the transaction. Secondly, not all companies fit the income trust model. Many successful companies do not have the necessary attributes such as a defensible market niche, limited capital reinvestment requirements and demonstrated sustainable cash flow on a non-cyclical basis, to be an income trust. By limiting ourselves to looking at the appropriate types of enterprises, we mitigate the acquisition risks.

We do not believe that the Fund can appropriately oversee an unlimited number of unrelated companies. Rather, we believe that our unitholders are best served if we limit ourselves to three or perhaps four industry groups where there will be a number of related enterprises in each group. This methodology will enable us to maximize the interaction between the enterprises in an industry group and take advantage of the synergies available between the companies. To date we have built two such groups, firstly niche aviation with Perimeter Aviation and Keewatin Air, and secondly niche metal manufacturing with Jasper Tank, Overlanders Manufacturing and subsequent to year end the Water Blast Group.

We have continued to build the team at the EIIF offices in line with the requirements to oversee the operations of our subsidiaries, and to source, investigate and close acquisition opportunities. We are very cognizant of the need to maintain our staffing at a level which can be carried comfortably by our existing operations. We cannot put the Fund in a position where we need to do a deal, rather we need to be in a position to act quickly when the right opportunity is sourced, or be patient when conditions warrant.

Perimeter was the first acquisition of the Fund in May of 2004. The aviation business is not generally thought of as a suitable trust candidate because of the radical swings that occur with changes in the economy. Perimeter however is a unique airline which primarily services Aboriginal communities which can not be reached by land, other than during a brief period in the late winter over winter roads. It provides an essential service that is largely immune to changes in the general economy. Perimeter has always focused on being the low cost provider of service which has enabled it to deal successfully with competition that has come and gone over the years. When EIIF bought Perimeter it brought in the Tribal Councils Investment Group of Manitoba Ltd. as an investor, but also as part of the marketing team. This relationship along with a renewed focus on growth has enabled the company to double its revenue in 2006 versus the year upon which the purchase was based.

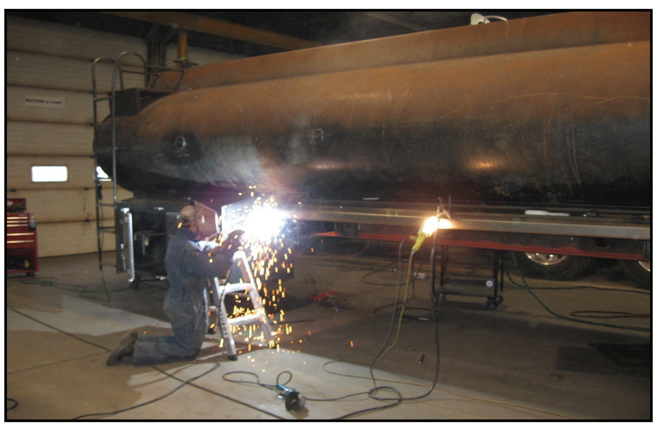
This growth has created significant challenges for Perimeter. In 2005 we began to meet the challenge by increasing the size of our operations to meet the demands of our customers. This process has continued into 2006. We added eight aircraft in 2005, purchased a hangar and terminal in Thompson, and began the expansion of facilities at the Winnipeg International Airport. In 2006 we completed the construction of a new engine overhaul facility and expanded two hangars at the Winnipeg facility. In June of this year, the company achieved a considerable milestone when it obtained the necessary licensing to operate its first Dash 8 aircraft with a capacity that is more than double that of the Metro aircraft which is the core of Perimeter's fleet. The acceptance of this aircraft was so immediate that other communities of a size necessary to warrant the use of such an aircraft inquired as to when they could expect Dash 8 service. Perimeter wet leased and tested a second Dash 8 and found it to be practical. The company intends to acquire a second Dash 8 in early 2007.

Keewatin Air experienced significant growth in its medevac business in 2006. The King Air which was purchased in late 2005 went into service in early 2006. In spite of this addition, the company struggled to maintain sufficient capacity to meet the needs of its main customer, the Government of

Nunavut, and a 5th King Air was leased in late 2006.

Keewatin has historically operated 3 Pilatus PC 12 aircraft on its scheduled services. These aircraft are limited to 9 seats, and are single engine. Given the long flight segment from Nunavut to Winnipeg, it was decided to move to a twin engine platform with greater capacity. In the first half of 2007 these aircraft will be replaced by two 1900C Beechcraft airplanes. These planes have a capacity of 19 seats and are very similar to the King Air aircraft which are already utilized in Keewatin's medevac operations. This will allow economies of scale not only in spare parts inventory and maintenance engineers but also in pilots and training. We are confident that this will increase the long term efficiency of the Keewatin operation.

Jasper Tank continues to experience very strong demand for its products. It has an order book that is sold out for several months, and while there are further opportunities in the market, production capacity has prevented the company from pursuing them. The extremely tight labour market in Alberta has made sourcing the number of skilled employees required a difficult process. The company struggled to keep up with customer expectations in 2006, incurring overtime costs and other expenses which reduced margins in this period. Jasper however has begun the process of



streamlining manufacturing and using lean manufacturing initiatives to improve this situation.

The acquisition of Overlanders was made in part to deal with the growth opportunities available at Jasper. Overlanders has considerable expertise in manufacturing the type of smaller steel parts which are required by Jasper in the manufacturing of its tanks. Jasper previously manufactured these parts internally because it could not risk the uncertainties of outsourcing this function in the overheated Alberta economy for fear it could delay production if suppliers did not live up to their delivery schedules. By moving the production of these parts to Overlanders, a process which began in the first quarter of 2007, Jasper has been able to deploy the people and space previously utilized to manufacture the parts into the assembly of tanks. This will not only increase capacity at Jasper, but when combined with other lean manufacturing processes will increase the efficiency of its operations. Changes that began in 2006 in Jasper will continue to be made for the first half of 2007. It is believed that these improvements will enable the company to take advantage of the opportunities available to it in the Alberta marketplace.

Overlanders is an ISO-9001 certified fabricator of precision sheet metal parts, utilizing CNC laser cutters, brakes and punches to manufacture for a diverse group of customers. While it is somewhat smaller than our previous acquisitions we were excited to add it to EIIF for reasons other than the synergies with Jasper. The company had a bottleneck in its production in the laser cutting department. As part of the acquisition, we added a second, more automated machine, more than doubling the capacity of this department. This in combination with an increased sales force, and the work for Jasper offers considerable opportunity for growth. The industry segment in which Overlanders operates is very fragmented and we believe that there may be the opportunity for further acquisition in this area.

EIIF experienced strong financial results in 2006. Distributable cash per unit grew by 16% from $2.55 in 2005 to $2.96 in 2006 ($2.02 and $2.31 respectively if calculated on a fully diluted basis). Net earnings grew by 64% to $5.0 million, or $1.91 per unit, up from $1.72 in the previous year. The balance sheet remained strong. Secured bank debt fell from 2.81 times EBITDA in 2005 to 1.64 times EBITDA in 2006 while working capital grew from a ratio of 1.8 to 1 in 2005 to 2.1 to 1 in 2006.

Actual distributions were increased twice during 2006 by a total of $0.02 per month. Total distributions grew by 11% from $1.14 in 2005 to $1.26 in 2006. In spite of this increase the payout ratio remained conservative at 43%, 55% fully diluted.

The distribution policy of the Fund is to maintain a conservative payout ratio which allows the Fund to manage in the case of unforeseen circumstances without reducing its distribution. The level of distribution is examined regularly by the Trustees. When it is considered prudent to do so the level of distributions will rise from current levels. While we intend to maintain a conservative payout ratio, it may rise somewhat from its current level in the future.

Art Mauro will be retiring as a Trustee and a Director following our annual meeting in May. I would like to thank him for the guidance he has given our trust, and from a personal point of view for the insights he has given me as an executive in a public enterprise. He provides a perspective and a wealth of experience that is very unique. Thanks Art, you will be missed.

I would also like to take this opportunity to thank the management and all employees at EIIF and our subsidiaries, Perimeter, Keewatin, Jasper and Overlanders and welcome the new ones at Water Blast. Your efforts are the foundation upon which our Fund is built.

We are excited about what has been accomplished to date, and look forward to the challenges that lay ahead.

Mike Pyle, CEO and President

MANAGEMENT'S DISCUSSION & ANALYSIS

April 4, 2006

This Management's Discussion and Analysis should be read in conjunction with the audited consolidated financial statements ("Consolidated Financial Statements") of Exchange Industrial Income Fund ("EIIF" or "the Fund") for the year ended December 31, 2006. 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, 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. EBITDA is defined as earnings before interest, taxes, 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. 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.

ADDITIONAL INFORMATION

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

1. 2006 FINANCIAL HIGHLIGHTS

$000's (except per unit data)	2006	2005
FINANCIAL PERFORMANCE		
Revenue	85,469	57,267
EBITDA	11,864	7,021
Net earnings	5,017	3,058
per unit	1.91	1.72
Distributable cash	7,800	4,541
per unit	2.96	2.55
Distributions paid to unitholders	3,337	2,090
per unit	1.26	1.14
FINANCIAL POSITION		
Working capital	13,813	8,528
Capital assets	48,591	41,556
Total assets	90,047	73,833
Senior debt	24,049	20,138
Unitholder's equity	29,682	25,413

HIGHLIGHTS OF 2006

2006 was an exciting year for EIIF as the Fund continued to demonstrate the effectiveness of its business model. It showed continued growth, both through acquisition and organically in its existing subsidiaries. Highlights included:

Sales increased by 49% to $85.5 million.

EBITDA increased 69% to $11.9 million, while EBITDA margin reached a new high of 13.9% of sales, up from 12.3% the previous year.

Earnings grew by 64% to $5.0 million.

The monthly distribution was increased twice by a total of $0.02 per month or 20% to an annual rate of $1.44 per unit.

In spite of the increase in distributions, the payout ratio of EIIF fell to 43%, 55% when calculated on a fully diluted basis.

Distributable cash grew by 72% to $7.8 million. When calculated on a per unit basis distributable cash grew by $0.41 an increase of 16% over the previous record high achieved in 2005.

Experienced continued strong organic growth in the aviation segment while completing the following projects:

- Acquired the necessary 705 licensing from Transport Canada to operate a larger class of aircraft and acquired its first Dash 8 aircraft.
- Completed the construction of engine overhaul, office and hangar facilities at the Winnipeg International Aircraft.
- Committed to the replacement of the single engine Pilatus aircraft in the Keewatin operation with twin engine aircraft in early 2007.

Completed the acquisition of the assets of Overlanders Manufacturing Inc. in late October.

Completed an offering of $7 million of convertible debentures in August of 2006, the proceeds of which, along with secured bank debt were utilized to fund the acquisition of Overlanders and certain aircraft assets.

2. OVERVIEW

EIIF

Exchange Industrial Income 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. The Fund was initially created to acquire Perimeter Aviation Ltd. ("Perimeter"). Perimeter operates an airline that services northern communities in Canada. 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 for the transportation industry, pressure washing equipment and precision metal parts.

ACQUISITIONS

Since the Fund was formed it has made the following strategic acquisitions:

- May 6, 2004: The Fund acquired 100% of the shares of Perimeter for aggregate consideration of $17.2 million. The Fund also acquired 100% of the assets of Inland Fuels Ltd. (Fuels) for aggregate consideration of $0.8 million. Perimeter is a regional airline operating out of its own terminal at the Winnipeg International Airport. It provides regular scheduled passenger airline service, medevac operations and cargo services to locations in

Northern Manitoba. It also operates a contract and charter service, as well as a flight training school.

- April 20, 2005: Perimeter closed the purchase of certain real estate and fueling facilities acquired from an insolvent competitor for aggregate consideration of $2.8 million. The most significant asset acquired was an operating base in Thompson (hangar, freight storage and terminal facilities).

- July 8, 2005: Perimeter acquired 100% of the shares of Keewatin Air Limited and Nunavut Lifeline Ltd, comprising the business known as "Keewatin" for aggregate consideration of $5.1 million. Keewatin operates an airline and medevac business that services communities in Manitoba and Nunavut. Nunavut Lifeline operates a business that provides exclusive nursing and related services to Keewatin.

- September 1, 2005: The Fund acquired 100% of the shares of 398496 Alberta Inc., and certain assets owned by 745152 Alberta Ltd., comprising the business known as "Jasper Tank" for aggregate consideration of $10.7 million. Jasper Tank is a manufacturer in Spruce Grove, Alberta, that specializes in custom tanks for the transportation industry.

- On October 23, 2006 EIIF acquired certain assets of Overlanders Manufacturing Inc. and Overlanders Products Inc. which comprised the business operating as Overlanders for an aggregate price of $6.1 million. Overlanders is an ISO 9001 certified fabricator of precision sheet metal and tubular metal products which serves markets in British Columbia and the Pacific Northwest of the United States.

- On December 21, 2006 EIIF announced that it had entered into a letter of intent to acquire the shares of a number of companies comprising the Water Blast Group based in Edmonton Alberta. Subsequent to the year end on March 21, 2007, EIIF closed the acquisition of certain assets of 1028849 Alberta Ltd., 470577 Alberta Ltd. and Water Blast Manufacturing (1990) Ltd. as well as the shares of 894092 Alberta Ltd. and 1082190 Alberta Ltd. which together made up the business known as Waster Blast Manufacturing, for aggregate consideration of approximately $20 million. Water Blast is the distributor of Hotsy pressure washing equipment for most of the Province of Alberta, and is a manufacturer and distributor of custom applications of pressure equipment.

3. KEY PERFORMANCE INDICATORS

DISTRIBUTABLE CASH

EIIF generated distributable cash of $7.8 million in 2006 which is an increase of 72% over the $4.5 million generated in the previous fiscal year. The 2005 results include 12 months operations for Perimeter as well as six months operations for Keewatin and four months operations of Jasper Tank from their respective acquisitions by EIIF in July and September of 2006. The 2006 results include a full years operations of the Perimeter, Keewatin and Jasper subsidiaries, and the 2006 results also include the operations of Overlanders from the close of its acquisition on October 23, 2006. On a per unit basis the distributable cash grew from $2.55 per unit in 2005 to $2.96 in 2006 an increase of 16%. When the per unit calculation is completed on a fully diluted basis, 2006 saw an increase in distributable cash per unit of 14% from $2.02 to $2.31.

$000's (except per unit data)	**2006**	2005
Earnings before income tax	5,381	3,483
Depreciation & amortization	3,655	2,181
Interest expense	2,828	1,357
EBITDA	11,864	7,021
Interest on bank debt	1,496	579
Interest on debentures	1,144	678
Maintenance CapEx	1,243	1,087
Cash taxes	181	136
Distributable cash	7,800	4,541
Distributable cash per unit		
Basic	2.96	2.55
Diluted	2.31	2.02
Distributions declared	1.26	1.14

Distributable Cash is not a term defined by GAAP, and as such is not calculated in a common manner amongst income funds. EIIF calculates distributable cash by taking a measure of operating profit, EBITDA, and subtracting cash interest, cash taxes and capital expenditures required to sustain the operation at its current level. These sustaining capital expenditures are classed as maintenance capital expenditures. Other capital expenditures which are made to grow the enterprise and are expected to generate additional EBITDA are not included in the calculation of distributable cash.

In 2006 EIIF made $1.2 million in maintenance capital expenditures. This included items such as a Beech Baron aircraft, and a Metro 3 aircraft, net of the proceeds of disposal of the predecessor aircraft which had been damaged in operation, as these aircraft were needed to maintain the revenue generation capability of the fleet. Maintenance capital expenditures also included such items as replacement vehicles, new medical interiors for existing aircraft, computer upgrades, manufacturing equipment, double walled fuel storage tanks to replace older single walled tanks as well as other miscellaneous items.

In 2006 EIIF also invested a total of $6.2 million in growth capital expenditures. These expenditures are all expected to enable the company to grow, or to reduce expenses by eliminating the costs of assets that were previously leased. Approximately $2.6 million of this was spent on the acquisition of the Dash 8 aircraft, a Merlin aircraft and the completion of the overhauls of a number of aircraft purchased in late 2005. The amount invested in aircraft is net of the proceeds of sale of a Metro 23 aircraft which was sold in the fourth quarter of 2006. Approximately $2.3 million was invested in new buildings and expansion to the existing hangars at the Winnipeg International Airport. The balance was invested in other projects such as increased capacity at northern fuel farms and other miscellaneous projects. Approximately $1.0 million was invested on new manufacturing equipment. The greatest portion of this amount was invested in a new laser cutting machine for Overlanders, which will dramatically increase its production.

DISTRIBUTIONS AND PAYOUT RATIO

Actual distributions in 2006 totaled $3.3 million or $1.26 per unit. The Fund increased distributions twice during 2006: the distributions were increased by 10% in August, when distributions were increased to $0.11 from $0.10 per month, and the distributions were increased by another 9% in December, when the distributions were increased to $0.12 per month.

The 2006 distributions of $1.26 per unit represents a payout ratio of 43% or 55% when calculated on a fully diluted basis. The payout ratio is considered to be conservative, and is reviewed by the Trustees of the Fund on a quarterly basis. Should the distributable cash generated exceed the requirements for re-investment in organic growth opportunities, the level of distributions will be re-evaluated. The current distribution rate is $1.44 per unit per annum. Management expects the Fund will generate sufficient cash in 2007 to exceed this distribution rate.

The amounts and record dates of the distributions were:

		2006	
		Distributions	
Month	**Record date**	**Per unit**	**Amount**
January	January 31, 2006	$ **0.10**	$ **257**
February	February 28, 2006	**0.10**	**257**
March	March 31, 2006	**0.10**	**257**
April	April 28, 2006	**0.10**	**258**
May	May 31, 2006	**0.10**	**259**
June	June 30, 2006	**0.10**	**262**
July	July 28, 2006	**0.10**	**272**
August	August 31, 2006	**0.11**	**291**
September	September 29, 2006	**0.11**	**294**
October	October 31, 2006	**0.11**	**299**
November	November 30, 2006	**0.11**	**300**
December	December 29, 2006	**0.12**	**331**
2006 Total		$ **1.26**	$ **3,337**

			2005	
		Distributions		
Month	Record date	Per unit		Amount
January - March	March 29, 2005	$ 0.27	$	339
April - June	June 28, 2005	0.27		347
July - August	August 29, 2005	0.20		395
September	September 30, 2005	0.10		248
October	October 31, 2005	0.10		248
November	November 30, 2005	0.10		256
December	December 31, 2005	0.10		257
2005 Total		$ 1.14	$	2,090

4. ANALYSIS OF OPERATIONS

12 months ended December 31, 2006

$000's	Aviation	Mfg	Fund [2]	Consol
Revenue	69,565	15,904	-	85,469
Expenses [1]	59,834	13,197	574	73,605
EBITDA	9,731	2,707	(574)	11,864

12 months ended December 31, 2005

$000's	Aviation	Mfg	Fund [2]	Consol
Revenue	52,924	4,343	-	57,267
Expenses [1]	46,331	3,566	349	50,246
EBITDA	6,593	777	(349)	7,021

1 Expenses excludes amortization and interest expense.

2 Fund is not a separate reportable segment. Fund includes expenses incurred at head office that are not allocated to the segments and is presented for reconciliation purposes.

REVENUE

Revenue reached $85.5 million in 2006, which was an increase of $28.2 million or 49% higher than the previous year. This increase was the result of a number of factors. The aviation segment had sales of $69.6 million in 2006, up from $52.9 million in 2005. The manufacturing segment had revenues of $15.9 million up from $4.3 million in the previous year.

The growth of the aviation segment can be broken into two main categories, firstly the effect of having 12 months of operation of Keewatin Air (it was acquired in July of 2005 and the 2005 results therefore only included the period from acquisition to the end of the year) and secondly organic growth in both the Perimeter and Keewatin operations. Keewatin generated sales of approximately $8.5 million in the first half of 2006 compared to zero in the same period of 2005 when it was not yet owned by EIIF. Organic growth in Perimeter for 12 months, and Keewatin for 6 months increased revenues by approximately $8.1 million.

The $8.1 million in organic growth achieved in 2006 amounts to a growth rate of 15%. This growth rate is the result of both increases in pricing and volume. While price increases were taken in most areas (medevac, passenger, freight etc.) of the aviation segment, they were implemented at different times during the year, and different percentage increases were taken in different operating areas. This makes it difficult to quantify the precise effect of these increases on total revenues. The balance was the result of increases in volume. The areas experiencing the strongest growth were the passenger and freight business at Perimeter and the medevac segment at Keewatin.

The growth in Perimeter's scheduled service is the result of an increase in the size of its fleet and the initiation of its own Dash 8 service (Dash 8 service was provided through a third party carrier on a test basis in the previous year) and the Tribal Council Investment Group (TCIG) marketing program. The growth in the Keewatin medevac business was the result of an increase in both the number and acuity level of the patients requiring transport from Nunavut to southern hospitals, and by an increase in the size of Keewatin's King air fleet which enabled it to deal with this increase in demand.

EBITDA

EBITDA for 2006 reached $11.9 million an increase of 69% over the $7.0 million generated in fiscal 2005. The aviation segment contributed EBITDA of $9.7 million, while the manufacturing division contributed EBITDA of $2.7 million and the Fund had expenses of $0.6 million.

The aviation segment contribution to EBITDA grew by 48% or $3.1 million from 2005 to 2006. This increase can be attributed to three main factors. Firstly, Keewatin was acquired by EIIF in July of 2005 and as such was only included in EIIF results for approximately six months in fiscal 2005. Keewatin is included in EIIF results for the full 12 months in 2006 which explains approximately $1.1 million of the increase in EBITDA. Secondly, as set out above in the discussion of sales, the airlines experienced organic growth of approximately 15%. This increase in sales, explains approximately $1 million of the increased EBITDA. Finally, the EBITDA margin (expressed as a percentage of sales) grew by 14% in 2006 from 12.3% in 2005 to 14.0% in 2006.

The increase in margins is the result of a number of factors, some of which served to strengthen margins while others were detrimental. Margins were significantly enhanced by a price increase taken by Perimeter in most departments early in the second quarter of 2006. Keewatin also implemented a price increase in certain service areas in order to offset significant increases in the cost of fuel. In addition, the price of fuel moderated somewhat later in the year. Perimeter received its 705 license from Transport Canada late in the second quarter which eliminated the need to operate this service under a wet lease from another supplier which resulted in a significant reduction in operating costs. Perimeter also benefited greatly from the increase in the size of its fleet over the last 24 months. It has reduced, all though not yet eliminated, the need to charter third party aircraft to meet customer demand. Perimeter also benefited from the completion of many of the new facilities at the Winnipeg International Airport (engine overhaul shop, non-destructive testing lab, increased hangar space etc.). These facilities enabled the company to more efficiently service the aircraft.

EBITDA margins were negatively impacted by several factors. Firstly, the price of fuel was dramatically higher than in 2005. Secondly, an increase in the demand for licensed aircraft technicians made hiring suitable staff a more difficult process than usual. This resulted in longer down times for aircraft for scheduled maintenance, increased overtime costs, and less efficient scheduling of the fleet. Third, the success of the Dash 8 aircraft created demand for this type of service on a regular basis into additional communities. In order to determine the long term viability of this aircraft in these communities, Perimeter wet leased an additional Dash 8 in the fourth quarter. The test proved to be successful and the company intends to purchase a second Dash 8 in early 2007, but the costs of wet leasing such an aircraft are very high and the costs of this project weighed heavily on margins in the fourth quarter.

EBITDA in the manufacturing division grew to $2.7 million in 2006 an increase of $1.9 million or 248% from 2005. This increase was the result of the fact that Jasper was not purchased by EIIF until September of 2005 and as such, the 2006 results include eight months of additional operations that are not included in 2005. Furthermore, Overlanders was not acquired until October of 2006, and as such there are no results from Overlanders in the 2005 results.

EBITDA margins have declined slightly from 2005. EBITDA margin in 2006 was 17%, down from 18% in 2005. This decline was the result of difficulties in the manufacturing process at Jasper. Demand for Jasper products was and remains very strong. Shortages in labour in the Alberta market made it difficult to obtain the necessary staff to ramp up to customer demand. In order to increase capacity, the company made several changes to its production methodologies which in the short term, exacerbated the issues. While overtime was utilized to the extent possible, this reduced margins and was not sufficient to satisfy the demand. The implementation of "Lean Manufacturing" processes began in the second half of 2006 and will continue for at least the first half of 2007. It is expected that these changes will not only increase volume but will also improve margins from those experienced in 2005 and 2006.

Results for Overlanders in the period it was owned by the Fund were in line with expectations.

Change in Corporate Tax Rates

In 2006, both the Federal government and Provincial governments in the provinces where the Fund's subsidiaries are subject to corporate taxes, announced changes to the enacted tax rates. These changes reduce the tax rate that will be in effect when the temporary differences between the accounting and tax basis, which are creating the future income tax assets and liabilities, are expected to reverse. When the changes in rates are applied to the temporary differences, the future income tax expense decreases $0.5 million. This adjustment to the future income tax expense results in a $0.18 increase in the net earnings per unit.

5. SUMMARY OF QUARTERLY RESULTS

				2006				2005
$000's (except per unit data)	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenue	22,856	20,727	21,910	19,976	20,668	16,209	11,599	8,791
EBITDA	2,643	3,310	3,292	2,619	1,415	2,261	1,941	1,404
Net earnings	1,031	1,471	1,415	1,099	320	1,059	996	683
Distributable cash	1,687	2,449	2,178	1,486	1,136	1,342	1,145	918
Earnings per unit:								
Basic	0.38	0.56	0.55	0.43	0.13	0.51	0.79	0.54
Diluted	0.35	0.46	0.46	0.38	0.13	0.43	0.62	0.45
Distributable cash per unit:								
Basic	0.62	0.93	0.84	0.58	0.45	0.65	0.91	0.74
Diluted	0.49	0.69	0.66	0.48	0.39	0.51	0.70	0.58

6. REVIEW OF Q4 2006 RESULTS

The fourth quarter results for 2006 showed significant improvement from 2005. Sales increased by 11% to $22.9 million while EBITDA increased by 87% to $2.6 million. Net earnings were $1.0 million up 222% from the previous year. Earnings on a per unit basis were $0.38 an increase of 192% from 2005. Distributable cash was $0.62 per unit ($0.49 fully diluted) up 38% (26% fully diluted) from 2005. As referenced in the Analysis of Operations, there was a change in the enacted tax rates in 2006. This change results in an increase in the 2006 fourth quarter net earnings of $0.18 per unit.

The first and fourth quarters of the year are typically weaker than the second and third. The fourth quarter has the holiday period which typically includes the loss of up to a full week of production in the manufacturing entities. This period without production reduces revenue without a corresponding drop in staffing costs. The holiday period also puts pressure on the aviation segment but in a different manner. The passenger and freight volumes are very high in the period up to Christmas, but in the last two weeks in particular most of the volume is northbound (as people and gifts go north in time for Christmas). In order to meet the customer requirements it is necessary to add additional flight segments to handle all of the north bound traffic. Unfortunately the southbound demand is light, and little revenue is generated on this portion of the trip. As such, while strong revenue is normal, margins are typically poor.

The sales increase in the fourth quarter of 11% or $2.2 million was the result of both an acquisition and organic growth. The acquisition of Overlanders in October of 2006 added $1.5 million in revenue to the fourth quarter. Organic sales growth of the Fund's other subsidiaries contributed $0.7 million, an increase of $0.4 million in the aviation segment and an increase of $0.3 million at Jasper.

The fourth quarter of 2006 was much better than the corresponding period last year, but it was still short of expectations. While EBITDA more than doubled from the preceding year, it fell 20% from the EBITDA that EIIF generated in the second and third quarters of 2006. The lower profitability occurred for a number of reasons, which are specific to each entity.

The aviation segment experienced strong profitability in its Keewatin business and weak profitability in its Perimeter business in the fourth quarter. The EBITDA of Perimeter suffered for two reasons. Firstly, it wet leased a second Dash 8 in the fourth quarter to test the effectiveness of operating two aircraft of this size and to increase capacity during the busy Christmas season. The test was successful, and Perimeter intends to purchase a second Dash 8, but the costs of wet leasing are high. Secondly, maintenance costs are not incurred evenly throughout the year, and Perimeter had a higher number of planes down for heavy maintenance than it had during the first three quarters of the year. As a result, maintenance costs were high, as were third party charter costs for replacement aircraft.

The fourth quarter of 2006 was Keewatin's most profitable quarter since it was acquired. This was a result of continued strong medevac demand coupled with an increasing demand for its scheduled and charter services. The increased demand for its scheduled service and charters are a result of an increased focus by Keewatin's management to grow this portion of their business to further complement their outstanding medevac service.

The manufacturing segment had strong profitability in the newly acquired Overlanders while profitability was below expectations at Jasper. During the fourth quarter, Jasper was in the process of introducing some lean manufacturing initiatives. This process has led to increased overhead costs, as well as slower production as some processes are reworked. This was compounded by the lost labour during the Christmas season, resulting in lower fourth quarter EBITDA. Meanwhile, Overlanders was integrated seamlessly into EIIF's manufacturing segment and installed a new laser with only minor disruption in production.

7. LIQUIDITY & CAPITAL RESOURCES

LIQUIDITY

As at December 31, the Fund had a net working capital of $13.8 million or a current ratio of 2.1 to 1. The Fund has authorized lines of credit in its subsidiaries of $2.5 million. There were no amounts outstanding under these facilities at December 31, 2006.

CAPITAL RESOURCES

At December 31, 2006 the Fund had total revolving term debt facilities of $31 million with $24 million outstanding. The undrawn amount of $7 million is allocated to the purchase of a second Dash 8 and to fund the replacement of the leased Pilatus PC12 aircraft with owned twin engine aircraft.

	Date issued	Number of units
Units outstanding, beginning of year		2,566,077
Units issued upon conversion of debentures	various	114,649
Units issued to trustees and employees	June 8, 2006	12,465
Units issued for TCIG commissions	June 8, 2006	25,532
Units issued to Overlanders vendors	October 23, 2006	44,390
Units outstanding, end of year		2,763,113

9% SENIOR SECURED, MAY 7, 2009 MATURITY CONVERTIBLE AT $9.00 ($000's, par value)		
Debentures outstanding, beginning of year	$	3,754
Debentures issued		-
Debentures converted into units		(758)
Debentures outstanding, end of year		2,996

8% SENIOR SECURED, JULY 8, 2010 MATURITY CONVERTIBLE AT $11.50 ($000's, par value)		
Debentures outstanding, beginning of year	$	5,325
Debentures issued		-
Debentures converted into units		(350)
Debentures outstanding, end of year		4,975

8% SENIOR SECURED, SEPTEMBER 1, 2010 MATURITY CONVERTIBLE AT $13.25 ($000's, par value)		
Debentures outstanding, beginning of year	$	2,500
Debentures issued		-
Debentures converted into units		-
Debentures outstanding, end of year		2,500
8% SENIOR SECURED, AUGUST 12, 2011 MATURITY CONVERTIBLE AT $13.25 ($000's, par value)		
Debentures outstanding, beginning of year	$	-
Debentures issued		7,000
Debentures converted into units		-
Debentures outstanding, end of year		7,000
Total debentures outstanding	$	17,471

CONTRACTUAL OBLIGATIONS

	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	$ 24,049	$ -	$ 24,049	$ -	$ -
Operating leases	3,895	820	645	523	1,907
Total contractual obligations	27,944	820	24,694	523	1,907

8. RELATED PARTY TRANSACTIONS

($000s)

The Fund enters into transactions with 2811065 Manitoba Ltd, which is owned by a former trustee of the Fund who is now a director of EIIF Management GP Inc. These transactions are in the normal course of operations and at market terms and conditions.

During the year ended December 31, 2006, the Fund purchased $472 of fuel (2005 - $2,693), paid $60 in aircraft lease expenses (2005 - $137), received $57 in rent revenues from 2811065 Manitoba Ltd (2005 - $133), and purchased an aircraft and an additional engine for a combined $882 (2005 - nil). The receivable from 2811065 Manitoba Ltd. at December 31, 2006 is $4 (2005 - $384).

The Fund has a marketing agreement with Tribal Council Investment Group ("TCIG"), whose President is a former trustee of the Fund who is now 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. During the year ended December 31, 2006, the Fund paid commissions of $357 (2005 - $365). The payable to TCIG at December 31, 2006 is $357 (2005 - $300).

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 values 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 and customer relationships. 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, among others, the determination of projected revenues, cash flows, customer retention rates, discount rates, and anticipated average income tax rates.

Goodwill Impairment

Goodwill is not amortized and is assessed for impairment at least annually. Any potential goodwill impairment is identified by comparing the fair value of the business to its carrying value. A goodwill impairment loss would be recognized to the extent that the carrying value of goodwill exceeds the implied fair value. Fair value of goodwill is estimated in the same manner that the Fund uses to determine fair value upon the acquisition of a business. Significant assumptions include, among 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 regulated operating life of the engine. The accrual rate is reviewed annually to ensure that the costs have not changed significantly.

CHANGES IN ACCOUNTING POLICIES

The Fund did not adopt any changes to existing accounting policies in 2006.

The CICA has issued three new accounting standards:

• Section 3855, Financial Instruments – Recognition and Measurement, effective for fiscal years beginning on or after October 1, 2006. This section describes the standards for recognizing and measuring financial instruments in the balance sheet and the standards for reporting gains and losses in the financial statements. Financial assets available for sale, assets and liabilities held for trading and derivative financial instruments, part of a hedging relationship or not, have to be measured at fair value. The impact of remeasuring our financial assets and liabilities at fair value will be recognized in opening deficit and opening accumulated other comprehensive income as appropriate. The impact of the adoption of this new section on the consolidated financial statements is not expected to be material.

• Section 1530, Comprehensive Income, effective for fiscal years beginning on or after October 1, 2006. It describes reporting and disclosure recommendations with respect to comprehensive income and its components. Comprehensive income is the change in Unitholders' equity, which results from transactions other than those resulting from investments by Unitholders and distributions to Unitholders. These transactions and events include unrealized gains and losses resulting from changes in fair value of certain financial instruments.

• Section 3865, Hedges, effective for fiscal years beginning on or after October 1, 2006. The recommendations expand the guidelines outlined in Accounting Guideline 13 ("AcG-13"), Hedging Relationships. This Section describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from the derivative financial instruments in the same period as for those related to the hedged item. The adoption of this new section will not effect the consolidated financial statements as the Fund does not currently apply hedge accounting.

These standards will be effective for the Fund as of January 1, 2007 and will be adopted on a retroactive without restatement basis.

10. CONTROLS & PROCEDURES

Internal Control over Financial Reporting
Management is responsible for establishing and maintaining internal controls over financial reporting in order to provide reasonable assurance with regard to the reliability of financial reporting and preparation of financial statements in accordance with Canadian generally accepted accounting principles.

An assessment of internal controls over financial reporting was conducted by the Fund's management, under the supervision of the Chief Executive Officer and Chief Financial Officer, as of the end of the period covered in the annual filings. Based on that assessment, management has concluded that the design of internal controls over financial reporting is effective to provide reasonable assurance, with the exception of certain information technology controls. 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 which will carry forward into 2007.

There have been no material changes to the Fund's internal controls during the year that have materially affected or are likely to materially affect the internal controls over financial reporting.

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 appropriately 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 have been evaluated by management as at December 31, 2006 and have been 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 operations of the subsidiary companies.

Interest Rates
The Fund has outstanding net secured bank debt of $24.0 million that bears interest at a floating rate. A one-percentage point increase in average interest rates would cost the Fund approximately $240,000 per annum. The convertible debentures have fixed interest rates which are not affected by changes in rates. The Fund has the option with its lenders to fix the rate on all or a portion of its floating rate debt. The Fund paid out 43% of its distributable cash in 2006 (55% 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 in the average cost of fuel increases the operating costs of the segment by approximately $140,000. A fuel surcharge will be implemented should prices warrant and certain key contracts contain automatic escalator clauses. 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, a significant escalation in fares might negatively impact demand for services. A change in the competitive environment on any of our routes might also limit our ability to pass on cost increases to the customer.

The Jasper Tank operation acts somewhat as a hedge to increasing fuel prices. Increased oil prices increase the demand for Jasper's products as additional wells are brought into production. Conversely, declining oil prices could reduce revenues at Jasper.

Competition
All of the Fund's subsidiaries are market leaders in their respective geographical markets. The Fund recognizes that there are threats in their operating environments, 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 sector 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 is mitigated by two key factors: Perimeter's relationship with TCIG, which enables Perimeter to focus on its customers' demands; and Keewatin's strong relationship with the Nunavut government, which is based on their strong service record.

The manufacturing segment focuses on specific geographical regions and these regions are currently experiencing strong demand and growth. Jasper currently has a production backlog due to customer demand. It recognizes that the high demand for its products and the strong market creates the risk that new entrants may enter the market. In order to maintain positive customer relationships and a loyal customer base, Jasper is continuously working with the customer to ensure that their needs are met. Overlanders operates in a competitive market segment where changes in the economy can effect competition significantly. Overlanders customer relationships mitigate this somewhat.

Nunavut Medevac Contract

Keewatin has a medical evacuation contract with the Government of Nunavut, which provides Keewatin with the exclusive rights to provide medical evacuations to 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. The contract expires in 2008, when Keewatin expects the contract to be put up for tender. Failure to win the contract would have a significant negative effect on Keewatin's business.

This risk factor is mitigated by Keewatin's relationship with the Nunavut government and their proficiency in long distance medical evacuation for the most acute level of care. Keewatin has been performing medevacs in the Kivalliq region since 1971 and has integrated its services with 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.

Tax Related Risks

In the 2005 MD&A, management disclosed that it was subject to the risk that the taxation of mutual fund trusts could change at any time. This risk became a reality on October 31, 2006, when Canada's Minister of Finance announced proposed changes to the taxation of publicly traded income trusts and other flow-through entities. This was followed by the release of draft legislation by the Department of Finance on December 21, 2006. The 2006 Proposed Amendments, if enacted as currently drafted, will subject the Fund to trust level taxation as of January 1, 2011. In addition, the taxable distributions received by investors from the Fund, would be treated as taxable dividends.

The Fund expects to be able to absorb the proposed tax because of its conservative payout ratio before considering any mitigating factors. However, the following mitigating factors will lower the Fund's increase in effective tax rate. The Fund's operating subsidiaries have loss carry-forwards available; the Fund's operating subsidiaries have a high level of tax depreciation available on their capital assets; and some of the Fund's operating subsidiaries currently pay taxes.

Further change to the income tax legislation is a still a risk as the legislation is only in draft form. This risk and further implications of this proposed change in income tax legislation is discussed in the Outlook of the MD&A.

Capital Markets

One of the objectives of the Fund is continuing acquisition of 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 demand of investors for income producing investments, such as EIIF, were to significantly decrease, the Fund would have difficulty in executing its acquisition objective.

12. OUTLOOK

Acquisition Strategy

The Fund's acquisition team continues to examine a steady flow of suitable acquisition prospects that meet its investment criteria. EIIF expects to continue to acquire these target companies at purchase multiples that will result in accretive distributable cash on a per unit basis.

However, the October 31, 2006 proposed changes to the taxation of publicly-traded income trusts and other flow-through entities raised concerns that the Fund would not have access to equity capital to enable it to execute its acquisition strategy according to its conservative financing model.

Further clarification was provided on December 21, 2006 when it was confirmed that limited amounts of equity could be raised on a go forward basis. For EIIF, the effective amount of equity that can be raised annually without jeopardizing EIIF's income trust status is $50 million per year for the years 2007 through to 2010. This cap is not expected to impede EIIF's acquisition strategy.

The proposed change in the taxation of income trusts also raised concerns as to whether there would be demand for income producing securities such as EIIF's units. This concern was answered in early 2007 when EIIF announced that it would complete a private placement to raise capital to complete its previously announced acquisition of Water Blast. The offering was very well received by the capital markets. EIIF initially announced that it would raise $10 to $15 million and due to demand, EIIF completed an offering for the full $15 million. More than $15 million was available from the capital markets at the close of this financing, however the Fund is committed to not raise significantly more capital than it requires in advance of acquisitions so that it is not pressured to complete acquisitions that are not accretive to its unitholders.

Perimeter Aviation Ltd.

Perimeter has experienced significant growth in all of its core business sectors over the past 24 months and has experienced a corresponding increase in market share in several markets. To handle the increased volume of business, Perimeter has significantly expanded its fleet and has obtained a 705 operating license for the newly purchased Dash 8, which was one of four aircraft purchased in 2006. These purchases are in addition to the eight aircraft that Perimeter purchased in 2005 and brought online during 2005 and early 2006. The Dash 8 can seat up to 37 passengers plus the crew and is a larger aircraft than Perimeter's common aircraft used, which is the 19 seat Metroliner. Perimeter obtained this aircraft to service its largest community, where the demand for Perimeter's service had outgrown the capacity of the Metroliner aircraft. This was Perimeter's first Dash 8 and the reception of the aircraft by the community has been positive. The Dash 8 also operated within the cost structure and performance experience that Perimeter expected. As such, Perimeter started the testing of a second Dash 8 in a second community on a wet lease basis in the latter half of 2006 early 2007. This test was successful and Perimeter will purchase another Dash 8 in 2007 to service this second community where the demand for Perimeter's service can sustain the operation of a Dash 8.

Perimeter is continuing to expand its facilities to service its growing customer base and its expanded fleet. In addition to the completion of its 11,200 sq ft engine overhaul shop and office space in early 2006, Perimeter has also built an additional 13,200 sq ft of hangar space, and has commenced the building of a brand new 12,080 sq ft cargo building which will be completed in early 2007. These expanded facilities at the Winnipeg International Airport will not only enable Perimeter to better service its customer and its growing freight business, but it will also enable the move of Keewatin from its current leased facilities to the expanded facilities.

Perimeter does expect new competition in certain geographic markets and market segments. In early 2007, Perimeter has seen a midsize airline from northern Ontario enter some its markets. Management believes that Perimeter's expanded fleet and facilities places Perimeter in a strong position to deal with this new competitor and any additional competition which may arise. However this increased competition will put some strain on the revenue and margins of Perimeter in 2007.

In 2006, Perimeter experienced high third party charter costs and these high costs will continue until Perimeter purchases its second Dash 8 in early 2007. After this acquisition, Perimeter should be able to significantly reduce its third party charter costs. The increased fleet will also give Perimeter the ability to provide more charter services.

Jet fuel prices remain high, but have dropped by 15% from the peak in August of 2006. Perimeter has operational controls to continually monitor the price of fuel and to respond swiftly when fuel surcharges are deemed to be appropriate.

The labour market for both pilots and aircraft mechanics has contracted significantly in the past year. Perimeter has started to feel the effect of this tightened labour market, especially on the maintenance side. This will result in increased expenses in the first quarter of 2007, as there will be increased maintenance overtime, more aircraft down time, and increased third party charters. Perimeter will continue to develop its mechanic depth and is currently in the process of adding additional staff.

Keewatin Air Limited

Keewatin operations experienced a steady increase throughout 2006. The company's core medevac operation increased significantly and the schedule and charter service experienced strong growth in the latter half of 2006 (note:

the prior year includes Keewatin ownership under EIIF for part of the year and the previous owners for part of the year). The schedule and charter revenue second half increase was driven by an increased focus on this market and identifying the needs of its passenger base. These initiatives produced superior results, which should continue in 2007.

To service the increased medevac business, Keewatin purchased an additional Beechcraft King Air aircraft in late 2005, which entered into service in April 2006 and entered into a medium term lease for another King Air in 2006. With these two additions, Keewatin operates a total of five King Airs to provide its medevac services.

During 2006, Keewatin performed a detailed operational and financial analysis of its fleet composition and determined that operational efficiency could be increased if Keewatin switched its scheduled and charter aircraft from PC-12 Pilatus single engine aircraft to Beechcraft 1900C twin engine aircraft. This change in fleet structure will result in a common platform of Beechcraft aircraft operated by Keewatin, which will result in both maintenance and pilot efficiencies. The larger 1900C aircraft, which has 19 seats vs. the 9 seat PC-12 Pilatus, will enable Keewatin to handle the increased demand that it is experiencing on its scheduled service. The addition of a larger twin engine aircraft to the fleet will also enable Keewatin to secure more charter work, specifically Manitoba Government charter work, which can only be performed by twin engine aircraft.

Keewatin has experienced some delays in the procurement of the 1900C's because the used aircraft market is very strong. This problem was compounded in late 2006, when Keewatin was notified that its leased planes would be called back early. These two factors have resulted in additional 3rd party lease costs in 2007 which will continue until Keewatin is able to add two 1900C's to its fleet. This shortage of aircraft also reduces Keewatin's ability to provide charter services, thus also resulting in lower revenue. In March 2007, Keewatin completed the purchase of its first 1900C which also went into service in March.

Keewatin will be leaving its current leased premises and will join Perimeter in the newly expanded facilities at the Winnipeg Airport. It will remain as a separate operating entity.

Jasper Tank Ltd.

The regional demand for custom manufactured truck mounted tanks for companies servicing the oil and gas industry and those in other industries, remained strong in 2006. Jasper Tank largely services the Alberta region, and that economy continues to be strong and the demand for Jasper's products remains high. The company's order book, reflects several months of sold out capacity. The advantage of a strong order book is reliable revenue, and the ability to schedule production to maximize profitability. A lack of available production however limits sales growth and has considerable opportunity cost. Management is examining alternatives to increase capacity and take advantage of the growing market. These opportunities are both internal and external.

Internally, Jasper Tank has initiated several lean manufacturing projects to increase internal throughput. Several projects are underway which are expected to increase capacity when complete. These current initiatives are expected to be implemented over the next several months. Although management hopes to implement these changes with minimal disruption, it is possible that short term production could be affected. Nevertheless, the company's management anticipates these will be more than offset by the long term benefits.

The regional market for labor appears to be softening and the company is evaluating the addition of more staff . The increased staff would be focused on expanding capacity.

The acquisition of Overlanders added a complementary production capability of component parts to Jasper Tank. The ability to subcontract to Overlanders while continuing to produce a high quality finished product, would allow an increased throughput at Jasper by redeploying Jasper staff to higher value functions within the plant. Jasper Tank began receiving parts produced at Overlanders in late March of 2007.

Jasper's management will be meeting with management from recently acquired Water Blast to explore joint initiatives aimed at attracting new markets or products.

The company continues to examine other external strategic initiatives aimed at augmenting capacity and diversifying its tank production outside of the oil and gas industry. EIIF is investigating possible acquisitions both in different kinds of tank manufacturing as well as tank manufacturers in new territories that would have synergies with Jasper Tank.

Overlanders Manufacturing LP

Overlanders' customer base for precision metal products such as CNC stamped or laser cut products as well as assemblies, is largely on a regional basis, so sales have a direct correlation to the local economy. Despite a saturation of that regional market, Overlanders continues to maintain a stable market share.

As part of the Overlanders acquisition, additional laser cutting capacity was added in December 2006. The newly added laser is now operational and has both reduced the previous capacity bottleneck and added a layer of equipment redundancy to provide Overlanders' customer base with a higher level of assurance.

Prior to EIIF's acquisition, the company's historical marketing efforts were limited to growth of existing customers and word of mouth sales. Post acquisition, the company has hired an external sales person with industry experience, to be its external sales manager.

Overlanders' does have some exposure to the housing and construction industry in so far as their largest customer is a supplier to it. Despite the recent decline in the North American housing industry, Overlanders' customer has remained stable, but the neither the future strength of the housing market nor Overlanders' customer demand within it, can be predicted at this time.

In addition to the parts that Overlanders is subcontracting for Jasper Tank, the company has begun pursuing other opportunities within the Alberta marketplace.

The management teams of Overlanders and Water Blast will also be meeting to explore any opportunities to have Overlanders produce parts for Water Blast similar to the arrangement with Jasper Tank. This subcontracting would be aimed at increasing the number of units Water Blast can produce and improving the financial performance of both companies.

With the addition of the new sales person and the laser cutter, management feels that they are well equipped to deal with competitors in the existing market place.

Water Blast Manufacturing LP

The core business of both sales of Hotsy pressure washing equipment and parts, as well as custom manufactured Water Blast products continue to be stable year over year. The areas of parts availability, service expertise, and custom application continue to position Water Blast well against its competitors.

Although only 10% of Water Blast's sales are directly to the oil and gas industry, many of their other sales are made to industries supplying the oil and gas industry, so the company's sales have a positive correlation with the overall Alberta economy. Despite the strong regional economy, Water Blast has been able to keep its core labor force, and management believes they are well positioned to remain an employer of choice going forward.

As part of the Water Blast acquisition, the company was granted two new distribution territories by Hotsy. The two exclusive territories are Lloydminster, Saskatchewan and Fort St. John, BC. These sales offices will not only sell Hotsy products but also the custom manufactured products produced by Water Blast.

In addition to the territories granted by Hotsy above, Water Blast is currently reviewing the acquisition of other existing Hotsy distributors.

With current manufacturing and storage capacity close to 100%, Water Blast will be leasing additional space at its current location. The landlord is expanding its Edmonton manufacturing and warehouse facility from 27,000 sq ft to 57,000 sq ft. The construction is in progress and preliminary estimates are for the new space to be available in June 2007.

Management of Water Blast and Jasper Tank will also be meeting to discuss some joint initiatives. Water Blast currently sees a market for manufacturing some joint products and as well, supply arrangements with Jasper Tank to provide it with some of its manufactured products.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Exchange Industrial Income Fund for the year ended December 31, 2006 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.

April 4, 2007

A.Terwin

Adam S. Terwin
Chief Financial Officer

Mike 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, 2006 and 2005, and the Consolidated Statements of Operations and Cumulative Earnings, and cash flows for the year ended December 31, 2006 and 2005. 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, 2006 and 2005 and the results of its operations and its cash flows for the year ended December 31, 2006 and 2005 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.
Chartered Accountants

Winnipeg, Manitoba
April 4, 2007

CONSOLIDATED BALANCE SHEETS

(amounts in thousands of dollars)

	December 31 2006	December 31 2005
ASSETS		
CURRENT		
Cash and cash equivalent	**$ 4,603**	$ -
Accounts receivable	**11,002**	11,531
Inventory	**10,487**	7,720
Prepaid expenses	**552**	469
Future income tax (Note 13)	**185**	448
	26,829	20,168
CAPITAL ASSETS (Note 4)	**48,591**	41,556
DEFERRED CHARGES (Note 5)	**1,499**	1,258
INTANGIBLE ASSETS (Note 6)	**836**	498
GOODWILL (Note 6 & 7)	**12,292**	10,353
	$ 90,047	$ 73,833
LIABILITIES		
CURRENT		
Bank indebtedness	**$ -**	$ 129
Accounts payable and accrued expenses	**12,242**	11,110
Deferred revenue	**774**	401
	13,016	11,640
LONG-TERM DEBT (Note 9)	**24,049**	20,138
CONVERTIBLE DEBENTURES (Note 10)	**16,404**	10,809
OVERHAUL ACCRUAL (Note 2(k))	**2,160**	1,017
FUTURE INCOME TAX (Note 13)	**4,736**	4,816
	60,365	48,420
UNITHOLDERS' EQUITY		
Trust units (Note 11)	**25,310**	23,178
Convertible debentures - equity component (Note 10)	**1,344**	887
Cumulative earnings	**9,243**	4,226
Cumulative distributions (Note 12)	**(6,215)**	(2,878)
	29,682	25,413
	$ 90,047	$ 73,833

Approved on behalf of the trustees by:

Duncan Jessiman, Trustee   Donald Streuber, Trustee

CONSOLIDATED STATEMENTS OF OPERATIONS AND CUMULATIVE EARNINGS

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

	12 months ended December 31 2006	12 months ended December 31 2005
REVENUE	**$ 85,469**	$ 57,267
EXPENSES		
Direct operating	**58,665**	41,683
General and administrative	**14,940**	8,563
Interest	**2,828**	1,357
Depreciation and amortization	**3,655**	2,181
	80,088	53,784
EARNINGS BEFORE INCOME TAXES	**5,381**	3,483
INCOME TAX EXPENSE (Note 13)		
Current	**445**	(88)
Future	**(81)**	513
	364	425
NET EARNINGS FOR THE PERIOD	**$ 5,017**	$ 3,058
Cumulative earnings, beginning of period	**4,226**	1,168
CUMULATIVE EARNINGS, END OF PERIOD	**$ 9,243**	$ 4,226
EARNINGS PER UNIT (Note 5)		
Basic	**$ 1.91**	$ 1.72
Diluted	**$ 1.64**	$ 1.48

CONSOLIDATED STATEMENT OF CASH FLOWS

(amounts in thousands of dollars)

	12 months ended December 31 2006	12 months ended December 31 2005
OPERATING ACTIVITIES		
Net earnings for the period	**$ 5,017**	$ 3,058
Items not affecting cash:		
Depreciation and amortization	**3,655**	2,181
Accretion of interest on convertible debentures	**187**	100
Trust units issued for services	**446**	213
Overhaul accrual	**927**	(67)
Future income tax	**183**	289
	10,415	5,774
Changes in non-cash operating working capital items:		
Accounts receivable	**1,703**	(2,841)
Inventory	**(2,388)**	(2,391)
Prepaid expenses	**7**	430
Accounts payable and accrued charges	**566**	3,736
Deferred revenue	**373**	4
	10,676	4,712
FINANCING ACTIVITIES		
Repayment of debt	**-**	(3,251)
Proceeds from long-term debt, net of issuance costs	**3,813**	12,590
Proceeds from issuance of convertible debentures, net of issuance costs	**6,446**	7,251
Proceeds from issuance of trust units, net of issuance costs	**550**	10,376
Cash distributions to unitholders	**(3,337)**	(2,090)
	7,472	24,876
INVESTING ACTIVITIES		
Purchase of capital assets, net of disposals	**(7,257)**	(15,070)
Cash outflow for acquisitions, including acquisition costs	**(6,160)**	(14,437)
Cash (bank indebtedness) acquired in acquisitions	**1**	(515)
	(13,416)	(30,022)
NET INCREASE (DECREASE) IN CASH POSITION	**4,732**	(434)
CASH (BANK INDEBTEDNESS) POSITION, BEGINNING OF PERIOD	**(129)**	305
CASH (BANK INDEBTEDNESS) POSITION, END OF PERIOD	**$ 4,603**	$ (129)

Supplementary cash flow information		
Interest paid	**$ 2,412**	$ 973
Income taxes paid	**$ 181**	$ -

NOTES TO 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.

The principal wholly-owned operating subsidiaries of the Fund are Perimeter Aviation Ltd. ("Perimeter"), Jasper Tank Ltd. ("Jasper"), and Overlanders Manufacturing LP ("Overlanders"). Keewatin Air Ltd. ("Keewatin") and 4873999 Manitoba Ltd. are wholly owned subsidiaries of Perimeter. Through the Fund's subsidiaries, products and services are provided in two business segments: aviation and manufacturing.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

a) *Principles of Consolidation*

The consolidated financial statements at December 31, 2006 include the accounts of the Fund, and its wholly owned subsidiaries Perimeter, Jasper, and Overlanders. 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 and sales of manufacturing products.

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. 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 of cash and temporary investments consisting of highly liquid investments. Interest is recorded on an accrual basis.

d) *Inventory*

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 cost of materials and labour, plus applicable overhead.

e) *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%

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

Other	25% - 30%
Leasehold improvements	over term of lease

f) ***Deferred Charges***

The Fund has deferred charges directly associated with obtaining certain financing. These charges include closing costs as well as professional fees and other costs that are related to obtaining the financing. These costs are amortized over the life of the related debt.

g) ***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. No assets were determined to be impaired in 2006.

h) ***Intangible Assets***

Intangible assets are recorded at cost. The Fund does not have any intangible assets with indefinite lives. 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

i) ***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.

j) ***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 unitholders. 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.

k) ***Proposed Canadian Income Tax Rule Changes***

On October 31, 2006, the Department of Finance of the Canadian Federal Government announced the "Tax Fairness Plan" whereby the income tax rules applicable to publicly traded trusts and partnerships (the "Proposed legislation") will be significantly modified. In particular, income earned by these entities will be taxed in a manner similar to income earned and distributed by a corporation. The proposed legislation will be effective for the 2007 taxation year with respect to trusts which commence public trading after October 31, 2006, but the application of the rules will be delayed to the 2011 taxation year with respect to trusts which were publicly traded prior to November 1, 2006 provided that certain "normal growth" guidelines are met.

Currently, the Fund is only taxable on amounts that are not distributed to Unitholders. If enacted in its current form, the proposed legislation will result in a change in which the earnings of the Fund will be subject to income tax regardless of whether amounts are distributed to the Unitholders or not.

The Fund is currently considering the possible impact of the proposed legislation. However, the proposed legislation has not yet been substantively enacted, and therefore the impact of the implementation is uncertain as of the balance sheet date, and as such, no amounts have been recorded in the financial statements.

l) ***Overhaul Accrual***

As revenue is earned through the operation of the aircraft, the Fund accrues for the required cost of periodic engine overhauls based on the engine hours flown.

m) ***Financial Instruments***

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, the Fund has a large number of customers, which minimizes the concentration of credit risk.

Foreign Currency Risk
The foreign currency risk arises from fluctuations in foreign exchange rates, and the degree of volatility of those rates. The Fund has not used derivative instruments to reduce its exposure to foreign currency risk.

Interest Rate Risk
The Fund is subject to interest rate risk due to fluctuations in the prime rate of interest and the degree of volatility of this rate. The Fund has not used derivative instruments to mitigate this risk.

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. 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. For the Fund's convertible debentures fair value 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.

Equity Settled Obligations
In the period ended December 31, 2004, the Fund early adopted the amended recommendations of the Canadian Institute of Chartered Accountants ("CICA") for the presentation and disclosures of financial instruments (CICA Handbook Section 3860) specifically concerning the classification of obligations that an issuer can settle by delivering its own equity instruments. The amended recommendations resulted in the Fund's convertible debentures being classified primarily as debt (Note 10).

n) ***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.

o) ***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, valuation of intangibles, goodwill, impairment of assets, provision for warranty, engine overhaul accrual rates, useful life for amortization, future income taxes, and deferred costs. Results as determined by actual events could differ from these estimates.

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

Future Accounting Changes – Financial Instruments

In January 2005, the CICA issued four new accounting standards: CICA 3855, Financial Instruments – Recognition and Measurement, CICA 3865, Hedges, CICA 1530, Comprehensive Income and CICA 3251, Equity.

These standards become effective for fiscal years beginning on or after October 1, 2006 and are applicable to the Company as of January 1, 2007. These standards require that all financial assets be classified as available for sale, held to maturity, trading or loans and receivables. The standards require that all financial assets be carried at fair value in the Consolidated Balance Sheets. Financial liabilities must be classified as either trading or loans and receivables which would be carried at fair value, or other, which would be carried at amortized cost using the effective interest method.

Changes in the fair value of trading securities are required to be reported in earnings and unrealized gains and losses on financial assets that are available for sale are required to be recorded in other comprehensive income until realized or impaired, at which time they are required to be recorded in the Consolidated Statements of Operations and Cumulative Earnings. All derivatives including embedded derivatives that must be separately accounted for, must be recorded at fair value in the Consolidated Balance Sheets and the changes in fair value must be recorded in the Consolidated Statements of Operations and Cumulative Earnings.

The Consolidated Statements of Comprehensive Income will be included in the Company's financial statements. Unrealized gains and losses on financial assets that will be held as available for sale and unrealized foreign currency translation gains and losses will be recorded in the Consolidated Statements of Comprehensive Income until recognized in the Consolidated Statements of Operations and Cumulative Earnings. Accumulated other comprehensive income will form part of unitholders' equity.

Transitional adjustments arising due to remeasuring financial assets classified as available for sale and hedging instruments designated as cash flow hedges will be recognized in the opening balance of accumulated other comprehensive income. Transition adjustments are not expected to be significant.

3. ACQUISITIONS

2006
Overlanders

On October 23, 2006, the Fund acquired certain assets owned by Overlanders Manufacturing Inc. and Overlanders Products Inc., comprising the business known as "Overlanders", for an aggregate price of $6,060. Overlanders is an ISO-9001 certified leading fabricator of precision sheet metal and tubular products serving companies in a diversified mix of industries in British Columbia and the Pacific North West of the United States. The results of operations are included in the Fund's Consolidated Statements of Operations and Cumulative Earnings since the date of acquisition.

The aggregate purchase price consists of cash and units of the Fund, as summarized below. The value of the units issued for consideration to the vendors was determined based on market price.

Cash	$ 5,468
Issue of 44,390 units of the Fund	550
Acquisition costs	42
Total consideration	$ 6,060

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

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

Fair value of assets acquired:	
Cash	$ 1
Accounts receivable	1,173
Inventory	379
Prepaid expenses	90
Capital assets	2,416
Intangible assets	632
	$ 4,691
Less fair value of liabilities assumed:	
Accounts payable and accrued expenses	570
	$ 570
Fair value of identifiable net assets acquired	4,121
Goodwill	1,939
Total purchase consideration	$ 6,060

Of the $632 of acquired intangible assets, $197 was assigned to contracts, $382 was assigned to customer relationships, and $53 was assigned to the production backlog. All the intangible assets are subject to amortization. The goodwill acquired was assigned to the manufacturing division. The goodwill and intangible assets are deductible for tax purposes.

2005
Keewatin

On July 8, 2005, the Fund acquired 100% of the shares of Keewatin Air Ltd. and Nunavut Lifeline Ltd., comprising the business known as "Keewatin", for aggregate consideration of $5,072. Keewatin operates from bases in Winnipeg and Rankin Inlet providing Medevac and charter services, as well as a scheduled airline. Keewatin operates the Medevac business under the trade name Nunavut Lifeline and its scheduled airline as "Kivalliq Air". The results of operations are included in the Fund's Consolidated Statements of Operations and Cumulative Earnings since the date of acquisition.

Cash	$ 4,607
Issue of 34,146 units of the Fund	350
Acquisition costs	115
Total consideration	$ 5,072

The aggregate purchase price consists of cash and units of the Fund, as summarized below. The value of the units issued was determined based on the unit offering price pursuant to the public offering on July 8, 2005.

Fair value of assets acquired:	
Accounts receivable	$ 3,260
Inventory	492
Prepaid expenses	254
Future income tax asset	322
Capital assets	5,611
Intangible assets	63
	$ 10,002
Less fair value of liabilities assumed:	
Bank indebtedness	1,115
Accounts payable and accrued expenses	1,618
Deferred revenue	45
Long-term debt	3,251
Engine overhaul accrual	275
Future income tax liability	1,478
	$ 7,782

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

Fair value of identifiable net assets acquired	2,220
Goodwill	2,852
Total purchase consideration	$ 5,072

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

The intangible asset acquired was assigned to the Medevac contract that is subject to amortization. The goodwill acquired was assigned to the aviation division. The goodwill and intangibles are not deductible for tax purposes.

Jasper Tank

On September 1, 2005, the Fund acquired 100% of the shares of 398496 Alberta Inc., and certain assets owned by 745152 Alberta Ltd., comprising the business known as "Jasper Tank", for an aggregate price of $10,715. Jasper Tank is a manufacturer in Spruce Grove, Alberta, that specializes in custom tanks for the transportation industry. The results of operations are included in the Fund's Consolidated Statements of Operations and Cumulative Earnings since the date of acquisition.

The aggregate purchase price consists of cash and units of the Fund, as summarized below. The value of the units issued for consideration to the vendors was determined based on market price.

Cash	$ 9,672
Issue of 95,238 units of the Fund	1,000
Acquisition costs	43
Total consideration	$ 10,715

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

Fair value of assets acquired:	
Cash	$ 600
Accounts receivable	1,148
Inventory	1,704
Prepaid expenses	4
Capital assets	4,129
Intangible assets	676
	$ 8,261
Less fair value of liabilities assumed:	
Accounts payable and accrued expenses	2,162
Deferred revenue	239
Future income tax liability	304
	$ 2,705
Fair value of identifiable net assets acquired	5,556
Goodwill	5,159
Total purchase consideration	$ 10,715

Of the $676 of acquired intangible assets, $510 was assigned to customer relationships and $166 was assigned to the production backlog, both intangible assets are subject to amortization. The goodwill acquired was assigned to the manufacturing division. The goodwill and intangibles are not deductible for tax purposes.

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

4. CAPITAL ASSETS

	2006		
	Cost	Accumulated Amortization	Net Book Value
Land	$ 351	$ -	$ 351
Buildings	15,582	1,327	14,255
Aircraft	28,249	2,342	25,907
Equipment	8,694	1,464	7,230
Other	563	209	354
Leasehold improvements	614	120	494
	$ 54,053	$ 5,462	$ 48,591

	2005		
	Cost	Accumulated Amortization	Net Book Value
Land	$ 351	$ -	$ 351
Buildings	13,016	510	12,506
Aircraft	25,459	1,200	24,259
Equipment	4,351	428	3,923
Other	61	13	48
Leasehold improvements	519	50	469
	$ 43,757	$ 2,201	$ 41,556

Depreciation for the year ended December 31, 2006 was $2,852 (2005 – $1,622).

5. DEFERRED CHARGES

	2006	2005
Financing costs	$ 2,471	$ 1,723
Less accumulated amortization	972	465
	$ 1,499	$ 1,258

Amortization for the year ended December 31, 2006 was $507 (2005 – $318).

6. INTANGIBLE ASSETS

Amortization for the year ended December 31, 2006 was $294 (2005 - $241).

	2006		
	Cost	Accumulated Amortization	Net Book Value
Customer contracts	$ 260	$ 47	$ 213
Customer relationships	892	269	623
Production backlog	219	219	-
	$ 1,371	$ 535	$ 836

	2005		
	Cost	Accumulated Amortization	Net Book Value
Customer contracts	$ 63	$ 11	$ 52
Customer relationships	510	64	446
Production backlog	166	166	-
	$ 739	$ 241	$ 498

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

7. GOODWILL

		2006		2005
Goodwill, beginning of period	$	**10,353**	$	2,342
Goodwill from business acquisitions (Note 3)		**1,939**		8,011
Goodwill, end of period	$	**12,292**	$	10,353

8. CREDIT FACILITY

The Fund has a revolving operating line of credit up to a maximum of $2,500, bearing interest at prime plus 0.8%. The line of credit is secured by a general security agreement subject to customary terms, conditions, covenants, and other provisions for an income trust. At December 31, 2006, the operating line of credit was not drawn upon (2005 - $1,510).

9. LONG-TERM DEBT

		2006		2005
Revolving term facility	$	**24,049**	$	20,138

The Fund entered into a three-year, interest only, revolving term facility with two Canadian chartered banks. The term facility is secured by a general security agreement subject to customary terms, conditions, covenants, and other provisions for an income trust. The facility bears interest expense at prime plus 0.8%. Net interest expense during the year ended December 31, 2006 was $1,496 (2005 - $579). The principal payments in each of the next three years are: 2007 - nil; 2008 - nil; and 2009 – $24,049.

10. CONVERTIBLE DEBENTURES

Series	Rate	Maturity			2006		2005
A - 2004	9%	May 6, 2009	-debt component	$	**3,547**	$	4,662
			-add accretion charges		**52**		59
			-less conversions		**724**		1,174
				$	**2,875**	$	3,547
B - 2005	8%	Jul 7, 2010	-debt component	$	**4,945**	$	4,914
			-add accretion charges		**69**		31
			-less conversions		**328**		-
				$	**4,686**	$	4,945
C - 2005	8%	Sep 1, 2010	-debt component	$	**2,317**	$	2,307
			-add accretion charges		**33**		10
			-less conversions		**-**		-
				$	**2,350**	$	2,317
D - 2006	8%	Aug 12, 2011	-debt component	$	**6,459**	$	-
			-add accretion charges		**34**		-
			-less conversions		**-**		-
				$	**6,493**	$	-
Total debt component outstanding				$	**16,404**	$	10,809

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

Series	Rate	Maturity			2006		2005
A - 2004	9%	May 6, 2009	-equity component	$	226	$	283
B - 2005	8%	Jul 7, 2010	-equity component		384		411
C - 2005	8%	Sep 1, 2010	-equity component		193		193
D - 2006	8%	Aug 12, 2011	-equity component		541		-
Total debt component outstanding				$	1,344	$	887

The debentures are convertible, at the option of the holders, into units at a predetermined conversion price per unit. The predetermined conversion price is $9.00 for the Series A debentures, $11.50 for the Series B debentures, and $13.25 for the Series C and Series D debentures. The Fund has the option to settle all or a portion of the 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 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 a 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 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 debentures through periodic charges to the debt component, such that, on maturity the debt component equals the principal amount of the convertible debentures.

The debentures are secured, subordinate only to senior security, by a charge on the assets and undertakings of the Fund and subsidiaries. During the year, debentures with a face value of $1,108 were converted into 114,649 units of the Fund. Interest expense during the year ended December 31, 2006 was $1,331 (2005 – $778).

The fair value of the cash flows associated with the convertible debentures and the embedded call option is $18,492 at December 31, 2006 (2005 - $11,595).

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:

			2006
	Number of units		Amount
Balance, beginning of year	2,566,077	$	23,178
Issued for purchase consideration (no issuance costs)	44,390		550
Issued upon conversion of debentures	114,649		1,136
Issued for services	37,997		446
Balance, end of year	2,763,113	$	25,310

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

	2005		
	Number of units		Amount
Balance, beginning of year	1,256,187	$	9,688
Issued for cash and purchase consideration (net of issuance costs of $818, less associated future income tax asset of $287)	1,151,635		12,010
Issued upon conversion of debentures	138,440		1,268
Issued for services	19,815		212
Balance, end of year	2,566,077	$	23,178

12. 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:

		2006		2005
Balance, beginning of period	$	**2,878**	$	788
Distributions		**3,337**		2,090
Balance, end of period	$	**6,215**	$	2,878

Effective August 31, 2005, distribution payments changed from quarterly distributions to monthly distributions. Distributions are now made monthly to unitholders of record on the last business day of each month.

The amounts and record dates of the distributions were:

			2006		
			Distributions		
Month	**Record date**		**Per unit**		**Amount**
January	January 31, 2006	$	**0.10**	$	**257**
February	February 28, 2006		**0.10**		**257**
March	March 31, 2006		**0.10**		**257**
April	April 28, 2006		**0.10**		**258**
May	May 31, 2006		**0.10**		**259**
June	June 30, 2006		**0.10**		**262**
July	July 28, 2006		**0.10**		**272**
August	August 31, 2006		**0.11**		**291**
September	September 29, 2006		**0.11**		**294**
October	October 31, 2006		**0.11**		**299**
November	November 30, 2006		**0.11**		**300**
December	December 29, 2006		**0.12**		**331**
2006 Total		$	**1.26**	$	**3,337**

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

					2005
			Distributions		
Month	Record date		Per unit		Amount
January - March	March 29, 2005	$	0.27	$	339
April - June	June 28, 2005		0.27		347
July - August	August 29, 2005		0.20		395
September	September 30, 2005		0.10		248
October	October 31, 2005		0.10		248
November	November 30, 2005		0.10		256
December	December 31, 2005		0.10		257
2005 Total		$	1.14	$	2,090

13. INCOME TAX

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

		2006		2005
Current future income tax assets:				
Non-capital loss carryforward (1)	**$**	**185**	$	448
	$	**185**	$	448

[1] The Fund's subsidiaries non-capital losses expire in varying amounts from 2008 to 2016.

Long-term future income tax assets:				
Deferred charges	**$**	**213**	$	263
Overhaul accrual		**713**		368
Non-capital loss carryforward (1)		**384**		257
Warranty accrual		**9**		10
	$	**1,319**	$	898
Long-term future income tax liabilities:				
Capital assets	**$**	**5,966**	$	5,545
Intangible assets		**89**		169
	$	**6,055**	$	5,714
Financial Statement Presentation:				
Current future income tax assets	**$**	**185**	$	448
Long-term future income tax liabilities		**(4,736)**		(4,816)

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

		2006		2005
Earnings before income taxes	**$**	**5,381**	$	3,483
Reduced by:				
Earnings of the Fund subject to tax in the hands of the unitholders		**(3,337)**		(2,090)
Earnings of the Fund subject to corporate tax rate		**(2,446)**		(1,492)
Limited partnership income allocated to EIIF and therefore not subject to tax		**209**		-
Interest accretion on convertible debentures		**187**		100
Permanent differences		**10**		-
Earnings taxed at the Fund level		**4**		1
Tax rate		**46.40%**		46.40%
Income tax expense at the Fund		**2**		1

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

Earnings of the Fund subject to Manitoba corporate tax rate	$ 1,871	1,470
Reduced by:		
Permanent differences	(61)	(11)
Earnings taxed at the Manitoba corporate tax rate	1,810	1,459
Tax rate	36.62%	37.12%
Income tax expense at the operating level	663	542
Earnings of the Fund subject to Alberta corporate tax rate	$ 575	22
Reduced by:		
Permanent differences	4	-
Earnings taxed at the Alberta corporate tax rate	579	22
Tax rate	32.49%	33.62%
Income tax expense at the operating level	188	7
Total tax expense before rate change effect	853	550
Effect of enacted future rates on temporary differences	(489)	(125)
Income tax expense	364	425

14. EARNINGS PER UNIT

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

	2006	2005
Net earnings available to unitholders	$ 5,017	$ 3,058
Dilutive effect of convertible debentures	1,331	779
Diluted earnings available to unitholders	$ 6,348	$ 3,837
Basic weighted average number of units	2,630,870	1,778,118
Dilutive effect of convertible debentures	1,241,073	808,734
Average number of units outstanding - diluted basis	3,871,943	2,586,852
Earnings per unit:		
Basic	$ 1.91	$ 1.72
Diluted	$ 1.64	$ 1.48

15. 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 metal manufacturers in Alberta and British Columbia.

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 earnings before interest, income tax expense, depreciation, and amortization (EBITDA). There are no intersegment sales or transfers. The Fund includes expenses incurred at head office that are not allocated to the segments and is presented as a reconciliation to enterprise revenues, EBITDA, total assets, and capital asset additions.

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

2006

	Aviation	Manufacturing	Fund	Consolidated
Revenue	$ 69,565	$ 15,904	$ -	$ 85,469
EBITDA	9,731	2,707	(574)	11,864
Interest expense				2,828
Depreciation and amortization				3,655
Earnings before tax				$ 5,381
Total assets	$ 66,215	$ 22,108	$ 1,724	$ 90,047
Capital asset additions	6,094	3,745	49	9,888
Goodwill	5,194	7,098	-	12,292

2005

	Aviation	Manufacturing	Fund	Consolidated
Revenue	$ 52,924	$ 4,343	$ -	$ 57,267
EBITDA	6,593	777	(349)	7,021
Interest expense				1,357
Depreciation and amortization				2,181
Earnings before tax				$ 3,483
Total assets	$ 59,134	$ 14,027	$ 672	$ 73,833
Capital asset additions	20,583	4,207	20	24,810
Goodwill	5,194	5,159	-	10,353

16. 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:

2007	$ 820
2008	360
2009	285
2010	265
2011 & thereafter	2,165
	$ 3,895

17. 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.

18. RELATED PARTY TRANSACTIONS

The Fund enters into transactions with 2811065 Manitoba Ltd, which is owned by a former trustee of the Fund who is now 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.

During the year ended December 31, 2006, the Fund purchased $472 of fuel (2005 - $2,693), paid $85 in aircraft lease expenses (2005 - $137), received $57 in rent revenues from 2811065 Manitoba Ltd (2005 - $133), and purchased an aircraft and an additional engine for a combined $882 (2005 - nil). The receivable from 2811065 Manitoba Ltd. at December 31, 2006 is $4 (2005 - $384).

The Fund has a marketing agreement with Tribal Council Investment Group ("TCIG"), whose President is a former trustee of the Fund who is now 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. During the year ended December 31, 2006, the Fund paid commissions of $355 (2005 - $365). The payable to TCIG at December 31, 2006 is $355 (2005 - $300).

19. SUBSEQUENT EVENTS

Unit Offering

On February 15, 2007, the Fund completed a private placement offering (the "Offering") of Class A trust units ("Units") of EIIF at a price of $12.50 per Unit. Pursuant to the closing of the Offering, EIIF issued 1,200,000 Units for aggregate gross proceeds of $15,000,000 to subscribers resident in the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario and certain offshore jurisdictions. The Units sold pursuant to the Offering may not be resold for a period of four months and a day from the date of issuance of the Units pursuant to the requirements of the Exchange and applicable securities laws. The net proceeds of the Offering will be used to fund acquisitions and for working capital.

Water Blast Acquisition

On December 21, 2006 EIIF announced that it had entered into a letter of intent to acquire the shares of a number of companies comprising the Water Blast Group based in Edmonton Alberta. Subsequent to the year end on March 21, 2007, EIIF closed the acquisition of certain assets of 1028849 Alberta Ltd., 470577 Alberta Ltd. and Water Blast Manufacturing (1990) Ltd. as well as the shares of 894092 Alberta Ltd. and 1082190 Alberta Ltd. which together made up the business known as Waster Blast Manufacturing, for aggregate consideration of approximately $20 million. Water Blast is the distributor of Hotsy pressure washing equipment for most of the Province of Alberta, and is a manufacturer and distributor of custom applications of pressure equipment. The aggregate consideration paid was $20 million, which consisted of $15 million in cash and $5 million of units issued at $12.73 per unit.

20. COMPARATIVE FIGURES

Certain items in the comparative consolidated financial statements have been reclassified from the financial statements previously presented to conform to the presentation of the 2006 consolidated financial statements.

Corporate Information

OFFICERS

Michael C. Pyle
President and Chief Executive Officer

Adam S. Terwin
Chief Financial Officer

Edward L. Warkentin
Corporate Secretary

MANAGEMENT

Duncan D. Jessiman
Executive Vice- Chairman

Michael C. Pyle
President and Chief Executive Officer

Adam S. Terwin
Chief Financial Officer

Gary A. Bell
Director of Acquisitions

Mark A. Bullion
Manager, Internal Controls

Stephen Ellwein
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TRANSFER AGENT

CIBC Mellon Trust Company
Calgary, Alberta

STOCK EXCHANGE LISTING

TSX Venture Exchange
Exchange Industrial Income Fund EIF.UN

ANNUAL GENERAL MEETING

Tuesday, May 22, 2007
10:30 a.m.

Victoria Inn Hotel & Convention Centre
1808 Wellington Avenue
Winnipeg, Manitoba

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