Exchange

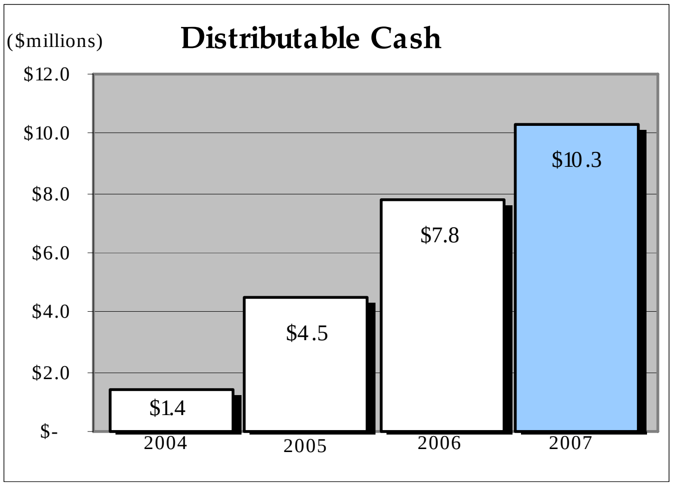
Industrial

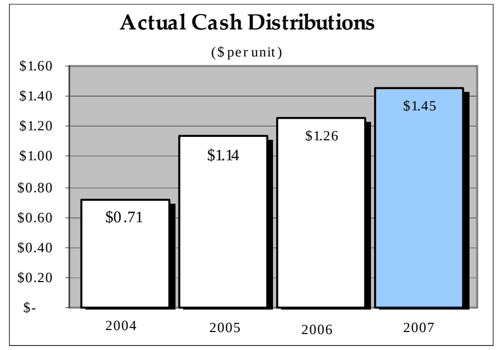
Income

Fund

2007 Annual Report

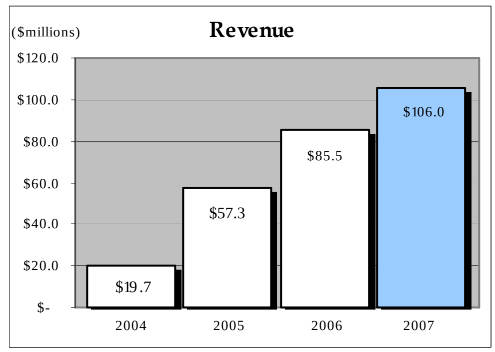
2007 Highlights





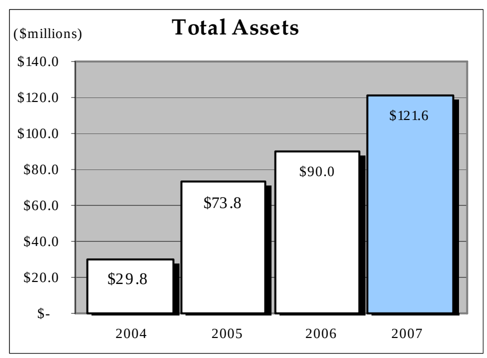
Performance Measures

- Financial indicators:
  - Revenue increased by 24% from 2006 to $106.0 million;
  - EBITDA increased by 29% from 2006 to $15.3 million; and
  - Distributable Cash increased by 32% from 2006 to $10.3 million;
- Actual distributions increased 15% to $1.45 per unit in 2007 from $1.25 per unit is 2006.



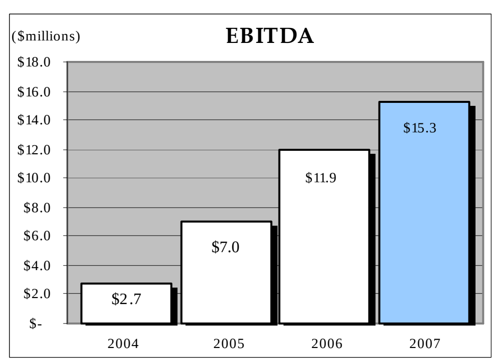
Acquisitions

- Closed the acquisition of Water Blast LP;
  - Closed the acquisition of two additional tuck-in enterprises under the Water Blast group, Water Blast Grande Prairie and Water Blast BC;
- Announced entering into a letter of intent to acquire the shares of Stainless Fabrication, Inc. and subsequent to year-end closed this acquisition as the Fund's first US based acquisition and largest acquisition to date.



Capital & Corporate Governance

- Generated $25.0 million from the issuance of units through a private placement and a bought deal for a total of 2.1 million units.
- Internal reorganization of the Fund and its subsidiaries that enabled the Fund to enter into a new $65 million debt facility with a syndicate of Canadian banks;
- Implemented an Employee Unit Purchase Plan ("EUPP") with participation of 133 employees of the Fund and its subsidiaries;
- The Fund moved its head office to a new location in Winnipeg as a result of the Fund's growth and the number of head office personnel.



Corporate Profile

OBJECTIVES:

The Fund is a diversified, acquisition-oriented income trust focused on opportunities in the industrial products and transportation sectors, in particular businesses that are suited for public markets, except for their size. The strategy of the Fund is to invest 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:

- To provide unitholders with stable and growing cash distributions;
- To maximize unit value through on-going active monitoring of its operating subsidiaries; and
- The continuing acquisition of additional businesses in order to provide accretive financial results, and to expand and diversify the Fund's investments.

The Fund currently owns operating subsidiaries in two niche business segments:

(i) **Aviation**

Providing scheduled and chartered airline service and emergency medical services to certain First Nations communities located in northern Manitoba and Nunavut, operated by Perimeter Aviation ("Perimeter") and Keewatin Air ("Keewatin") respectively.

(ii) **Specialty Manufacturing**

- Manufacturing custom tanks for the transportation of oil and gas, operated by Jasper Tank ("Jasper");
- Manufacturing precision sheet metal and tubular products, operated by Overlanders Manufacturing LP ("Overlanders");
- Manufacturing specialized heavy duty pressure washing and steam systems, operated by the Water Blast group of companies, who are also the exclusive distributors in Alberta and British Columbia for Hotsy pressure cleaning equipment; and
- Custom design and manufacturer of stainless steel tanks, vessels and processing equipment which are sold throughout the United States, operated by Stainless Fabrication, Inc. ("Stainless").

Chairman's Message

Exchange Industrial Income Fund

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

In the early stages of formulating the business model of Exchange Industrial Income Fund ("EIIF" or "the Fund"), it was quickly determined that future success would depend on our commitment to implement our disciplined strategy. EIIF was designed to consistently grow distributions while maintaining a low payout ratio through a disciplined approach in the acquisition of businesses. EIIF believes that acquisitions must meet four basic requirements. They must have a proven market niche, with defensible cash flows, a strong management team, and must be available at a price that is accretive to our existing unitholders. Growth for the sake of growth only increases the opportunity for error. The events of 2007 continue to show the benefits that this approach provides to the investors in EIIF.

The EIIF model enables the Fund to have the financial strength to deal with the challenges that all businesses face at times in their business cycle, such as new competition or increased input costs, while maintaining and in fact increasing distributions to the unitholders, and maintaining a conservative payout ratio.

"Growth for the sake of growth only increases the opportunity for error."

EIIF continued to execute its strategy with the acquisitions that were closed during the 2007 year and in the first quarter of 2008. Despite challenging capital markets with sub-prime debt issues and income trust taxation legislation, the capital markets still supported EIIF enabling it to raise funds for its acquisitions. In total, $25 million was raised during the 2007 year through a private placement, the proceeds of which were utilized to acquire the Water Blast group and a bought equity deal where the funds were utilized to acquire Stainless Fabrication, Inc.

Water Blast is a manufacturer and dominant distributor of pressure washing equipment in the province of Alberta with a 33 year history. It was purchased by EIIF in March 2007. This acquisition is exciting for EIIF as it represents the first operational entity that is geographically scalable. This was seen in the acquisition of two complimentary tuck-ins at locations in Grande Prairie, Alberta and the lower mainland of British Columbia that are now operating under the Water Blast brand. The geographic expansion planned by EIIF is fully supported by Hotsy, the major supplier to Water Blast. Water Blast is the largest distributor of Hotsy products and parts in North America and Hotsy is very excited by the continued success of the Water Blast model. After the acquisition in Surrey, British Columbia, Water Blast now holds the exclusive distributorship rights for Hotsy in all of Alberta and British Columbia, and is actively examining opportunities in the United States ("US").

The disciplined approach by EIIF in the past has limited the number of acquisition opportunities in the United States. Very liquid capital markets, and a large number of private equity groups looking for acquisition opportunities, resulted in purchase prices for American companies that were well above EIIF's opinion of value. The sub-prime crisis and the resulting tightening of US debt markets significantly reduced purchase prices and an opportunity presented itself at the end of the 2007 year for EIIF to purchase within its parameters. Closing in the beginning of January 2008, Stainless became the first US based acquisition for EIIF. Despite the relatively small size of the Fund and its listing on the Venture exchange, EIIF was able to complete a bought equity deal for $10 million in challenging equity markets during December 2007 and used the funds for the purchase of Stainless.

Stainless is based in Missouri but has sales and field

operations throughout the US. It is a company that operates in a niche stainless steel tank and vessel industry that has a wide and diversified blue chip customer base in a variety of markets. This was the largest acquisition in the history of EIIF and not only brings diversity to the Manufacturing segment but also potential synergies by supplying stainless steel tanks to EIIF's Jasper.

These additions are in EIIF's specialty Manufacturing segment, which is now expected to contribute more revenue and EBITDA to EIIF's consolidated results than the Aviation segment. As well, the income generated by the US operations of Stainless along with the corporate structure changes at EIIF will enable EIIF to be more tax efficient under the new income trust tax rules in 2011.

The Aviation segment continued to deal with competition, in particular in the northern Manitoba operations of Perimeter. A major competitor in Thompson attempted to break into the market throughout the 2007 year but as with other competitors that have tried to take away market share, Perimeter successfully defended this market and the competitor ceased operations in January 2008. This continues to demonstrate the strength of the business model in the Aviation segment that combines a low operational cost structure with a focus on our relationships with the communities serviced by our airlines which results in the long-term success in their markets.

Last year, the Alberta oil patch began to soften from its peak in recent years which has affected EIIF customers in that industry, in particular Jasper customers. In 2005, Jasper was purchased by EIIF based on its average EBITDA over a number of years rather than the higher amount being generated at the time of purchase and as a result, the operating results for Jasper are still contributing positively to EIIF even in a slower market.

On January 1, 2007 the structure of EIIF was changed to allow more flexibility in financing new acquisitions. This new structure also gave EIIF the ability to obtain the $65 million bank syndicate credit facility in the middle of 2007. This increased the Fund's access to secured debt by more than 100%.

Subsequent to the end of 2007, EIIF was listed and began trading on the TSX in March 2008. This migration to the main Canadian stock exchange is expected to significantly increase the number of potential investors in EIIF which could thereby enhance liquidity for our units.

The audited financial results for 2007 demonstrate the success that EIIF is achieving with its strategy. These results plus the acquisitions of Water Blast and Stainless position EIIF to continue to provide the returns to unitholders that it was designed to generate. Consolidated revenues, EBITDA and distributable cash are at the highest levels in the history of EIIF. Consolidated revenues were up 24% from 2006 and EBITDA was also up by 29% from 2006. Distributable cash generated by EIIF was $10.3 million for 2007, which is an increase of $2.5 million or 32% from 2006. Actual distributions increased by $0.19 per unit while maintaining a conservative payout ratio of 61% (or 71% fully diluted).

The diversified income trust market that EIIF operates in is a challenging sector of the capital markets. The results from not only 2007, but from previous years as well, show that a diverse portfolio, coupled with discipline, can generate consistent, growing distributions to unitholders, while maintaining a conservative payout ratio. It is the quality of the acquisitions, not the quantity which drives success.

Investors in the diversified income trust sector have seen that growth does not necessarily create value for unitholders. Rather, acquisitions can only provide the ability to increase distributions when companies with the proper attributes are purchased at the right price. Looking forward, we intend to continue with the disciplined approach that has allowed us to grow our distributions from $1.08 to $1.50 (on an annualized per unit basis) in less than four years. Diversification does work when done properly – EIIF is proof of that.

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

President & CEO's Message

Mike Pyle – President & Chief Executive Officer

Since the inception of EIIF in 2004, our purpose has been to deliver unitholders growing distributions at a conservative payout ratio. With every acquisition that is considered, that is the main focus for our decision making. As a result, the manner in which the acquisitions are structured is as important as the businesses being acquired, meaning that if EIIF has to be aggressive in the purchase consideration to a point that the acquisition no longer is accretive to our unitholders, the opportunity is no longer acceptable to our EIIF team.

The Fund in 2007 acquired the pressure washer manufacturing and retail operations of Water Blast, which is based out of Edmonton, Alberta. Water Blast is considered one of the dominant suppliers of pressure systems solutions in that province. Water Blast manufactures custom designed pressure systems and is also the largest Hotsy distributor in North America. The majority of the products sold are, or are combined with, Hotsy brand products. At the time of the acquisition, Water Blast consisted of four retail locations throughout Alberta with the exception of the Grande Prairie region of the province.

The Water Blast business model is very exciting for unitholders from the accretive results that it brings to the EIIF portfolio but it also brings the first business that provides the ability to grow geographically by opening manufacturing and retail opportunities in a variety of locations. EIIF has begun to follow through on the geographic scalability by purchasing two tuck-in operations within the pressure system industry. The first tuck-in was located in Grande Prairie, Alberta, which also gave Water Blast the Hotsy distribution rights for the only portion of the province of Alberta that it previously didn't hold. The second tuck-in was in the lower mainland of British Columbia and with it Hotsy granted Water Blast the distribution rights for the entire province of British Columbia. As at December 31, 2007, there were six Water Blast retail locations and a seventh opened in March 2008 in Richmond, British Columbia.

The end of the 2007 year was exciting for the Fund as it represented a new chapter in EIIF's history. In December it was able to complete a $10 million bought equity deal that was a rarity for income trusts of our size which are listed on the TSX-Venture exchange. The purpose of the offering was to raise funds for the acquisition of Stainless that closed on January 2, 2008. Stainless is a US-based metal manufacturer that specializes in the design and production of stainless steel tanks for a variety of industries throughout the US. The customers of Stainless include a number of Fortune-500 companies, such as Nestle, Kraft, Bausch & Lomb, Coca-Cola, Novartis, Genentech, and ADM. The core industry segments serviced include pharmaceutical, healthcare, food, dairy, ethanol, and beverage amongst others. Approximately 50% of the sales are produced from its 75,000 square foot facility in Springfield, Missouri and the balance are on-site fabricated where tanks are assembled at the customer's location. During the 2007 calendar year, Stainless had sales of approximately $35 million USD. During the first quarter of 2008 Stainless began expanding its manufacturing capacity by adding a new 25,000 square foot production facility across the street from its existing facility. This space is expected to generate additional revenues and earnings by early 2009.

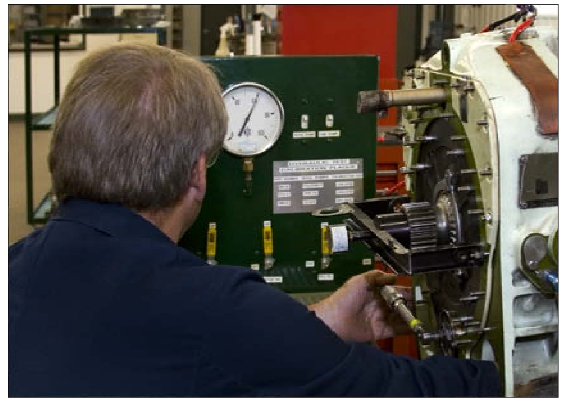
EIIF has been trying to enter the US market for some time but the disciplined approach to acquisitions limited its success. While a number of significant companies with successful businesses were identified in the past, the purchase prices required by the vendors were prohibitive under our acquisition strategy. The dramatic changes in the US capital markets during the second half of 2007 reduced the debt financing available to potential purchasers, which in turn reduced purchase prices for certain companies. This with the increased strength of the Canadian dollar gave EIIF the opportunity for acquisitions that were in line with the purchase multiples and methodologies of its Canadian acquisitions.

Beyond being accretive immediately in 2008, the operations of Stainless will be a natural hedge by generating US dollars for the Fund which offsets the foreign exchange risk that other entities in the portfolio are exposed to due to purchases of materials and parts in US dollars.

Aviation Segment

The 2007 year was a challenging period for the Aviation segment on a number of fronts. Firstly Perimeter experienced new competition out of Thompson, Manitoba, which is its largest hub after Winnipeg, Manitoba. Consistent with past experience, these competitors were initially successful and gained market share from Perimeter but the strength in the Perimeter business model and low operating costs enabled it to weather the competitive storm and in the end Perimeter was able to gain back the lost market share. In fact, at the beginning of January 2008, the competitor in the Thompson market ceased operations. Perimeter still faces increased competition in the eastern Manitoba region but we are confident that we are well equipped to deal with this challenge.

Fleet size and makeup issues for the Aviation segment were apparent in 2007 as capacity constraints took place in the first half of the year. The delivery of a second Dash 8 aircraft purchased for Perimeter helped to deal with the capacity issues during the second half of 2007. Keewatin made the strategic decision to phase out and replace the single engine Pilatus PC12 aircraft with twin engine Beechcraft 1900's, which are a superior aircraft especially in the far north where there are great distances between alternate landing facilities and single engine aircraft were considered to be an unacceptable risk to our customers. The strong aircraft market in 2007 resulted in this process taking in excess of nine months to complete, which was much longer than anticipated by management. The aircraft purchase could have been completed more quickly, but consistent with the rest of the decision making of EIIF, a disciplined approach was used to ensure that the aircraft purchased were priced right and adequate for the operating standards of the airline. The new aircraft have been well accepted by customers and employees, as a result management believes that this fleet changeover will have positive implications for safety and customer demand. In early 2008, Keewatin was awarded an increased share of the medical travel market in a three year contract from the government of Nunavut. At the end of 2007, the Aviation segment fleet size and makeup are considered adequate for our existing market share. This may change if certain growth opportunities are presented during the year.



Perimeter has enacted a new approach to marketing and expanding its involvement with the First Nation communities and customers. This includes expanded programs that invest back into the communities being serviced, such as providing training and hiring individuals from the community, contributing to community funded projects, and providing services in certain community activities. The benefits to EIIF from this approach are beginning to be realized through increased market share and certain communities entering into preferred supplier arrangements with the airline. Keewatin has followed a similar strategy and plans to continue to provide benefits such as the Christmas Express, which involves Keewatin providing gifts to the children of its northern communities that do not have the financial resources to experience the season.

Keewatin's operations include a contract with the Nunavut government to be the Medevac air ambulance service provider. The term of the existing contract ends in 2008 and management is confident that ongoing negotiations and Keewatin's excellent service history for Medevac services will result in the contract being renewed.

Manufacturing Segment

As mentioned above, the significant acquisitions throughout 2007 and at the beginning of 2008 have resulted in dramatic changes in the size and geographic coverage of the Manufacturing segment.

Over the last few years, Jasper has experienced exceptional demand for its product which created unsustainable pressures on its production capacity. In response, a lean manufacturing project was undertaken by Jasper with the intention of improving efficiency to produce increased levels of product. With the softening in the oil market in Alberta that started in the middle of 2007 combined with the new royalty regime announced by the provincial government, the customers in the market for Jasper's products in this industry have changed focus by basing their buying decision on more than the availability of product. As a result, the margins are being negatively impacted and Jasper is turning to the lean manufacturing initiatives that are being developed and applied to support it in competing in this current market environment.

Overlanders continued to operate efficiently and effectively in its market in the lower mainland of British Columbia and the US Pacific Northwest in 2007, which was the first full year of operations in the EIIF portfolio. The market is affected by the decrease in the US dollar for a number of its customers and the general slowdown of the US economy, as a result Overlanders continued to focus on providing its customers with excellent quality, service and pricing to help minimize customers looking for alternatives to a Canadian manufacturer.

Nine and a half months of operations from Water Blast are included in the 2007 EIIF consolidated results. The expansion into the British Columbia market after receiving the distribution rights for the Hotsy brand of products for the entire province is expected to bring significant top and bottom line growth with modest capital investment required from the Fund.

Beyond growing the EIIF portfolio of companies, there is a management focus on improving the entities already in the portfolio through investment in innovation. During 2007 the Aviation segment received a second Dash 8 aircraft at Perimeter to increase the capacity available for passengers and cargo flown as well as create more charter capacity. Perimeter also became the first airline in North

America to have a flight simulator specifically designed for the twin engine Metro aircraft, which was delivered in the first quarter of 2008. This simulator will allow more flight hours to be freed up from training time to be used for income generating flights and also reduce operational and maintenance costs that are no longer needed when aircraft are used in training activities. It will also facilitate enhanced situation training, such as engine failure and extreme weather, beyond what is practical in an actual flight situation. This is considered to be especially important given the high demand for pilots by the major airlines, and the resulting turnover at smaller regional carriers. This simulator should help ensure that our pilots are as well equipped as possible for the harsh environment in which we operate.

Jasper invested in new sand blasting equipment that operates in a more efficient manner by allowing the material used in the sand blasting process to be reused for multiple applications. This technology also produces less environmentally sensitive waste that must be disposed.

The addition of Mr. Darwin Sparrow as the Vice-President and Chief Operating Officer of our Manufacturing segment in the first quarter of 2008 will enable the Fund to provide necessary oversight to this growing segment of our business. Mr. Sparrow will focus on opportunities and possible synergies between the various entities within the segment.

The acquisition of Stainless in January 2008 will enable the manufacture of stainless steel tanks for Jasper to replace other third party suppliers. Some synergies are already being realized in the precision manufacturing of parts by Overlanders for use by Jasper and Water Blast in their manufacturing processes.

An Employee Unit Purchase Plan was implemented and made available to most employees of the Fund, and its subsidiaries. The program was created with the goal of retaining personnel and minimizing turnover. The individuals that enter the program and meet certain conditions of employment over the following 18 month period are able to receive a third of an EIIF unit for every EIIF unit purchased by the individual. This resulted in over 27,400 units being purchased by employees.

The proof of success for any business model is the results and EIIF is proud of the accomplishments and results from 2007. Over the three and half year period from inception of the Fund, annualized distributions per unit have increased from $1.08 per unit to $1.50, which is a 39% increase, while maintaining a conservative payout ratio that doesn’t put the future distributions to unitholders at risk. Even though the Fund faced a number of challenges in its investments during 2007, EIIF was able to deliver dependable growing cash flows to its unitholders. Consolidated revenues for the first time in the history of EIIF surpassed $100 million and EBITDA also reached a new high of approximately $15 million. Distributable Cash generated was a new record at approximately $10 million. We believe that 2007 provides the most dramatic evidence to date of the efficacy of our model.

We are excited about 2008. We believe that the additions of Water Blast and Stainless have not only grown the Fund, but will diversify and strengthen our distributable cash. Our recent move to the TSX should enhance the liquidity of our units, and improve our access to capital to fund further accretive growth. All businesses face challenges as they grow and mature. EIIF has demonstrated that these challenges can be effectively managed in a diverse portfolio of strong niche companies. We intend to prudently manage and grow our portfolio of invested companies to maximize not only the distributions to our unitholders but also the capital value of the units.

Mike Pyle,
President & CEO

Trustees & Directors

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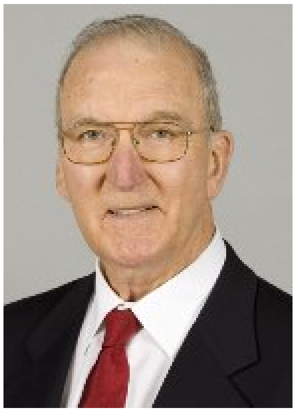
1) Hon. Gary Filmon P.C., O.M. – Trustee and Chairman
Mr. Filmon of Winnipeg, Manitoba holds an Engineering Degree from the University of Manitoba. He is a trustee of The Arctic Glacier Income Fund and has been a trustee of that income fund since 2001 and was a director of its predecessor, The Arctic Group Inc. since 2000. He is a director of Manitoba Telecom Services Inc., a director of Canadian Natural Resources Limited, a trustee of Pollard Banknote Income Fund, a director of FWS Construction Ltd., a director of Wellington West Capital Inc. and is and has been a business consultant since 2000. He is also the Chairman of the Canadian Security Intelligence Review Committee. Prior thereto 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.

2) Duncan D. Jessiman Q.C. – Trustee and Executive Vice-Chairman
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 34 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 until he joined the Fund as CEO on August 1, 2005. He gave up the position of CEO on August 1, 2006 and became Executive Vice-Chairman. 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. Mr. Jessiman devotes a significant amount of his time to the business of the Fund. Mr. Jessiman became a Trustee on March 22, 2004, and will serve in that capacity until the next annual general meeting of Unitholders.

3) Donald Streuber – Trustee and Director
Mr. Streuber of Winnipeg, Manitoba, is President and CEO of Bison Transport Inc. Mr. Streuber has been President and CEO of Bison Transport Inc. since February of 2000 and prior to that he was Vice-President, Finance of Bison Transport from May of 1999 to February of 2000. Bison is one of Canada's largest dry van truckload carriers of freight and has been recognized as one of Canada's 50 best managed companies for the last 7 years. Prior to joining Bison, Mr. Streuber was a partner at Sill Streuber Fiske & Company, Chartered Accountants.

Mr. Streuber received his C.A. designation in 1985 while articling at Dunwoody & Company and had previously earned a Bachelor of Commerce with a major in Finance from the University of Manitoba in 1980. Mr. Streuber is a member of the Institute of Chartered Accountants in Manitoba and has served on their committee on Interdisciplinary Matters. As well, Mr. Streuber has been a lecturer and conference speaker for the Canadian Institute of Chartered Accountants and served on their Professional Development Committee.

Mr. Streuber is presently the Chairman of the board of directors of Monarch Industries Limited and Chairman of the Board for Providence College and Seminary. Mr. Streuber became a Trustee on May 6, 2004, and will serve in that capacity until the next annual general meeting of Unitholders.

5  6  7 

4) Gary Buckley – Trustee and Director

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 Genesys Hospitality, which owns various hotel properties in Manitoba and elsewhere. Mr. Buckley is also the owner of additional hotel and mobile home properties. He is also a trustee of Temple Real Estate Investment Trust. Mr. Buckley became a director of EIIF GP on January 1, 2007, and a trustee on May 22, 2007 and will serve in those capacities until the next annual general meeting of Unitholders.

5) William Wehrle – Director

Mr. Wehrle is the President and CEO of Perimeter and has been with Perimeter since its inception in 1960. Mr. Wehrle became a director of EIIF GP on January 1, 2007, and will serve in that capacity until the next annual general meeting of Unitholders.

6) Allan McLeod – Director

Allan McLeod is the President & 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 Inc., First Canadian Fuels Ltd., First Canadian Water & Infrastructure Inc. and First Nations Financial Services Inc. He also holds this position for the Radisson Hotel Winnipeg. He is also a trustee of Artis Real Estate Investment Trust and a director of Paragon Pharmacies Ltd. In 2003 Allan was honored with the Top 40 under 40 award for Canada. Mr. McLeod became a director of EIIF GP on January 1, 2007 and will serve in that capacity until the next annual general meeting of Unitholders.

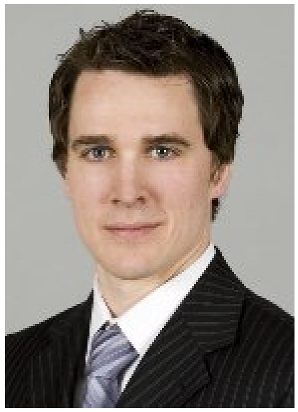
7) Michael Pyle – CEO, President and Director

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 became a director of EIIF GP on September 29, 2006, and will serve in that capacity until the next annual general meeting of Unitholders.

8) Mark Buller – Director (no picture)

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 August, 2000. 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 of Norcraft Industries, a company which manufactures cabinets and operates three plants in the U.S. Mr. Buller became a director of EIIF GP on January 1, 2007, and will serve in that capacity until the next annual general meeting of Unitholders.

Executives

1  2  3  4 

1) Michael Pyle – President & Chief Executive Officer
Mr. Pyle became the President and Chief Financial Officer in May 2004 and in June 2006 was promoted to Chief Executive Officer by the Board of Trustees. Mr. Pyle is responsible for monitoring the operating companies and ensuring that they are running in accordance with their strategic and operating plans as well as their financial budgets. Mr. Pyle is also responsible for arranging financing for the Fund and its subsidiaries.

2) Adam Terwin – Chief Financial Officer
Mr. Terwin joined the EIIF management team in July 2005 and in June 2006 was promoted to Chief Financial Officer by the Board of Trustees. Mr. Terwin is responsible for the financial oversight of the Fund and its subsidiaries.

Mr. Terwin a Chartered Accountant and a Chartered Financial Analyst, joined the EIIF management team in 2005. Prior to joining EIIF, he was employed at Deloitte & Touche. Mr. Terwin placed on the Canadian Institute of Chartered Accountants National Honour Roll for excellence on the Uniform Evaluation. He has a Bachelor of Commerce (Honours) from the University of Manitoba, where he received the gold medal for the highest standing at the I.H. Asper School of Business, as well as the I.H. Asper School of Business program medals for accounting and finance.

3) Darwin Sparrow – Vice-President and Chief Operating Officer – Manufacturing
Mr. Sparrow has over 18 years of experience in the manufacturing industry with a proven track record of managing companies to reach their full potential. Mr. Sparrow has extensive experience in managing multi plants with cross border operations. Mr. Sparrow joined EIIF subsequent to year-end 2007 and is responsible for all operations within EIIF's Manufacturing segment.

4) Gary Bell – Director of Acquisitions
Mr. Bell is Director of Acquisitions and was hired in June 2006. Mr. Bell has several years of experience in commercial banking with TD Bank and Roynat Capital and has a proven track record and extensive experience in creative financing structures. The responsibility of Mr. Bell is to identify companies to acquire and coordinate the due diligence process for the potential acquisitions. Mr. Bell holds a Bachelor of Commerce (Hons.) from the University of Manitoba.

EIIF Subsidiaries

The operations of the subsidiaries of the Fund are in two business segments that offer different products and services. The two business segments are Aviation and Manufacturing.

AVIATION

(acquired in May 2004)

Perimeter is a niche regional airline that operates a scheduled airline service to northern Manitoba communities. The scheduled airline service is based out of its main terminal and cargo facility located at the Winnipeg James Armstrong Richardson International Airport but also has a terminal hub and cargo facility located at the Thompson Airport.

In addition to the scheduled airline services Perimeter provides, the company also i) provides medevac services to northern Manitoba communities which is an Air Ambulance service; ii) operates a flight training school specializing in commercial instrument flight rating licenses, including the use of a flight simulator specifically designed for the twin engine Metro aircraft; iii) undertakes charter work on behalf of major courier companies; and iv) has an engineering division with a complete in-house maintenance program for its fleet and services for other airlines.

Perimeter's strategy is based on the premise that its fleet of aircraft must be well suited to the markets it services. The selection of what planes to operate is the cornerstone decision to a niche airline. Most of the communities serviced by Perimeter are isolated and difficult or impractical to reach by ground transportation, other than by ice-road in the winter. As a result, the customer demand is year round, and is made up of both passenger and freight requirements. The small size of these communities does not support dedicated passenger and freight aircraft. Perimeter is able to handle varying numbers of passengers and amounts of freight and is able to adjust the cabin configuration of its aircraft quickly and easily. With many of the runways in the communities serviced by Perimeter being gravel, the aircraft utilized are durable and cost effective to maintain. Currently the size of Perimeter's fleet is 33 aircraft.

(acquired in July 2005)

Keewatin is also a niche regional airline like Perimeter in that its business is driven by the necessity to move people and supplies in and out of communities that are not serviced by other means of transportation. The main focus of operations for Keewatin is the Medevac services under the Nunavut Lifeline brand that provides through a contract with the Government of Nunavut all of its air medical evacuations in the central region of its territory. Keewatin prides itself on providing superior medical

transport services utilizing highly-experienced medical professionals and flight crew aboard specially equipped aircraft.

There is a state of the art hangar facility, with staff accommodations in Rankin Inlet, Nunavut with similar facilities in Churchill, Manitoba. Kivalliq Air is the other focus of the company that provides a reliable passenger and freight service between the Kivalliq region (Nunavut Territory) and Manitoba. Currently the size of Keewatin's fleet is seven aircraft.

MANUFACTURING

Jasper TANK

(acquired in September 2005)

Jasper is a specialty tank manufacturer located in Edmonton, Alberta and it specializes in high value, high quality custom made tanks and trailers that are utilized in a variety of industries but are mainly focused around the oil field service business. These tanks are fabricated with steel, stainless steel or aluminum; are oval or round in shape; mounted on large trucks or truck trailers; and typically weigh between 5,000 and 6,000 lbs.

Jasper continued its focus on improving capacity of its production through the design and implementation of a lean manufacturing system. Jasper is somewhat unique to its industry in that it designs and builds the units from start to finish under one roof of its 40,000 sq foot facility.

OMI

(acquired in October 2006)

Overlanders is located in the greater Vancouver region of British Columbia and is an ISO-9001 certified leading fabricator of precision sheet metal and tubular products that serves a diversified mix of industries. With its location being a few miles from the Canada / United States border, Overlanders has easy access to servicing markets in both British Columbia and the Pacific Northwest of the United States.

The fully integrated operations include processes such as punching, cutting, bending, welding, laser cutting, stamping and insertion. The capable tolerances of these operations are within a couple thousandths of an inch, which is demanded by its customers. The designs of products are generated using software that produces 3D modeling and these models are used by some of the automated laser cutting and punching machines, which increases accuracy and quality.

(acquired in March 2007)

The Water Blast group of companies manufactures specialized heavy-duty pressure washer and steam systems, and also is the exclusive dealer of Hotsy pressure washer cleaning equipment for the provinces of Alberta and British Columbia.

The products and services offered by Water Blast are typically used in practically all industries in North America. The oil and gas industry and the mining industry both use modified pressure washing equipment extensively for various applications.

Water Blast currently has six retail locations and a seventh opened at the beginning of 2008. Water Blast offers its customers the opportunity to have custom machines manufactured and has over 30 years of experience in designing and building an industrial system that meets the specific needs of the customer.

(acquired in January 2008)

The Fund announced the acquisition of Stainless on November 29, 2007 and the acquisition closed on January 2, 2008. Stainless is based out of the state of Missouri but has sales throughout the United States. This is the Fund's first US based acquisition. Stainless designs and manufactures custom stainless steel tanks, vessels, and processing equipment and services the healthcare, pharmaceutical, food, ethanol, dairy, beverage, chemical and transportation industries. The customer base and industry base of Stainless are diverse.

Stainless provides both in-house fabrication and field fabrication (erection) services. Both of these services have historically contributed equally to the operational revenues of Stainless. The in-house operations fabricate tanks up to 60,000 gallon capacity and can involve electropolishing services used for certain industry customers which, among other things, increases the tanks resistance to corrosion and bacteria. This added process is used by those customers who require extremely sanitary non-contamination conditions for their manufacturing applications.

The field operations use a successfully unique approach to building custom stainless steel tanks on the customer's site and can fabricate tanks up to 600,000 gallon capacity. This approach uses jacking devices to erect the tanks in their final resting place. The crews on the field fabrication projects work exclusively on these projects and are trained extensively in the method used.

Management's Discussion& Analysis

March 20, 2008

This Management's Discussion and Analysis supplements the audited consolidated financial statements and related notes for the year ended December 31, 2007 ("Consolidated Financial Statements") of Exchange Industrial Income Fund ("EIIF" or "the Fund"). Unless otherwise indicated, results are reported in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

FORWARD LOOKING STATEMENTS

This annual report contains forward looking statements. The use of any of the words anticipate, continue, estimate, expect, may, will, project, believe and similar expressions are intended to identify forward looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward looking statements. Management believes that the expectations reflected in those forward looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward looking statements included in this report should not be unduly relied upon. These statements are made as of the date of this report and the Fund assumes no obligation to update or revise them, 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 and is used by management to evaluate the ongoing performance of the Fund in addition to GAAP defined measures such as Net Income for the period. Investors are cautioned that EBITDA and distributable cash should not be viewed as an alternative to measures that are recognized under Canadian GAAP such as net income, or cash from operations. EIIF's method of calculating EBITDA and distributable cash may differ from that of other income funds and therefore may not be comparable to measures utilized by them. A reconciliation of cash flow from operating activities to distributable cash is provided in section 3 of this document below.

ADDITIONAL INFORMATION

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

1. FINANCIAL HIGHLIGHTS

$000's (except per unit data)	2007	2006
FINANCIAL PERFORMANCE		
Revenue	$ 106,013	$ 85,469
EBITDA	15,304	11,864
Net earnings	7,594	5,017
per unit	1.75	1.91
Distributable cash	10,330	7,800
per unit	2.38	2.96
Distributions paid to unitholders	6,464	3,337
per unit	1.45	1.26
FINANCIAL POSITION		
Working capital	23,407	13,813
Capital assets	56,448	48,591
Total assets	121,622	90,047
Senior debt	26,051	24,049
Unitholders' equity	62,123	29,682

- Internal reorganization of the Fund and its subsidiaries;
- Completed a $15.0 million private placement of 1.2 million units at a price of $12.50 per unit in February 2007;
- Acquisition of a number of companies comprising Water Blast LP, based in Edmonton, Alberta, for a cost of $20 million in March 2007;
- Entered into a new $65 million credit facility with a syndicate of banks in June 2007;
- Acquisition of two additional enterprises, Water Blast Grande Prairie (based in Grande Prairie,

Alberta) and Water Blast BC (based in Surrey, British Columbia) for an aggregate cost of $4.0 million;

- Implemented an EUPP in September 2007 to employees of the Fund who purchased 27,443 units out of treasury stock at a price of $11.72 per unit;
- Increase in the monthly distribution per unit to $0.125 beginning in November 2007;
- Completed a $10.0 million public offering of 909,100 units at a price of $11.00 per unit in December 2007; and
- Announcement of the Fund entering into a letter of intent to acquire the shares of Stainless Fabrication, Inc. ("Stainless") for a preliminary purchase price of USD $22.0 million. Subsequent to year-end, the Fund closed the acquisition on January 2, 2008.

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. 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 equipment and precision metal parts.

ACQUISITIONS

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

- March 16, 2007: The Fund closed the acquisition of certain assets of Water Blast Manufacturing (1990) Ltd and 100% of the shares of 894092 Alberta Ltd, which together comprise the business known as "Water Blast", for aggregate consideration of approximately $20.3 million. Water Blast is the exclusive distributor of Hotsy pressure washing equipment for most of the Province of Alberta, and is a manufacturer and distributor of custom applications of pressure related equipment.
- May 1, 2007: The Fund closed the acquisition of 100% of the shares of 368994 Alberta Ltd (Hotsy Grande Prairie), which operates as "Water Blast Grande Prairie", for aggregate consideration of approximately $2.4 million. Water Blast Grande Prairie has exclusivity for the only Hotsy territory in Alberta, which is not already serviced by Water Blast.
- September 14, 2007: The Fund completed the acquisition of MCS Industries Ltd. ("MCS") and renamed it Water Blast Manufacturing BC Ltd. ("Water Blast BC"). The business will carry on the Water Blast operations for British Columbia. The purchase price of approximately $1.5 million, including $0.3 million that will be paid upon certain financial thresholds being met over individual fiscal periods ending in 2011. Upon closing, $1.1 million of the purchase price was funded through the Fund's long-term debt facilities.

The following acquisition was made by the Fund during the 2006 year:

- October 23, 2006: The Fund 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.

Subsequent to December 31, 2007, the Fund completed the acquisition of Stainless for aggregate consideration of approximately USD $22.0 million on January 2, 2008. Based out of Missouri, Stainless designs and manufactures stainless steel tanks, vessels and processing equipment which are sold throughout the United States in a variety of industries.

3. KEY PERFORMANCE INDICATORS

DISTRIBUTABLE CASH

$000's (except per unit data)		2007		2006
Earnings before income tax	**$**	**6,861**	$	5,381
Depreciation & amortization		**4,429**		3,655
Interest expense		**4,014**		2,828
EBITDA		**15,304**		11,864
Interest on bank debt		**2,069**		1,496
Interest on debentures		**1,220**		1,144
Maintenance CapEx		**1,659**		1,243
Cash taxes		**25**		181
Distributable cash	**$**	**10,331**	$	7,800
Distributable cash per unit				
Basic	**$**	**2.38**	$	2.96
Diluted	**$**	**2.04**	$	2.31
Distributions declared per unit	**$**	**1.45**	$	1.26

EIIF generated distributable cash of $10.3 million in 2007, an increase of 32% over the $7.8 million generated in 2006. The increase in distributable cash is primarily the result of the inclusion of partial years results for the companies acquired in 2007. These acquisitions include Water Blast in March, Water Blast Grand Prairie in May and Water Blast BC in September. The 2007 results also included a full year of operations from Overlanders which was purchased in October of 2006 and therefore was only included for approximately 2 months in the 2006 results. On a per unit basis, distributable cash was $2.38 or $2.04 when calculated on a fully diluted basis, which is down from $2.96 and $2.31 respectively in 2006.

The decline of distributable cash on a per unit basis was primarily the result of three main factors. Firstly, Perimeter experienced a shortage of capacity until the third quarter of 2007 when its second Dash 8 aircraft went into operation. This capacity issue was largely solved with the arrival of the second Dash 8. Secondly, Keewatin also experienced a significant shortfall of capacity in 2007. The shortfall at Keewatin was the result of delays in completing the airlines changeover from single engine Pilatus PC12 aircraft to twin engine Beechcraft 1900C aircraft. The strong state of the world aviation market resulted in greater difficulty in sourcing suitable aircraft than had been anticipated. The Aviation segment also suffered from increased staff turnover as the major airlines intensified the recruiting of pilots from smaller airlines to meet their own requirements. This staff turnover increased staff training costs as well as created occasional pilot shortages. Finally, Jasper suffered from the slowdown of the oil patch in Alberta in 2007. Demand for tanks was down, and price became a bigger factor than delivery date. Although the company enacted several initiatives to assist in dealing with the changes in the market they were not sufficient to maintain the distributable cash generated at Jasper in 2006.

It should be noted that the decline in Distributable Cash per unit is greater when calculated on a simple basis (19%) than on a fully diluted basis (12%). This change is largely the result of the conversion of approximately $3.0 million in debentures into units of the Fund. Accordingly, the fully diluted calculation is the most appropriate in comparing year over year operating results.

Distributable Cash is not a term defined by GAAP, and as such is not calculated in a common manner by income funds. EIIF believes that it is most appropriate to calculate Distributable Cash by starting with a measure of cash profit (EBITDA) and subtracting cash interest, cash taxes and the capital expenditures required to maintain the operation at its current level. These sustaining capital expenditures are classed as maintenance capital expenditures. Other capital expenditures which are made to grow the enterprise and are expected to generate additional EBITDA are not included in the calculation of Distributable Cash.

During 2007 the Fund invested a total of $1.7 million in maintenance capital expenditures. Significant items included in this amount in the Aviation segment were various hangar upgrades, the purchase of additional ground equipment, and the overhaul of a Beech Baron and a Metro 3 aircraft before they were put into service. An enhanced computer network was also installed at Perimeter and Keewatin. Maintenance capital expenditures in the Manufacturing segment included welding, production and computer equipment at Jasper as well as additional service vehicles for Water Blast and production equipment upgrades at Overlanders.

In addition to the investments in maintenance capital expenditures, the Fund invested $9.3 million in growth capital expenditures during 2007. The most significant items in this area were the purchase of a second Dash 8 aircraft ($3.1 million), the purchase of two Beechcraft 1900C aircraft (total $5million), the completion of the construction of two additional hanger facilities and the purchase of a new sand blasting system.

Fourth Quarter Distributable Cash

The company generated Distributable Cash of $2.8 million in the fourth quarter of 2007 which was an increase of 65 % over the $1.7 million generated in 2006. As with the full years results this increase is the result of the inclusion of the operating results from the Water Blast acquisitions made during 2007, which were therefore not included in the 2006 comparative.

The Fund invested $1.1 million in capital expenditures in the fourth quarter of 2007. Approximately $0.4 million were classed as maintenance capital expenditures with the balance of $0.7 million classified as growth expenditures.

On a per unit basis distributable cash was $0.59 in the fourth quarter, or $0.52 when calculated on a fully diluted basis. Distributable cash was $0.62 and $0.49 respectively in the fourth quarter of 2006. The decrease in the simple amount per unit is the result of the conversion of units during 2007 as discussed above. The fully diluted distributable cash per unit increased in the fourth quarter of 2007 by 6% over 2006 because of the accretive acquisitions, and a stronger fourth quarter in the Aviation segment.

RECONCILIATION OF CASH FLOW FROM OPERATIONS TO DISTRIBUTABLE CASH

$000's	**2007**	2006
Cash flow from operating activities	**$ 7,821**	$ 10,676
Trust units issued for services	**-**	(446)
Overhaul accrual	**(806)**	(927)
Long-term debt discount accretion	**(801)**	-
Other	**559**	-
Changes in non-cash operating working capital items	**5,217**	(261)
Maintenance CapEx, net of gain on sale disposal of capital assets	**(1,659)**	(1,242)
Distributable cash	**$ 10,331**	**$ 7,800**

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

$000's (except ratios)	**2007**	2006	2005
Cash flow from operating activities	**$ 7,821**	$ 10,676	$ 4,712
Net earnings for the year	**7,594**	5,017	3,058
Distributions declared	**6,464**	3,337	2,090
Excess (shortfall) of cash flows from operating activities over distributions declared	**1,357**	**7,339**	**2,622**
Excess (shortfall) of net earnings for the period over distributions declared	**$ 1,130**	**$ 1,680**	**$ 968**
Payout ratios			
Distributions declared / cash flow from operating activities	**82.6%**	31.3%	44.4%
Distributions declared / net earnings for the year	**85.1%**	66.5%	68.3%

DISTRIBUTIONS AND PAYOUT RATIO

Actual distributions in 2007 totaled $6.5 million which was an increase of 94% over the $3.3 million paid in 2006. Distributions on a per unit basis were $1.45 in 2007 which was an increase of 15% over the $1.26 paid in 2006. Distributions were increased to $0.12 per unit monthly in December of 2006. They were paid at that level until November of 2007, when they were increased by 4% to $0.125 per unit.

The 2007 actual distributions per unit of $1.45 represent a payout ratio of 61%, or 71% when calculated on a fully diluted basis. This payout ratio is considered to be prudent and is reviewed by the Trustees of the Fund on a quarterly basis. The current rate of distribution is $0.125 per unit per month. Management expects that the Fund will generate sufficient cash in 2008 to exceed this distribution rate.

Actual distributions in the fourth quarter of 2007 totaled $1.85 million which was an increase of 99% over the $0.93 million paid in the fourth quarter of 2006. Distributions on a per unit basis were $0.37 in 2007 which was an increase of 9% over the $0.34 paid in 2006. Actual distributions in the fourth quarter of 2007 represent a payout ratio of 63% or 71% when calculated on a fully diluted basis.

The amounts and record dates of the distributions were:

	$000's (except per unit data)		2007			2006
			Distributions			Distributions
Month	**Record date**	**Per unit**	**Amount**	Record date	Per unit	Amount
January	January 31, 2007	$ 0.12	$ 332	January 31, 2006	$ 0.10	$ 257
February	February 28, 2007	0.12	477	February 28, 2006	0.10	257
March	March 30, 2007	0.12	525	March 31, 2006	0.10	257
April	April 27, 2007	0.12	529	April 28, 2006	0.10	258
May	May 29, 2007	0.12	540	May 31, 2006	0.10	259
June	June 29, 2007	0.12	544	June 30, 2006	0.10	262
July	July 31, 2007	0.12	550	July 28, 2006	0.10	272
August	August 31, 2007	0.12	557	August 31, 2006	0.11	291
September	September 28, 2007	0.12	559	September 29, 2006	0.11	294
October	October 31, 2007	0.12	563	October 31,2006	0.11	299
November	November 30, 2007	0.125	587	November 30,2006	0.11	300
December	December 31, 2007	0.125	701	December 29, 2006	0.12	331
Total		**$ 1.45**	**$ 6,464**		$ 1.26	$ 3,337

4. ANALYSIS OF OPERATIONS

				2007				2006
$000's	**Aviation**	**Mfg**	**Fund[2]**	**Consol**	Aviation	Mfg	Fund[2]	Consol
Revenue	$ 68,992	$ 37,021	$ -	$ 106,013	$ 69,565	$ 15,904	$ -	$ 85,469
Expenses[1]	58,970	29,114	2,625	90,709	59,834	13,197	574	73,605
EBITDA	$ 10,022	$ 7,907	$ (2,625)	$ 15,304	$ 9,731	$ 2,707	$ (574)	$ 11,864

1 Expenses exclude amortization and interest expense.
2 Fund is not a separate reportable segment. Fund includes expenses incurred at head office and is presented for reconciliation purposes.

REVENUE

Revenue for 2007 totaled $106.0 million an increase of 24% over the $85.5 generated in 2006. This increase was the result of an increase in revenues from the Manufacturing segment. Manufacturing revenues for 2007 were $37.0 million up 133% from the 2006 total of $15.9 million. Aviation revenues were virtually unchanged from 2006. Aviation revenue was $69.0 million in 2007 down less than 1% from the $69.6 million generated in 2006.

Revenues in the Aviation segment were affected by a number of factors, which in aggregate worked to offset one another. Firstly, both Perimeter and Keewatin faced shortages of capacity in 2007.

Perimeter solved this issue with the purchase of a second Dash 8 in the third quarter of the year. Keewatin dealt with shortages of capacity until the second Beechcraft 1990C went into service in the fourth quarter of 2007. The changeover from the single engine Pilatus PC 12 aircraft to the twin engine 1900 C was much more difficult than originally anticipated. The shortage of capacity at the airlines limited charter revenues. Perimeter faced new competition in its scheduled service at both its Winnipeg and Thompson bases as well as in Medevac operations throughout the province. The competitor in Thompson initially gained significant market share from Perimeter, as customers in the remote communities serviced from this base were interested in trying this new alternative. As the year progressed however Perimeter by virtue of its reliable service and enhanced marketing efforts was to able regain most of this market share. In early 2008, facing significant financial pressures the competitor ceased operation. Levels of competition change regularly for Perimeter, and management believes that it is well positioned to succeed in this environment as evidenced by the events at the Thompson base in 2007. Revenues were strengthened by price increases taken at both operations to offset increases in fuel costs experienced throughout the year. Revenues were also increased by a strong demand for evacuation work in Northern Manitoba as a result of forest fires which came very close to several First Nation communities. Finally revenues were also increased because of an abnormally strong Christmas travel season, where many of Perimeter's First Nations customers had additional disposable income resulting from the payout of the residential schools settlement with the Government of Canada.

Revenues in the Manufacturing segment increased by 133% from 2006, largely as the result of the acquisitions completed during 2007 and the effect of a full year of operations from the acquisition completed during 2006. Overlanders was purchased in October of 2006 and as such only contributed slightly in excess of two months revenues to the Funds consolidated results in 2006. Water Blast was purchased in March of this year while Hotsy Grand Prairie was purchased in May of this year, and MCS Industries was purchased In September. The addition of these entities has increased revenues in 2007 by $22.3 million. Sales at Jasper declined $1.3 million to $13.1 million as a result of weakness in the Alberta oil patch.

EBITDA

EBITDA for 2007 reached $15.3 million an increase of 29% over the $11.9 million generated in 2006. The Aviation segment EBITDA grew from $9.7 million in 2006 to $10.0 million in 2007 an increase of 3%. The Manufacturing segment generated EBITDA of $7.9 million, up by 192% from the $2.7 million generated in 2006. The EBITDA generated in the Manufacturing and Aviation segments was reduced by head office costs of $2.6 million, up from $0.6 million in 2006.

The Fund's EBITDA margin grew from 13.9% in 2006 to 14.4% in 2007. This increase is the result of the addition of the Water Blast companies during 2007 which operate at a significantly higher EBITDA margin than our other subsidiaries. The increase from the addition of Water Blast was offset by declines in margins at Jasper and in the Aviation segment. The decline in margins at Jasper was the result of continued upward pressure on costs in a period of lower customer demand and increased pricing pressure from customers.

Additional staff has been added at the Fund level to enable it to manage the growth that has occurred and that it expects to continue to experience. This increase in the size of the head office is the cause of a portion of the increase in costs incurred at the Fund level. The majority of the increase however relates to a management restructuring completed in January of 2007. Under this restructuring EIIF Management LP was created to oversee the operations of all of our subsidiaries. Certain staffing and other costs that were historically incurred in the operating segments are now included in the head office amount. The costs that were included at the operating segment level in 2006 that are now included in the head office cost were approximately $1.3 million. If the 2006 numbers were adjusted to conform to the 2007 presentation, the EBITDA generated in the Aviation segment would rise to $10.5 million, the EBITDA generated in Manufacturing segment increases to $3.3 million, while the EBITDA loss incurred at the Fund level would rise to $1.9 million. The year over year increase in head office costs when examined in this manner is therefore approximately $0.7 million.

The Aviation segment generated EBITDA of $10.0 million on sales of $68.9 million which results in an EBITDA margin of 14.5% for 2007. This is somewhat better than the EBITDA margin of 13.9% which was generated in 2006. However when the change to the presentation of head office costs is taken into consideration as discussed above, and the head office expenses no longer recorded at the aviation level are removed, the EBITDA margin for 2006 increases to approximately 15.1 %. Margins therefore deteriorated by approximately 0.6% in 2007. There are several factors which underlie this reduction. Firstly, increased competition particularly out of the Thompson base reduced load factors and therefore margins. This was exacerbated by management's strategic choice not to reduce its scheduled service in line with lighter volumes. While maintaining service levels was integral to regaining market share in the second half of the year it further reduced margins. Secondly, fuel costs increased significantly throughout the year, and while the costs were ultimately passed on to the customers through a fuel surcharge enacted in October, they increased Perimeter's costs in the period until this surcharge was implemented. Finally, the increased recruiting of pilots by the major airlines increased staff turnover. This increased turnover resulted in higher training and recruitment costs as well as occasional pilot shortages. These items were offset somewhat by the elimination of the lease costs of the PC-12 aircraft which were returned to the lessor. The full benefit of this change was not realized in 2007 as the replacement aircraft were not fully operational until the fourth quarter of the year. This resulted in increased costs for third party charters and the short term leasing in the first nine months of the year. Finally, margins were strengthened by elimination of the wet lease of a second Dash 8. Perimeter leased a second Dash 8 in the fourth quarter of 2006, but did not require such a lease in 2007.

Federal Government's Trust Tax Legislation

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

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

Changes to Tax Expense

In 2007 there were two changes proclaimed by the Federal Government which had a significant impact on the future tax expense of the Fund. In April 2007, the Federal Government included the proposed Trust Taxation in the Federal Budget ("Bill C-52"), which would result in certain income trusts, including the Fund, paying taxes after fiscal 2010, similar to those paid by taxable Canadian corporations. The payment of such taxes will, in the future, reduce the distributable cash of the Fund. Bill C-52 received a third reading on June 12, 2007 and then Royal Assent on June 22, 2007, thus fully enacting the tax measures. As the new tax rules were enacted in June 2007, the Fund recognized future income taxes on all its assets and liabilities, with a corresponding impact on future income tax expense or recovery based on the temporary differences expected to reverse after the date the tax is effective. The Fund had previously only recognized future income taxes on assets and liabilities which were in its subsidiaries that were structured as corporations. The second change occurred in December 2007, when the Federal Government approved by royal enactment the changes to the tax rates. These changes reduce the tax rate that will be in effect when future income tax assets and liabilities of the Fund will reverse.

In 2007, the combined effect of these two changes resulted in a $0.7 million one time decrease in the Fund's future income tax expense and a corresponding decrease to its future income tax liability. This adjustment to the future income tax expense resulted in a $0.17 increase in the net earnings per unit, $0.13 increase on a fully diluted basis. It should be noted that a change in tax rates in 2006 resulted in a $0.5 million decrease in the future tax expense, which increased the net earnings per unit $0.18, $0.13 on a fully diluted basis.

5. SUMMARY OF QUARTERLY RESULTS

	2007				2006			
$000's (except per unit data)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	$ 29,407	$ 26,595	$ 28,194	$ 21,818	$ 22,856	$ 20,727	$ 21,910	$ 19,976
EBITDA	4,126	4,223	4,548	2,408	2,643	3,311	3,292	2,619
Net earnings	2,607	2,010	2,012	965	1,031	1,472	1,415	1,099
Distributable cash	2,813	2,980	3,281	1,256	1,687	2,450	2,178	1,486
Earnings per unit:								
Basic	0.54	0.44	0.45	0.28	0.38	0.56	0.55	0.43
Diluted	0.50	0.41	0.42	0.28	0.35	0.46	0.46	0.38
Distributable cash per unit:								
Basic	0.59	0.65	0.74	0.37	0.62	0.93	0.84	0.58
Diluted	$ 0.52	$ 0.56	$ 0.62	$ 0.33	$ 0.49	$ 0.69	$ 0.66	$ 0.48

The purchase price allocation for the acquisitions of the Water Blast group of companies throughout 2007 was finalized in the fourth quarter of 2007. As a result, the quarterly results of 2007 have been adjusted to record the amortization of the intangible assets acquired from the date of acquisition as well as the future income tax related to the intangible assets. Total amortization, net of tax, recorded that relates to the intangibles acquired for 2007 is $347 net of tax, and includes $17 net of tax in Quarter 1, 2007, $108 net of tax in Quarter 2, 2007, $110 net of tax in Quarter 3, 2007 and $112 net of tax in Quarter 4, 2007. The table above includes the changes applicable to quarterly results and per unit information.

6. REVIEW OF FOURTH QUARTER 2007 RESULTS

The first and fourth quarters of the year are typically weaker than the second and third. This is the result of a number of factors. Firstly, the fourth quarter contains the Christmas and New Years holidays which result in the loss of 1 week of production in the Manufacturing segment, without any corresponding reduction in labor or overhead costs. Secondly the beginning of the fourth quarter is usually marked by a significant slowdown in the Aviation segment during freeze up. A number of the airports which service certain First Nation communities are located on islands and not on the mainland where the population live. During the period while the lake is freezing the only way to get to the airport is by helicopter which is very expensive and as such, travel is postponed in all but the most urgent situations. Finally the holiday season is exceptionally busy for the airlines, as passengers return to their communities with significant amounts of extra freight (holiday gifts, special foods etc.) While this drives up revenue, it is not as positive for margins as the vast majority of the volume is northbound. Extra flight segments are usually required to meet the customer demand northbound, but traffic southbound is very light which results in weaker than average margins.

EIIF had a strong fourth quarter in 2007, as revenues grew by 28% to $29.4 million up from $22.9 million in 2006. Revenues for 2007 in the Manufacturing segment increased by $5.6 million or 104% to $11 million. Revenues in the Aviation segment grew by $1 million or 6% to $18.4 million. The increase in manufacturing revenue was the result of $6.1 million in revenue from the businesses acquired in 2007 and 2006 which were not a part of EIIF for all or part of the fourth quarter in 2006. This amount was offset by a decline in revenue at Jasper of $0.5 million. The increase in revenue in the Aviation segment was the result of increased pricing over the same period in 2006, and increased travel over the Christmas season as set out in the discussion of 12 month revenues above. Aviation also benefited from the completion of the aircraft acquisition program.

Performance in the fourth quarter of 2007 showed significant improvement over the same period in 2006 as EBITDA increased by $1.5 million or 58%. The Aviation segment generated EBITDA of $3.0 million in the fourth quarter of 2007 up $0.7 million or 23% from the same period in 2006 (after adjusting 2006 for presentation of head office expenses). The Manufacturing segment generated EBITDA of $1.9 million in the fourth quarter, up an impressive $1.2 million or 171% over the adjusted fourth quarter of 2006. The EBITDA generated by the Aviation and Manufacturing segments was reduced by the costs of operating head office of $0.8 million. The head office costs are up from $0.4 million (adjusted) in the preceding year.

EBITDA margins for the fourth quarter of 2007 increased to 14.0% from 11.6% in 2006. The EBITDA margin in the Aviation segment increased to 16.4% in the fourth quarter, up from 14.4% (adjusted) in 2006. This improvement was the result of a fuel price surcharge implemented in October of 2007, the improvement in market share in Thompson, strong seasonal revenues, and the completion of changes to the fleet eliminating the need for third party charters and the replacement of leased aircraft at Keewatin with owned equipment. These factors were offset by increased competition out of the Winnipeg base in the scheduled business and increased competition in the Manitoba Medevac market.

The EBITDA margin for the Manufacturing segment increased to 21% from 13.1% (adjusted) in 2006. The main cause of this increase was the acquisition of the Water Blast companies which operate at higher margins than the existing operations. The effect of the Water Blast acquisitions was mitigated by lower margins at Jasper and Overlanders.

7. LIQUIDITY & CAPITAL RESOURCES

LIQUIDITY

As at December 31, 2007 the Fund had a net cash position of $1.2 million, net working capital of $23.4 million and a current ratio 2.8 to 1. The net working capital position of $23.4 million is an increase of $9.6 million or 70% over the December 31, 2006 level of $13.8 million. Approximately $8.2 million of this increase is attributable to the acquisition of the various Water Blast companies. The balance of the increase was generated from operations. The decline in cash from the preceding year is largely a result of increased non-cash working capital in existing enterprises over the previous year.

During the second quarter of 2007 EIIF arranged a new $65 million syndicated secured debt facility. The syndicate is being led by the TD Bank and includes the Royal Bank and Roynat Capital. The facility is available for acquisitions of additional companies, capital purchases within existing operations and for general corporate purposes. The interest rate is based on the Fund's EBITDA to net debt ratio, and the facility is subject to traditional positive and negative covenants as well as syndicate approval of larger acquisitions.

During 2007 the Fund utilized this facility to assist in funding the purchase of additional aircraft as well as the acquisition of the Water Blast companies. The year end amount outstanding on the facility is $26.6 million, which is shown on the balance sheet net of unamortized transaction costs of $0.5 million. This balance requires additional explanation however. The Fund had entered into a Letter of Intent to acquire Stainless Fabrication of Springfield Missouri during the fourth quarter. In order to have prudent levels of debt and equity available for the anticipated close of the transaction early in 2008 (the acquisition closed January 2, 2008) the Fund completed a $10 million offering of Fund Units in mid December of 2007. The proceeds of this offering, net of commissions and certain other costs were temporarily utilized to reduce the amount outstanding under the debt facility. Had this equity not been raised in preparation for the Stainless transaction the year end debt facility would have been approximately $9 million higher than the amount set out above. Approximately $20.3 million was drawn as of January 2, 2008 to facilitate the close of the Stainless acquisition. Following this transaction the Fund had $19.0 million available under this facility.

CAPITAL RESOURCES

The following summarizes the changes in the units outstanding of the Fund for the year ending December 31, 2007:

	Date issued	Number of units
Units outstanding, beginning of year		2,763,113
Units issued upon conversion of debentures	various	300,140
Units issued for private placement	February 15, 2007	1,200,000
Units issued to Water Blast vendors	March 16, 2007	392,773
Units issued to Water Blast Grande Prairie vendors	May 1, 2007	15,119
Units purchased under Employee Unit Purchase Plan	September 30, 2007	27,443
Units issued for public offering	December 20, 2007	909,100
Units outstanding, end of year		5,607,688

During 2007 certain employees of the Fund purchased units of the Fund under an Employee Unit Purchase Plan that entitles these employees to earn 33.3% additional units if they remain employed with the Fund or its subsidiaries during the 18 month vesting period from the issuance date of September 30, 2007.

The following summarizes the changes in the convertible debentures outstanding of the Fund for the year ending December 31, 2007:

Convertible Debentures		
9% SENIOR SECURED, MAY 7, 2009 MATURITY CONVERTIBLE AT $9.00 ($000's, par value)		
Debentures outstanding, beginning of year	$	2,996
Debentures issued		-
Debentures converted into units		(1,465)
Debentures outstanding, December 31, 2007		1,531
8% SENIOR SECURED, JULY 8, 2010 MATURITY CONVERTIBLE AT $11.50 ($000's, par value)		
Debentures outstanding, beginning of year		4,975
Debentures issued		-
Debentures converted into units		(1,580)
Debentures outstanding, December 31, 2007		3,395
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, December 31, 2007		2,500
8% SENIOR SECURED, AUGUST 12, 2011 MATURITY CONVERTIBLE AT $13.25 ($000's, par value)		
Debentures outstanding, beginning of year		7,000
Debentures issued		-
Debentures converted into units		-
Debentures outstanding, December 31, 2007		7,000
Total debentures outstanding, December 31, 2007	**$**	**14,426**

The following summarizes the contractual obligations of the Fund and its subsidiaries as at December 31, 2007:

	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	$ 26,600	$ -	$ 26,600	$ -	$ -
Operating leases	6,390	1,347	2,011	1,395	1,637
Total contractual obligations	$ 32,990	$ 1,347	$ 28,611	$ 1,395	$ 1,637

8. 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.

The Fund incurred aircraft lease expenses of $0.1 million in 2007 from 2811065 Manitoba Ltd. and during 2006 the Fund purchased jet fuel of $0.5 million, incurred lease expenses of $0.1 million, and received rent revenues of $0.1 million from 2811065 Manitoba Ltd. During the year ended December 31, 2006, the Fund purchased an aircraft and an additional engine for a combined $0.9 million.

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. The Fund paid commissions of $0.1 million during the year ended December 31, 2007 (2006 – $0.4 million). The payable to TCIG at December 31, 2007 was $0.5 million (2006 – $0.4 million).

Certain Water Blast retail and manufacturing locations in Alberta are leased from the current president of Water Blast who was the vendor that sold Water Blast to the Fund in March 2007. The terms of these leases are considered to be at market terms and recognized in the consolidated financial statements at the exchange amounts. The remaining length of term for the leases range from 3 to 5 years. The total costs incurred in 2007 under these leases are $0.3 million and recorded under general and administrative expenses, and at December 31, 2007 there is no related party balance recorded on the balance sheet. The total future minimum lease payments under these leases are described further in Note 20.

9. ACCOUNTING POLICIES AND ESTIMATES

CRITICAL ACCOUNTING ESTIMATES

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

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

Business Combination

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

Goodwill and Intangible Asset Impairment

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

Overhaul Provision

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

CHANGES IN ACCOUNTING POLICIES

The critical accounting policies are substantially unchanged from those identified in the MD&A for the year-ended December 31, 2006 with the exception of the adoption of the new accounting standards and new accounting policies described below.

On January 1, 2007, the Fund adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, Financial Instruments – Recognition and Measurement, Section 1530, Comprehensive Income, and Section 3856, Financial Instruments – Disclosure and Presentation. These sections establish the accounting and reporting standards for financial instruments, including embedded derivatives, and hedging activities, and require the initial recognition of financial instruments at fair value on the balance sheet. In accordance with the transition requirements of these sections, the comparative interim financial statements have not been restated.

Financial assets and liabilities

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

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

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

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

Transaction costs are included in the financial asset or liability and recognized over the life of the resulting instrument using the effective interest method. As at January 1, 2007, the Fund reclassified unamortized transaction costs of $1.4 million from deferred charges to long-term debt, convertible debentures and retained earnings. As a result, the long-term debt decreased $0.4 million, convertible debentures decreased by $1.0 million, units decreased by $0.1 million, and the retained earnings increased by $0.1 million. The transaction costs, which have been netted to long-term debt and convertible debentures, are being amortized using the effective interest rate method over the life of the related debt.

Embedded derivatives

Derivatives may be embedded in other financial instruments (the "host instruments"). Prior to the adoption of the new standards, such embedded derivatives were not accounted for separately from the host instrument, unless the derivative was part of a financial instrument that was recognized as both equity and as a liability, such as issued convertible debentures. Under the new standard, an embedded derivative has economic characteristics and risks that are not closely related to the economic characteristics and risks of the host instrument, and are measured at fair value with subsequent changes generally recognized in net earnings. This fair value measurement does not apply to derivatives that are recorded as equity. The impact of the change in accounting policy related to embedded derivatives was not material as the Fund has previously broken out the embedded call option in its convertible debentures and recorded it as equity. The Fund does not have any other material embedded derivatives.

Convertible Debt Instruments with Embedded Derivatives

EIC-164 provides guidance on whether an issuer of certain types of convertible debt instruments should classify the instruments as liabilities or equity, whether the instruments contain any embedded derivatives, and how the instruments should be accounted for and presented. The guidance also addresses earnings per unit implications. The Fund has adopted this guidance in the accounting for financial instruments in accordance with Section 3855. There is no financial statement impact as a result of the adoption of this standard.

Comprehensive income
Comprehensive income is composed of the Fund's net earnings and other comprehensive income. Other comprehensive income includes unrealized gains and losses on available-for-sale financial assets, foreign currency translation gains and losses on the net investment in self-sustaining operations and changes in the fair market value of derivative instruments designated as cash flow hedges, all net of income taxes. The components of comprehensive income are disclosed in the consolidated statements of comprehensive income. The Fund has no components of other comprehensive income.

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

Effective September 30, 2007, an Employee Unit Purchase Plan (EUPP) was offered to all employees of the Fund and its subsidiaries. Under the EUPP, employees make contributions of up to 5% of their base salaries to purchase Fund units out of Treasury, and upon the employees remaining employed with the Fund or its subsidiaries during the 18 month vesting period they are entitled to receive an additional number of units ("additional units") equal to 33.3% of the number of units they purchased. The fair value of units granted to employees is recognized as compensation expense with an increase to contributed surplus on a straight-line basis over the applicable vesting period. The fair value of the compensation associated with the additional units that will be awarded upon the vesting conditions of the plan being attained is estimated at approximately $0.1 million and will be recognized in the head-office expenses of the Fund over the 18 month vesting period beginning in October 1, 2007.

10. CONTROLS AND PROCEDURES

Internal Controls Over Financial Reporting

Management is responsible for establishing and maintaining internal controls over financial reporting in order to provide reasonable assurance with regards to the reliability of financial reporting and preparation of financial statements in according with Canadian generally accepted accounting principles.

An assessment of internal controls over financial reporting was conducted by the Fund's management, under supervision by the Chief Executive Officer and Chief Financial Officer. 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 the following control weaknesses which require further improvement:

- Control weaknesses surrounding the security of information have been identified within key information technology systems. The Fund has implemented a formal strategic plan and is currently addressing the remediation of all significant weaknesses; and
- Control weaknesses exist around inventory management at one of our recently acquired subsidiaries, specifically around the existence, accuracy and valuation of inventory. Management is committed to implementing proper inventory controls and will be focusing on this effort over the next 12 months. Certain mitigating controls have been put in place to help reduce the risk of material misstatement.

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 were evaluated by management as at December 31, 2007 and were determined to be effective.

11. BUSINESS RISKS

Risk Management

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

Interest Rates

After the Stainless acquisition (Note 21), the Fund has outstanding net secured bank debt of $45.0 million that bears interest at a floating rate. A one-percentage point increase in average interest rates would cost the Fund approximately $450,000 per annum. The convertible debentures have fixed interest rates which are not affected by changes in rates. The Fund is examining alternatives with its lenders to fix the rate on all or a portion of its floating rate debt. The Fund paid out 61% of its distributable cash in 2007 (71% if calculated on a fully diluted basis). Management believes that this relatively low payout ratio mitigates the risk of increasing interest rates.

Fuel Prices

Fuel is a very significant cost component in the operation of the Aviation segment. Each $0.01 increase per litre in the average cost of fuel increases the operating costs of the segment by approximately $145,000. While most of the travel by Perimeter and Keewatin customers is not discretionary (i.e. for medical or other necessary reasons) and overland travel from and to many of the communities serviced is only possible for brief periods of the year over winter roads, if prices were to escalate significantly it may impact demand for services. Second, if the competitive environment were to change, and the companies were unable to pass these increased costs on to the customer, future profits would be negatively impacted.

The Alberta manufacturing operations act somewhat as a hedge to increasing fuel prices. Increased oil prices increase the demand for Jasper's products as additional wells are brought into production. A significant decline in the price of oil 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 the operating environment, which will challenge the segments' ability to sustain their market leadership positions.

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

The Manufacturing segment focuses on specific geographical regions where some regions like Alberta have seen a downturn in the oil patch industry. There has been a significant reduction in the order book from previous year's levels. Water Blast and Jasper are both working to provide high levels of service and maintain customer relationships which will benefit them in the longer term. With the acquisition of Stainless, Jasper is now looking at sourcing tanks from Stainless to be more competitive in the industry.

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 in the Kivalliq region of Nunavut. The contract provides Keewatin with a fixed based fee to cover the costs of operating in Nunavut plus a variable fee per hour flown. The contract expires in early 2008, however Keewatin feels confident they will be successful in renewing the contract. Failure to win the contract would have a significant negative effect on the business of Keewatin.

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

Key Personnel

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

Tax Related Risks

In April 2007, the Federal Government included the proposed Trust Taxation in the Federal Budget ("Bill C-52"), which contained SIFT Rules that would result in certain income trusts, including the Fund, paying taxes January 1, 2011, similar to those paid by taxable Canadian corporations. The payment of such taxes will, in the future, reduce the distributable cash of the Fund. Bill C-52 received a third reading on June 12, 2007 and then Royal Assent on June 22, 2007, thus fully enacting the tax measures.

The SIFT Rules could become effective on a date earlier than January 1, 2011 if the Fund is deemed to have undergone "undue expansion" during the period from November 1, 2006 to December 31, 2010, as described in the Normal Growth Guidelines issued by the Department of Finance on December 15, 2006. The Normal Growth Guidelines indicate that the Fund will not lose the benefit of the deferred application of the new tax regime to 2011 if the equity capital of the Fund does not grow as a result of issuances of new equity (which includes units, debt that is convertible into units, and potentially other substitutes for such equity) before 2011 by an amount that exceeds the greater of $50 million and an objective "safe harbor" amount based on a percentage of the Fund's market capitalization as of the end of trading on October 31, 2006. Based on the Fund's market capitalization at October 31, 2006 it will be limited to $50 million per year in new equity.

There can be no assurance that the Fund will be able to retain the benefit of the deferred application of the SIFT Rules until 2011. Loss of the benefit of the deferred application of the SIFT Rules until 2011 could have a material and adverse affect on the value of the units. The SIFT Rules may have an adverse impact on the Fund and the unitholders, on the value of the units and on the ability of the Fund to undertake financings and acquisitions, and, at such time as the SIFT Rules apply the Distributable Cash of the Fund may be materially reduced. The effect of the recently enacted SIFT Rules on the market for the units is uncertain.

No assurance can be given that income tax law respecting income trusts and other flow-through entities will not be further changed in a manner which adversely affects the Fund and its unitholders.

The Fund had previously identified the change in income tax legislation as a risk and has consequently structured its affairs to be able to deal with this risk. The Fund is well positioned 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.

Capital Markets

One of the objectives of the Fund is continuing to acquire additional companies or interests therein in order to expand and diversify the Fund's investments. The ability to execute this objective is dependent on the Fund's ability to raise funds in the capital market. If the capital markets desire for income producing investments, such as EIIF, were to significantly decrease, the Fund would have difficulty in executing its acquisition objective.

Hotsy Distributorship Contract

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

Foreign Exchange

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

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

12. OUTLOOK

Acquisition strategy

The change in the taxation of trusts raises concerns as to whether there will be demand for income producing securities such as EIIF's units. This change together with the current sub prime market crisis in the US may significantly affect the current and future ability of the Fund to raise capital to enable it to execute its acquisition strategy.

Aviation Segment

Perimeter's second Dash 8 aircraft went into service in late September 2007 and Keewatin's second 1900C aircraft went into service in late November 2007. While the arrivals of both aircraft were significantly later than anticipated, both have had immediate benefits. The second Dash 8 eliminates the need to charter aircraft from a third party carrier under a "wet lease" arrangement, which are generally short term and extremely expensive. Perimeter was incurring third party charter expenses of approximately $150,000 per month before the second Dash 8 was put into service. The second 1900C at Keewatin has also had a positive impact on the size of charter service it can offer its customers. The 1900C seats up to 19 passengers and also eliminates the need for third party leases that Keewatin was incurring. The 1900C replaces a former leased Pilatus aircraft that had only nine seats, but was also a single engine aircraft. With more seats, customer service person, and a bathroom on board, the greater service is expected to increase the number of passengers on the flights.

In January of 2008, one of the competitors operating against Perimeter in its northern communities experienced financial difficulties and ceased operations. This was anticipated by Perimeter due to the competitive advantages Perimeter maintained over this competitor. As a result, Perimeter is expecting to increase its passenger loads going forward in these communities, which should have a positive effect on its income statement results. Perimeter expects however, that as in the past it will face additional competition at some point in the future. Management believes that Perimeter is well equipped to face this new competition if and when it occurs.

Throughout 2007 and into 2008, the management team at Perimeter has been meeting with individual communities about enhancing the service level Perimeter provides. A number of items have been addressed, while several more are continuing to be considered during ongoing service discussions, including: direct phone lines from the community nursing stations to Perimeter, aircraft available in each community for charters, pre-board screening equipment to reduce the amount of contraband items such as liquor from reaching the communities, hiring/training programs for First Nations people,

restaurant amenities within the Winnipeg terminal, and preferred supplier arrangements between the communities and Perimeter.

EIIF in conjunction with Perimeter management began discussions with virtually all communities serviced by Perimeter in 2007, with regards to preferred supplier arrangements. While Perimeter maintains a dominant market share in nearly all communities it services, the preferred supplier arrangements are meant to enhance relations with the specific communities, thereby solidifying and stabilizing cash flows in the future for Perimeter.

The exclusive contract between Keewatin and the Nunavut Government to provide medical evacuation services expires in the second quarter of 2008. The government has not yet issued any request for proposals for renewal of the contract, and due to the length of time required to review any proposals submitted, this contract is unlikely to be awarded until well after the second quarter of 2008. Keewatin's management has prepared their proposal and believes that their continued focus on high level medical operations and existing operations puts them in an excellent position to renew the contract. During 2007, Keewatin and Penny Triggs, the Vice President of Air Medical Operations, were recognized with the prestigious "Wilbur R. Frank Award" for excellence in nursing administration of medical aviation operations, which shows the success of the medical operations.

In early 2008, Keewatin was awarded an enhanced share of the medical travel market by the government of Nunavut. This award is set out in a three year contract. With this increased volume, there may be a requirement for additional scheduled aircraft capacity. Keewatin intends to provide the service in its current fleet for an initial period in order to determine the requirement if any for additional aircraft.

The labour market for both pilots and mechanics continues to be tight for the Aviation segment, however the airlines have been able to catch up on the hiring and training of mechanics, which has begun to alleviate this problem. As well, with the demise of Perimeter's northern competitor the airlines have been able to hire some of that competitor's pilots, most notably its chief pilot.

Perimeter has also acquired the only Metro aircraft flight simulator in North America. This simulator will assist in training new pilots more quickly in a efficient manner.

As part of the innovative ideas to attract staff, Perimeter has made presentations to several of the communities it services with respect to providing job training for several high demand positions within the airline. The cost of these programs would be incurred by Perimeter, provided these employees remain employed by the airline after their training. The program not only would alleviate some of the shortages of skilled labor, but would improve service by having more employees who speak the same languages as our customers.

<u>Manufacturing Segment</u>

The anticipation of the increased royalties in Alberta caused a period of uncertainty during the final half of 2007 that resulted in a wait and see attitude for many oil and gas servicing companies. In general, these companies are users of manufactured products produced by the Fund's subsidiaries Jasper Tank and Water Blast. This caution as well as the industry's overall catch up to demand from 2005 and 2006, has reduced order books to more traditional levels for these subsidiaries and other companies competing in the same markets.

This catch up period has allowed both Jasper Tank and Water Blast to staff their operations at more sustainable levels, and made them more competitive with outside suppliers shipping in finished goods at lower labor costs. It also forced both companies to search for more ways to streamline operations to reduce lead times.

While order books have returned to more traditional levels, it has improved the service to existing customers who were unwilling to wait several months for finished product. Jasper has implemented lean initiatives in an attempt to improve efficiency. While this has helped somewhat, the company is struggling to contain costs in a more price competitive economic environment.

The acquisition of Water Blast in March of 2007 provided a niche manufacturer and distributor of pressure washing and steam cleaning systems. One of Water Blast's strengths was its easily scaleable operations. The company's head office in Edmonton provides an excellent manufacturing base, where a consistent high quality niche product can be manufactured, and a large inventory base from which a number of smaller retail locations can be supplied. At the time of acquisition, Water Blast already had retail locations in Calgary, Red Deer, Lethbridge and Edmonton. Directly after the completion of the Water Blast acquisition, the manufacturing/warehousing space was doubled to accommodate additional growth of these retail locations. The only other Hotsy distributor in the province of Alberta, being Grande Prairie, was acquired 45 days after the Water Blast acquisition, while further expansion west into BC was being contemplated.

Water Blast BC was acquired in September 2007 and its existing retail store was expanded to accommodate the sales of not only MCS' equipment sold under the "Storm" brand name, but also Hotsy equipment as Water Blast was granted the exclusive distribution rights for Hotsy in British Columbia. While the entity has not been selling product long enough to have a reasonable expectation of future sales, management was pleased with early sales results. Given the vast size of the Vancouver trading area, a second retail location is expected to open in Richmond, British Columbia early in 2008. A location and experienced industry staff have already been secured. Further locations in neighboring geographies are being considered, and are expected to take advantage of the scale of the existing management of Water Blast BC. The previously manufactured products of Water Blast BC have now been integrated into the manufacturing base of Water Blast in Edmonton. Some operational savings with respect to economies of scale are expected from this integration.

A stronger focus on marketing and the addition of a second laser cutter to increase capacity had a positive effect on sales at Overlanders in 2007. While the company has less than 15% of sales in US dollars, many of their customers are selling finished product into the US market. The uncertain economic stability of the US market may have put pressure on the sales levels of Overlanders' customers, which would in turn affect sales growth at Overlanders. While their customers are cautious, none have had material reductions in demand at this point. Overlanders is hoping that any reduction in their customers demand is offset by the higher quoting pipeline now in place at Overlanders with the addition of a sales person in 2007. Several customers have expressed the possibility of expanding their product lines and Overlanders is in an excellent position to help them with that growth.

EIIF closed the acquisition of Stainless on January 2, 2008. Stainless produces stainless steel tanks for a variety of industries including pharmaceutical, food and beverage, transportation, ethanol, and dairy industries to name a few. While the order book for Stainless is strong at three to four months, some orders are being lost due to lengthy lead times. This was the same problem experienced by Jasper prior to 2007. Stainless has secured a lease for an additional 30% more manufacturing space directly across the street from its existing manufacturing facility and has growth capital expenditures of $1 million planned for equipment to increase capacity and reduce lead times. The increased capacity is expected to come on line by the second quarter of 2008.

While the demand for tanks in the ethanol industry has cooled, other industries remain strong which has kept sales steady. While many areas of the US economy seem to be heading towards a potential slow down, including manufacturing, the company is currently receiving large numbers of requests for quotes across a number of industries.

In anticipation of this potential slow down the company has begun looking at other geographical areas such as Canada for its products and services. This includes discussions between Stainless and Jasper which are investigating the possibility of synergies between the two entities. These possible synergies include having Stainless produce some stainless steel tanks for Jasper, which are currently sourced from a third party; and Jasper is also exploring opportunities to produce mild steel tanks for Stainless, which does not produce or sell any mild steel tanks, but does have requests to produce them from their existing customer base.

In February of 2008, EIIF hired a VP of Manufacturing. In addition to overseeing all manufacturing entities, one of his roles will be to maximize the internal synergies between the EIIF entities, including Stainless in Missouri.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Exchange Industrial Income Fund for the year ended December 31, 2007 and all information in this annual report are the responsibility of management. Financial information contained elsewhere in the annual report is consistent with that shown in the consolidated financial statements. The consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles, applied on a consistent basis. The significant accounting policies, which management believes are appropriate for the Fund, are described in note 2 to the consolidated financial statements.

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

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

The board of trustees is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The board of trustees carries out this responsibility principally through its audit committee, composed entirely of outside and unrelated trustees. The audit committee meets regularly with financial management of the Fund and with the independent auditor to discuss internal controls, audit matters, financial reporting issues and reports to the board of trustees thereon. The audit committee also reviews and approves the consolidated financial statements for inclusion in the annual report. The independent auditor has full and free access to the audit committee.
March 20, 2008

Adam S. Terwin
Chief Financial Officer

Michael C. Pyle
President &
Chief Executive Officer

AUDITORS' REPORT

To the Unitholders
Exchange Industrial Income Fund

We have audited the consolidated balance sheets of Exchange Industrial Income Fund as at December 31, 2007 and 2006, and the consolidated statements of operations, comprehensive income, equity, and cash flows for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP
Chartered Accountants

Winnipeg, Manitoba
March 20, 2008

CONSOLIDATED BALANCE SHEET

(amounts in thousands of dollars)

As at December 31		**2007**		2006
ASSETS				
CURRENT				
Cash and cash equivalents	**$**	**1,153**	$	4,603
Accounts receivable		**15,429**		11,002
Inventory		**18,638**		10,487
Prepaid expenses		**823**		552
Future income tax (Note 12)		**299**		185
		36,342		26,829
CAPITAL ASSETS (Note 4)		**56,448**		48,591
DEFERRED CHARGES (Note 5)		**-**		1,405
INTANGIBLE ASSETS (Note 6)		**6,907**		930
GOODWILL (Note 7)		**21,925**		12,292
	$	**121,622**	$	90,047
LIABILITIES				
CURRENT				
Accounts payable and accrued expenses	**$**	**12,404**	$	12,242
Deferred revenue		**531**		774
		12,935		13,016
LONG-TERM DEBT (Note 8)		**26,051**		24,049
CONVERTIBLE DEBENTURES (Note 9)		**13,008**		16,404
OVERHAUL ACCRUAL		**2,966**		2,160
CONTINGENT LIABILITIES (Note 19)		**167**		-
FUTURE INCOME TAX (Note 12)		**4,372**		4,736
		59,499		60,365
EQUITY		**62,123**		29,682
	$	**121,622**	$	90,047

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

Approved on behalf of the trustees by:

Duncan Jessiman, Trustee
Signed

Donald Streuber, Trustee
Signed

CONSOLIDATED STATEMENT OF OPERATIONS

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

For the year ended December 31		**2007**		2006
REVENUE	**$**	**106,013**	$	85,469
EXPENSES				
Direct operating		**69,548**		58,665
General and administrative		**21,161**		14,940
Interest		**4,014**		2,828
Depreciation and amortization		**4,429**		3,655
		99,152		80,088
EARNINGS BEFORE INCOME TAXES		**6,861**		5,381
INCOME TAX EXPENSE (RECOVERY) (Note 12)				
Current		**25**		445
Future		**(758)**		(81)
		(733)		364
NET EARNINGS FOR THE YEAR	**$**	**7,594**	$	5,017
EARNINGS PER UNIT (Note 13)				
Basic	**$**	**1.75**	$	1.91
Diluted	**$**	**1.63**	$	1.64

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(amounts in thousands of dollars)

For the year ended December 31		**2007**		2006
NET EARNINGS FOR THE YEAR	**$**	**7,594**	$	5,017
OTHER COMPREHENSIVE INCOME, net of tax		**-**		-
COMPREHENSIVE INCOME FOR THE YEAR	**$**	**7,594**	$	5,017

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

CONSOLIDATED STATEMENT OF EQUITY

(amounts in thousands of dollars)

For the year ended December 31	Trust Units (Note 10)	Convertible Debentures Equity Component (Note 9)	Retained Earnings: Cumulative Earnings	Retained Earnings: Cumulative Distributions (Note 11)	Total
2006					
Balance, beginning of year	$ 23,178	$ 887	$ 4,226	$ (2,878)	$ 25,413
Issued for purchase consideration	550				550
Issued for debenture conversions	1,136	(84)			1,052
Issued for services	446				446
Convertible debenture		541			541
Net earnings for year			5,017		5,017
Distributions declared				(3,337)	(3,337)
Balance, end of year	$ 25,310	$ 1,344	$ 9,243	$ (6,215)	$ 29,682
2007					
Balance, beginning of year	**$ 25,310**	**$ 1,344**	**$ 9,243**	**$ (6,215)**	**$ 29,682**
Adjustment to opening balance as a result of application of CICA 3855	**(115)**		**110**		**(5)**
Issued for cash and purchase consideration	**28,081**				**28,081**
Issued for debenture conversions	**3,014**	**(234)**			**2,780**
Issued under the Employee Unit Purchase Plan	**322**				**322**
Change in substantively enacted tax rates	**133**				**133**
Net earnings for year			**7,594**		**7,594**
Distributions declared				**(6,464)**	**(6,464)**
Balance, end of year	**$ 56,745**	**$ 1,110**	**$ 16,947**	**$ (12,679)**	**$ 62,123**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(amounts in thousands of dollars)

For the year ended December 31		**2007**		2006
OPERATING ACTIVITIES				
Net earnings for the year	**$**	**7,594**	$	5,017
Items not affecting cash:				
Depreciation and amortization		**4,429**		3,655
Accretion of interest		**727**		187
Long-term debt discount accretion		**801**		-
Trust units issued for services		**-**		446
Overhaul accrual		**806**		927
Future income tax		**(760)**		183
Other		**(559)**		-
Changes in non-cash operating working capital items (Note 16)		**(5,217)**		261
		7,821		10,676
FINANCING ACTIVITIES				
Proceeds from (repayment of) long-term debt, net of issuance costs		**1,301**		3,813
Proceeds from issuance of convertible debentures, net of issuance costs		**-**		6,446
Proceeds from issuance of trust units, net of issuance costs		**28,408**		550
Cash distributions to unitholders		**(6,464)**		(3,337)
		23,245		7,472
INVESTING ACTIVITIES				
Purchase of capital assets, net of disposals		**(10,883)**		(7,257)
Cash outflow for acquisitions and acquisition costs (Note 3)		**(23,953)**		(6,160)
Cash acquired in acquisitions		**320**		1
		(34,516)		(13,416)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(3,450)**		4,732
CASH (BANK INDEBTEDNESS) POSITION, BEGINNING OF YEAR		**4,603**		(129)
CASH AND CASH EQUIVALENTS, END OF YEAR	**$**	**1,153**	$	4,603
Supplementary cash flow information				
Interest paid	**$**	**3,440**	$	2,412
Income taxes paid (recovery)	**$**	**(141)**	$	181

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

1. BASIS OF PRESENTATION

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

As at December 31, 2007, the principal wholly-owned operating subsidiaries of the Fund are Perimeter Aviation Ltd. ("Perimeter"), Jasper Tank Ltd. ("Jasper"), Overlanders Manufacturing LP ("Overlanders"), and Water Blast Manufacturing LP ("Water Blast"). Keewatin Air Ltd. ("Keewatin") and 4873999 Manitoba Ltd. are wholly owned subsidiaries of Perimeter. Water Blast Manufacturing Calgary Ltd ("Water Blast Calgary"), Water Blast Grande Prairie Ltd. ("Water Blast Grande Prairie") and Water Blast Manufacturing B.C. Ltd ("Water Blast BC") are wholly owned subsidiaries of Water Blast. Through the Fund's subsidiaries, products and services are provided in two business segments: Aviation and Manufacturing. As described in Note 21, on January 2, 2008, subsequent to December 31, 2007, the Fund acquired Stainless Fabrications Inc. ("Stainless").

2. SIGNIFICANT ACCOUNTING POLICIES

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

a) Principles of Consolidation

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

b) Revenue Recognition

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

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

The Fund recognizes manufacturing product revenue when the title has been passed to the customer, at this time the effective control of the product and the risks and rewards of ownership have been passed to the buyer. Payments received in advance, including up-front non refundable deposits, are recorded as deferred revenue until the product has been delivered to the customer.

c) Cash and Cash Equivalents

Cash and cash equivalents comprise cash and temporary investments consisting of highly liquid investments having a maturity of three months or less. Interest is recorded on an accrual basis.

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 lower of cost of materials and labour, plus applicable overhead, and net realizable value.

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%
Other	25% - 30%

Leasehold improvements over the term of lease

f) *Lean Manufacturing Costs*

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

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 2007.

h) *Intangible Assets*

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

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

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.

<u>Federal Government's Trust Tax Legislation</u>

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

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

k) *Overhaul Accrual*

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

l) *Financial Instruments and Comprehensive Income*

On January 1, 2007, the Fund adopted Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3855 – Financial Instruments – Recognition and Measurement, Section 1530 – Comprehensive Income, Section 3861 – Financial Instruments – Disclosure and Presentation, and Section 3865 – Hedges, and Section 3251 - Equity. These sections establish the accounting and reporting standards for financial instruments, including embedded derivatives, and hedging activities, and require the initial recognition of financial instruments at fair value on the balance sheet. In accordance with the transition requirements of these sections, the comparative financial statements have not been restated.

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

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

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

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

Transaction costs are included in the financial asset or liability and recognized over the life of the resulting instrument using the effective interest method. As at January 1, 2007, the Fund reclassified unamortized transaction costs of $1.4 million from deferred charges to long-term debt, convertible debentures and retained earnings. As a result, the long-term debt decreased $0.4 million, convertible debentures decreased by $1.0 million, units decreased by $0.1 million, and the retained earnings increased by $0.1 million. The transaction costs, which have been netted to long-term debt and convertible debentures, are being amortized using the effective interest rate method over the life of the related debt.

Embedded derivatives
Derivatives may be embedded in other financial instruments (the “host instruments”). Prior to the adoption of the new standards, such embedded derivatives were not accounted for separately from the host

instrument, unless the derivative was part of a financial instrument that was recognized as both equity and as a liability, such as issued convertible debentures. Under the new standard, an embedded derivative has economic characteristics and risks that are not closely related to the economic characteristics and risks of the host instrument, and are measured at fair value with subsequent changes generally recognized in net earnings. This fair value measurement does not apply to derivatives that are recorded as equity. The impact of the change in accounting policy related to embedded derivatives was not material as the Fund has previously recorded the embedded call option in its convertible debenture and recorded it as equity. The Fund does not have any other material embedded derivatives that require bifurcation.

Convertible Debt Instruments with Embedded Derivatives
EIC-164 provides guidance on whether an issuer of certain types of convertible debt instruments should classify the instruments as liabilities or equity, whether the instruments contain any embedded derivatives, and how the instruments should be accounted for and presented. The guidance also addresses earnings per unit implications. The Fund has adopted this guidance in the accounting for financial instruments in accordance with Section 3855. There is no financial statement impact as a result of the adoption of this standard.

Comprehensive income
Comprehensive income is composed of the Fund's net earnings and other comprehensive income. Other comprehensive income includes unrealized gains and losses on available-for-sale financial assets, foreign currency translation gains and losses on the net investment in self-sustaining operations and changes in the fair market value of derivative instruments designated as cash flow hedges, all net of income taxes. The components of comprehensive income are disclosed in the consolidated statements of comprehensive income. The Fund has no components of other comprehensive income.

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

m) 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.

n) 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 and 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.

o) Stock-Based Compensation

Certain employees of the Fund participate in a stock based compensation plan of the Fund's units (Note 10). The fair value of units granted to employees is recognized as compensation expense with an increase to contributed surplus on a straight-line basis over the applicable vesting period. For a unit granted to an employee who is eligible to retire at the grant date, the fair value of the unit is expensed on the grant date. For a unit granted to an employee who will become eligible to retire during the vesting period, the fair value of the unit is expensed over the period from the grant date to the date the employee become eligible to retire.

p) *Comparative Figures*

Certain items in the comparative consolidated financial statements have been reclassified to conform to the current year's financial statement presentation.

Future Accounting Standards

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

Inventory

The CICA issued Section 3031, Inventories, which will replace section 3030, Inventories. This new standard is effective for fiscal years beginning on or after January 1, 2008, and the Fund will adopt this section on January 1, 2008. Section 3031 provides more extensive guidance on measurement, and expands disclosure requirements to increase transparency. The Fund's current accounting policy for inventories is consistent with measurement requirements in this new standard and therefore it is not anticipated that the results of the Fund will be impacted; however, additional disclosures will be required in relation to inventories carried at net realizable value, the amount of inventories recognized as an expense, and the amount of any write downs of inventories.

Capital Disclosures and Financial Instruments – Presentation and Disclosure

The CICA issued three new accounting standards: Section 1535 – Capital Disclosures, Section 3862 – Financial Instruments – Disclosures, and Section 3863 – Financial Instruments – Presentation. These new standards will be effective for fiscal years beginning on or after October 1, 2007 and the Fund will adopt these section on January 1, 2008. The Fund is in the process of evaluating the disclosure and presentation requirements of the new standards.

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

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

Goodwill and intangible assets

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

3. ACQUISITIONS

Water Blast

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

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

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

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

Consideration given:		
Cash	**$**	**15,115**
Issue of 392,773 units of the Fund at a price of $12.73 per unit		**5,000**
Acquisition costs		**186**
Total purchase consideration	**$**	**20,301**
Fair value of assets acquired:		
Cash	**$**	**73**
Accounts receivable		**2,387**
Inventory		**4,690**
Prepaid expenses		**18**
Capital assets		**299**
Intangible assets		**5,300**
		12,767
Less fair value of liabilities assumed:		
Accounts payable and accrued liabilities		**1,092**
Future income taxes - intangible asset		**132**
Fair value of identifiable net assets acquired		**11,543**
Goodwill		**8,758**
Total purchase consideration	**$**	**20,301**

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

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

Other Water Blast Acquisitions

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

The aggregate cost of the acquired enterprises was $3,818, including acquisition costs of $95. The aggregate cost was funded by a combination of cash of $3,448, the issuance of units having a value of approximately $203 (15,119 units at a price of $13.39 per unit), and a recorded contingent consideration of $167. The purchase agreement for Water Blast BC includes a total contingent consideration of $300 that will be paid upon certain financial thresholds being met by Water Blast BC over the individual fiscal periods ending in 2011 and is further described in Note 19.

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

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

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

Overlanders Acquisitions

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 Statement of Equity 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.

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

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 liabilities	**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.

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

4. CAPITAL ASSETS

	2007 Cost	2007 Accumulated Amortization	2007 Net Book Value	2006 Net Book Value
Land	$ 351	$ -	$ 351	$ 351
Buildings	16,959	2,136	14,823	14,255
Aircraft	36,363	3,891	32,472	25,907
Equipment	9,965	2,456	7,509	7,230
Other	1,064	414	650	354
Leasehold improvements	845	202	643	494
Balance, end of year	$ 65,547	$ 9,099	$ 56,448	$ 48,591

Depreciation for the year ended December 31, 2007 was $3,661 (2006 – $2,852).

5. DEFERRED CHARGES

As a result of the adoption of the new financial instruments and comprehensive income accounting policies described in Note 2(l) above, the unamortized transaction costs within deferred charges was reclassified to long-term debt, convertible debentures and retained earnings.

Amortization for the year ended December 31, 2007 was nil (2006 – $507).

6. INTANGIBLE ASSETS

	2007 Cost	2007 Accumulated Amortization	2007 Net Book Value	2006 Net Book Value
Indefinite Life Assets				
Brand name	$ 5,195	$ -	$ 5,195	$ -
Finite Life Assets				
Customer contracts	370	138	232	213
Customer relationships	1,773	917	856	623
Lean manufacturing	559	9	550	-
Other	99	25	74	94
Balance, end of year	$ 7,996	$ 1,089	$ 6,907	$ 930

Amortization for the year ended December 31, 2007 was $768 (2006 – $294).

7. GOODWILL

	2007	2006
Balance, beginning of year	$ 12,292	$ 10,353
Goodwill from business acquisitions (Note 3)	9,633	1,939
Balance, end of year	$ 21,925	$ 12,292

8. LONG-TERM DEBT

	2007	2006
Revolving term facility	$ 26,600	$ 24,049
Operating line of credit	-	-
Total debt outstanding	26,600	24,049
less: unamortized transaction costs	(549)	-
Long-term debt balance, December 31, 2007	$ 26,051	$ 24,049

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

New Debt Financing Syndicate

During 2007 the Fund entered into a new debt facility with a syndicate of Canadian banks. The new syndicate adds Royal Bank to the existing syndicate and increases the size of the debt facility available by $31.5 million to $65.0 million. The new facility provides for an authorized 3 year revolving debt facility of $65.0 million, of which $26.6 million is drawn at December 31, 2007. The interest rate is determined by a pricing grid which is based on the Fund's EBITDA to net debt ratio and the Fund has the ability to choose the base interest rate between Prime, Bankers Acceptances or London Inter Bank Offer Rate (LIBOR). As at December 31, 2007, the weighted average interest rate of the debt facility was 6.83%. The facility is secured by a general security agreement over the assets of the Fund, subject to customary terms, conditions, covenants, and other provisions for an income trust.

The total syndicate facility includes a revolving operating line of credit up to a maximum of $5,000. At December 31, 2007, the operating line of credit was not drawn upon by the Fund (2006 – nil).

Interest expense related to long-term debt recorded during the year ended December 31, 2007 was $2,366 (2006 – $1,496). The principal payments in each of the next three years are: 2008 – nil, 2009 – nil, and 2010 – $26,600.

9. CONVERTIBLE DEBENTURES

Convertible Debentures - Debt Component	**2007**	2006
Series A - 2004: *9% SENIOR SECURED*		
MAY 7, 2009 MATURITY CONVERTIBLE AT $9.00		
Balance, beginning of year	**$ 2,875**	$ 3,547
Accretion charges	**36**	52
Debentures converted into units	**(1,417)**	(724)
Balance, end of year	**1,494**	2,875
Series B - 2005: *8% SENIOR SECURED*		
JULY 8, 2010 MATURITY CONVERTIBLE AT $11.50		
Balance, beginning of year	**4,686**	4,945
Accretion charges	**58**	69
Debentures converted into units	**(1,497)**	(328)
Balance, end of year	**3,247**	4,686
Series C - 2005: *8% SENIOR SECURED*		
SEPTEMBER 1, 2010 MATURITY CONVERTIBLE AT $13.25		
Balance, beginning of year	**2,350**	2,317
Accretion charges	**35**	33
Debentures converted into units	**-**	-
Balance, end of year	**2,385**	2,350
Series D - 2006: *8% SENIOR SECURED*		
AUGUST 12, 2011 MATURITY CONVERTIBLE AT $13.25		
Balance, beginning of year	**6,493**	6,459
Accretion charges	**91**	34
Debentures converted into units	**-**	-
Balance, end of year	**6,584**	6,493
Total debentures balance, December 31, 2007	**13,710**	16,404
less: unamortized transaction costs	**(702)**	-
Convertible Debentures balance, December 31, 2007	**$ 13,008**	$ 16,404

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.

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

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.

Convertible Debentures - Equity Component		**2007**		2006
Series A - 2004	**$**	**115**	$	226
Series B - 2005		**262**		384
Series C - 2005		**193**		193
Series D - 2006		**540**		541
Total balance, December 31, 2007	**$**	**1,110**	$	1,344

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 $3,045 were converted into 300,140 units of the Fund. Interest expense during the year ended December 31, 2007 was $1,648 (2006 – $1,331).

10. 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:

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

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

			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

11. 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:

		2007		2006
Balance, beginning of year	$	6,215	$	2,878
Distributions		6,464		3,337
Balance, end of year	$	12,679	$	6,215

The amounts and record dates of the distributions were:

	2007 Distributions					2006 Distributions				
Month	**Record date**		**Per unit**		**Amount**	Record date		Per unit		Amount
January	January 31, 2007	$	0.12	$	332	January 31, 2006	$	0.10	$	257
February	February 28, 2007		0.12		477	February 28, 2006		0.10		257
March	March 30, 2007		0.12		525	March 31, 2006		0.10		257
April	April 27, 2007		0.12		529	April 28, 2006		0.10		258
May	May 29, 2007		0.12		540	May 31, 2006		0.10		259
June	June 29, 2007		0.12		544	June 30, 2006		0.10		262
July	July 31, 2007		0.12		550	July 28, 2006		0.10		272
August	August 31, 2007		0.12		557	August 31, 2006		0.11		291
September	September 28, 2007		0.12		559	September 29, 2006		0.11		294
October	October 31, 2007		0.12		563	October 31,2006		0.11		299
November	November 30, 2007		0.125		587	November 30,2006		0.11		300
December	December 31, 2007		0.125		701	December 29, 2006		0.12		331
Total		$	1.45	$	6,464		$	1.26	$	3,337

12. INCOME TAX

Under the provisions of Bill C-52, Budget Implementation Act, 2007, which received Royal Assent on June 22, 2007, the Fund, as a publicly traded income trust, is considered a specified investment flow-through and will become subject to tax commencing January 1, 2011. Future income tax will be assessed based on temporary differences expected to reverse after 2011 at the substantively enacted tax rate for that period of 31.5%.

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

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

		2007		2006
Current future income tax assets:				
Non-capital loss carryforward (1)	$	299	$	185
Long-term future income tax assets:				
Deferred charges		-		213
Overhaul accrual		831		713
Non-capital loss carryforward (1)		1,045		384
Transaction costs		294		-
Warranty accrual		7		9
Transaction costs - January 1, 2011		133		-
		2,310		1,319
Long-term future income tax liabilities:				
Capital assets		(5,913)		(5,966)
Intangible assets		(522)		(89)
Capital assets - January 1, 2011		(247)		-
		(6,682)		(6,055)
Financial Statement Presentation:				
Current future income tax assets		299		185
Long-term future income tax liabilities		(4,372)		(4,736)

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

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

		2007		2006
Earnings before provision for income taxes	$	6,861	$	5,381
Combined Canadian federal and provincial tax rates		34.0%		35.6%
Income tax expense at statutory rates		2,333		1,918
Increase (decrease) resulting from:				
Net earnings of the Fund subject to tax in the hands of the unitholders		(2,198)		(1,189)
Permanent differences		156		50
Timing differences in non-taxable entities		(308)		74
Effect of enacted future rates on temporary differences and effect of Trust Taxation		(716)		(489)
Provision (recovery) for income taxes	$	(733)	$	364

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

13. EARNINGS PER UNIT

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

	2007	2006
Net earnings available to unitholders	$ 7,594	$ 5,017
Dilutive effect of convertible debentures	1,648	1,331
Diluted earnings available to unitholders	$ 9,242	$ 6,348
Basic weighted average number of units	4,333,309	2,630,870
Dilutive effect of convertible debentures	1,324,478	1,241,073
Average number of units outstanding - diluted basis	5,657,787	3,871,943
Earnings per unit:		
Basic	$ 1.75	$ 1.91
Diluted	$ 1.63	$ 1.64

14. 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 speciality metal manufacturers in Alberta and British Columbia. See Note 21 for the acquisition of Stainless subsequent to year-end 2007, which will be part of the Manufacturing segment and earns revenues throughout the United States.

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 inter-segment revenues and segment revenues presented in the table below are from external customers. The Fund is not a separate segment and is only presented as a reconciliation to enterprise revenues, EBITDA, total assets, capital asset additions and goodwill. The Fund includes expenses incurred at head office.

				2007
	Aviation	Manufacturing	Fund	Consolidated
Revenue	$ 68,992	$ 37,021	$ -	$ 106,013
EBITDA	10,022	7,907	(2,625)	15,304
Interest expense				4,014
Depreciation and amortization				4,429
Earnings before tax				$ 6,861
Total assets	$ 71,068	$ 49,222	$ 1,332	$ 121,622
Net capital asset additions	9,881	877	125	10,883
Goodwill (Note 3)	5,194	16,731	-	21,925

(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	
Net capital asset additions		6,094		3,745		49		9,888	
Goodwill		5,194		7,098		-		12,292	

15. EMPLOYEE UNIT PURCHASE PLAN

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

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

The plan was offered to employees during the third quarter of 2007 and 27,443 units were issued out of Treasury, effective September 30, 2007. The fair value of the compensation associated with the additional units that will be awarded upon the vesting conditions of the plan being attained is estimated at approximately $0.1 million (or the equivalent of 9,148 units) and will be recognized in the head-office expenses of the Fund over the 18 month vesting period beginning in October 1, 2007.

16. CHANGES IN WORKING CAPITAL ITEMS

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

		2007		2006
Accounts receivable	**$**	**(1,049)**	$	1,703
Inventory		**(1,969)**		(2,388)
Prepaid expenses		**(221)**		7
Accounts payable and accrued charges		**(1,735)**		566
Deferred revenue		**(243)**		373
	$	**(5,217)**	$	261

17. COMMITMENTS

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

		Commitments
2008	**$**	**1,347**
2009		**1,047**
2010		**964**
2011		**803**
2012		**592**
Thereafter		**1,637**
	$	**6,389**

Included in the table above are $2,633 of commitments obligated to a related party in association with leased property used in the operations of Water Blast which are described further in Note 20.

Capital Commitment
As at December 31, 2007, the Fund has capital commitments of approximately $1.6 million USD for the purchase option of an aircraft and approximately $0.3 million for the purchase of aircraft related equipment that will be acquired during Quarter 1, 2008.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Price Risk
The Fund is subject to minimal price risk affecting the value of financial instruments as a result of limited currency risk associated with the degree of volatility of short-term current financial assets and liabilities in United States dollars, limited interest rate risk as a result of changes in market interest rates, and no market risk coming from changes in a market price of a financial instrument or factor affecting the value of a financial instrument. As a result, the Fund has not used derivative instruments to reduce its exposure to price risk.

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.

Liquidity Risk
The Fund is subject to risk that it will encounter difficulty in renegotiating a renewal of its current debt facility (Note 8) or funds to meet the commitment associated with the debt facility that becomes due in 2010. The Fund doesn't anticipate any significant problem in renegotiating a credit facility to renew or replace the credit facility at the end of its term.

Cash Flow Risk
The Fund is subject to risk that future cash flows associated with the debt facility (Note 8) will fluctuate 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 due to the immediate or short-term maturities of these financial instruments. For the Fund's long-term debt, the historical cost carrying values approximate the fair values, since the interest rate is derived from floating rates.

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. The fair value of the cash flows associated with the convertible debentures and the embedded call option is $14,419 at December 31, 2007 (2006 – $18,492).

19. CONTINGENCIES

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

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

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

20. 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.

The Fund incurred aircraft lease expenses of $60 in 2007 from 2811065 Manitoba Ltd. and during 2006 the Fund purchased jet fuel of $472, incurred lease expenses of $85, and received rent revenues of $57 from 2811065 Manitoba Ltd. The receivable from 2811065 Manitoba Ltd. at December 31, 2007 is $22 (2006 – $4). During the year ended December 31, 2006, the Fund purchased an aircraft and an additional engine for a combined $882.

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. The Fund paid commissions of $102 during the year ended December 31, 2007 (2006 – $355). The payable to TCIG at December 31, 2007 is $466 (2006 – $363).

Certain Water Blast retail and manufacturing locations in Alberta are leased from the current President of Water Blast who was the vendor that sold Water Blast to the Fund in March 2007. The terms of these leases are considered to be at market terms and recognized in the consolidated financial statements at the exchange amounts. The remaining length of term for the leases range from 3 to 5 years. The total costs incurred in 2007 under these leases are $286 and recorded under general and administrative expenses, and at December 31, 2007 there is no related party balance recorded on the balance sheet. The total future minimum lease payments under these leases are described further in Note 17.

21. SUBSEQUENT EVENT

Acquisition of Stainless Fabrication, Inc.

On January 2, 2008, the Fund acquired the shares of Stainless Fabrications Inc ("Stainless"). The preliminary estimated purchase price of USD $22.0 million, subject to finalization of the working capital, was funded by a combination of USD $19.8 million of cash and the issuance of units having a value of USD $2.2 million (202,860 units at a price of $10.72 per unit to a Canadian dollar equivalent of $2.2 million).

Stainless designs and manufactures stainless steel tanks, vessels and processing equipment which are sold throughout the United States. The company services the healthcare, pharmaceutical, food, ethanol, dairy, beverage, chemical and transportation industries. The company provides both custom fabrication and field fabrication / erection services to customers. Total revenues earned by Stainless in the 2007 fiscal period were approximately $35 million USD.

The aggregate purchase consideration for Stainless will be an amount equivalent to a multiple of the average EBITDA for Stainless during the three fiscal years ending December 31, 2006, December 31, 2007, and December 31, 2008. Upon closing of the transaction, a preliminary payment of $22.0 million USD (as described above) will be made by the Fund. The final purchase price will be determined upon receiving the financial statements for all three years and any adjustments to the preliminary payment will be determined at that time, which is estimated to be at the beginning of the 2009 fiscal year.

The results of operations will be included in the Fund's Consolidated Statement of Operations after the date of acquisition and as a result the 2007 financial statements do not include any results of Stainless.

Corporate Governance

The Fund is an unincorporated, open-ended, limited purpose trust created to make regular distributions to the unitholders from its investments. The investments are held in a limited partnership, EIIF Management LP, the limited partnership units of which are owned by the Fund. The Fund also owns the shares of EIIF Management GP Inc., the general partner The Fund has a board of trustees and EIIF Management GP Inc. has a board of directors (collectively referred to herein as the Board).

At the Fund, it is believed that superior corporate governance practices are essential. From its commencement of operation as a junior capital pool company the Board understood that a strong corporate governance culture was essential to its future success. The Board still strongly believes this as the Fund graduates from the TSXV to the main board. The Fund as a Venture issuer maintained a best-practices standard in all its corporate governance initiatives and will continue to strive for this in the future.

The approach used by the Fund for corporate governance is consistent with National Policy 58-201 (Corporate Governance Guidelines). The Corporate Governance and Nominating Committee (the Governance Committee) reviews its corporate governance policies every time it meets. More detailed descriptions of the corporate governance policies and practices of the Fund can be found in the Fund's Management Proxy Circular document and annual information form available on the Fund's website (www.EIIF.ca) or on SEDAR (www.sedar.com).

Board Composition and Independence
The Board consists of qualified members with backgrounds that help the Fund meet its performance targets. There are four nominees for election to the Board of the Fund and eight nominees for election to the Board of GP. Three trustees of the Board of the Fund and five directors of the Board of the GP are independent within the meaning of the Corporate Governance Guidelines.

Board Roles and Responsibilities
The Board supervises the management of GP and is responsible for its overall stewardship. In summary, the Board is responsible for:
- management selection, retention, succession and remuneration;
- overseeing the development of the Fund's business strategy and monitoring its progress;
- approving significant Fund policies and procedures;
- timely and accurate reporting to shareholders and public filing of documents; and
- approving major Fund decisions and documents, including such things as audited financial statements, declaration of distributions, offering documents and initiation of bylaw amendments

Chairman of the Board
The Chair of the Board is an independent Director whose position is separate from the President and Chief Executive Officer. The Chair leads the Board and is responsible for enhancing its effectiveness. The Chair also acts as an advisor to the President and Chief Executive Officer and to other officers in all matters concerning the management of the Fund. The Governance Committee annually reviews the performance of the Chair of the Board.

Board Committees
The Board has five standing Committees and the Chairs of each Committee are responsible for the management, development and effective performance of their Committee. The Chair provides leadership to the Committee, with an aim to fulfilling the Committee's Charter and other matters delegated to it by the Board.

Audit Committee
All members of the Audit Committee are independent and financially literate. One member is recognized as a "financial expert". The Audit Committee helps the Board with (i) all matters relating to the external and contract internal auditors, (ii) reviewing and approving the audited financial statements and interim reporting, (iii) reviewing litigation claims and related disclosures, and (iv) overseeing accounting and risk management policies, reporting practices and internal controls.

Governance Committee
The Governance Committee helps the Board with (i) developing and complying with corporate governance policies and procedures, (ii) recommending candidates for election to the Board and its Committees, (iii)

assessing the management, development and effective performance of the Board, its Committees, and their respective Mandates and Charters and (iv) orientation, education and development of Board members.

Compensation Committee
The Compensation Committee helps the Board with setting the compensation for the President and Chief Executive Officer and other senior officers of the Fund, as well as overseeing the plans for (i) compensation, development and retention of employees, (ii) succession planning for senior officers and (iii) general compensation and human resource policies and issues.

Aviation Sector Committee
The Aviation Sector Committee will carry out the procedures, responsibilities and duties as a board of advisors to the operating entities in the Aviation segment with an aim of promoting the Aviation segment.

Manufacturing Sector Committee
The Manufacturing Sector Committee will carry out the procedures, responsibilities and duties as a board of advisors to the operating entities in the Manufacturing segment with an aim of promoting the Manufacturing segment.

2007 Governance Initiatives
During the year, the Governance Committee completed a number of governance initiatives, including:
- a gap analysis on Director skills from an understanding of governance requirements and the needs of the Fund;
- reviewing the Board membership matrix in connection with succession planning;
- an assessment of the annual Board review process; and
- the completion of the Corporate Governance Handbook

The Fund's management regularly reports to the Governance Committee on governance trends, issues and developments.

Ethical Business Conduct
The following are additional areas that incorporate the Fund's high standard of corporate governance to ensure that the unitholders continue to have confidence in the Board and support the Board's ability to supervise senior management and enhance the long term value for unitholders.

Code of Business Conduct – All Board members, employees and contractors must follow the Fund's Code of Business Conduct (the Code), which is available on the Fund's website (www.EIIF.ca). The Code provides guidance on such things as ethical business conduct, conflicts of interest, dealing with confidential information, insider information and the Policy for the Prevention of Improper Payments. The Board has not granted any waiver of the Code; therefore, no material change report has been filed in this regard. Annual certificates are provided by the Fund's executive officers verifying that (i) they adhere to the Code, (ii) the Code is regularly communicated and (iii) their employees adhere to the Code. All new employees must certify that they will comply with the Code during their employment.

Senior Financial Officers – The Fund's senior financial officers provide annual certifications under the Fund's Code of Ethics for Financial Officers. The President and Chief Executive Officer, and Chief Financial Officer certify the Fund's quarterly and annual financial statements for filing with the Canadian securities regulators.

Whistleblower Policy – With the Fund's whistleblower policy, employees can report questionable accounting or auditing matters on an anonymous and confidential basis. Complaints are directed to the Chair of the Audit Committee at a private number.

Disclosure Policy – The Fund has adopted a Public Disclosure Policy to govern the dissemination of information to the public and further its aim of providing clear and complete disclosure in a timely manner, while complying with all securities regulations. The procedure operating under this Policy establishes a committee that is led by the Executive Vice-Chairman, the Chief Executive Officer and the Chief Financial Officer, with representatives from all subsidiaries of the Fund. Different types of disclosure are approved by all or part of the Committee, as the circumstances warrant. The Chief Financial Officer must approve all material financial disclosures.

This report is submitted by the Governance Committee:
Duncan Jessiman (Chair)
Gary Filmon
Donald Streuber

Corporate Information

MANAGEMENT

(from left to right)

David Patrick
Manager, Financial Reporting

Dianne Spencer
Manager, Compliance

Duncan D. Jessiman
Executive Vice-Chairman

Michael Pyle
President and
Chief Executive Officer

Gary Bell
Director of Acquisitions

Adam Terwin
Chief Financial Officer

Mark Bullion
Manager, Internal Controls

Darwin Sparrow
Vice-President and Chief Operating
Officer - Manufacturing

Cheryl Lynne Lawrence
Director of Special Projects

Stephen Ellwein
Director of Special Projects – Operations
(no picture)

OFFICERS

Michael Pyle
President and
Chief Executive Officer

Adam Terwin
Chief Financial Officer

Darwin Sparrow
Vice-President and Chief Operating Officer - Manufacturing

Edward Warkentin
Corporate Secretary

LEGAL COUNSEL

Aikins, MacAulay & Thorvaldson LLP
Winnipeg, Manitoba

AUDITORS

Deloitte & Touche LLP
Winnipeg, Manitoba

BANKERS

TD Canada Trust
Roynat Inc.
RBC Capital Markets

TRANSFER AGENT

CIBC Mellon Trust Company
Calgary, Alberta

STOCK EXCHANGE LISTING

Exchange Industrial Income Fund
EIF.UN TSX

ANNUAL GENERAL MEETING

Wednesday, May 14, 2008
10:30 AM at the Victoria Inn & Suites
1808 Wellington Avenue, Winnipeg, Manitoba

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www.eiif.ca

WEBSITE LISTING

Perimeter Aviation: www.perimeter.ca

Keewatin Air: www.keewatinair.ca

Jasper Tank Manufacturing: www.jaspertank.com

Overlanders Manufacturing Inc: www.overlanders.com

Water Blast Manufacturing: www.hotsyalbertaab.com

Stainless Fabrication, Inc: www.stainlessfab.com

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