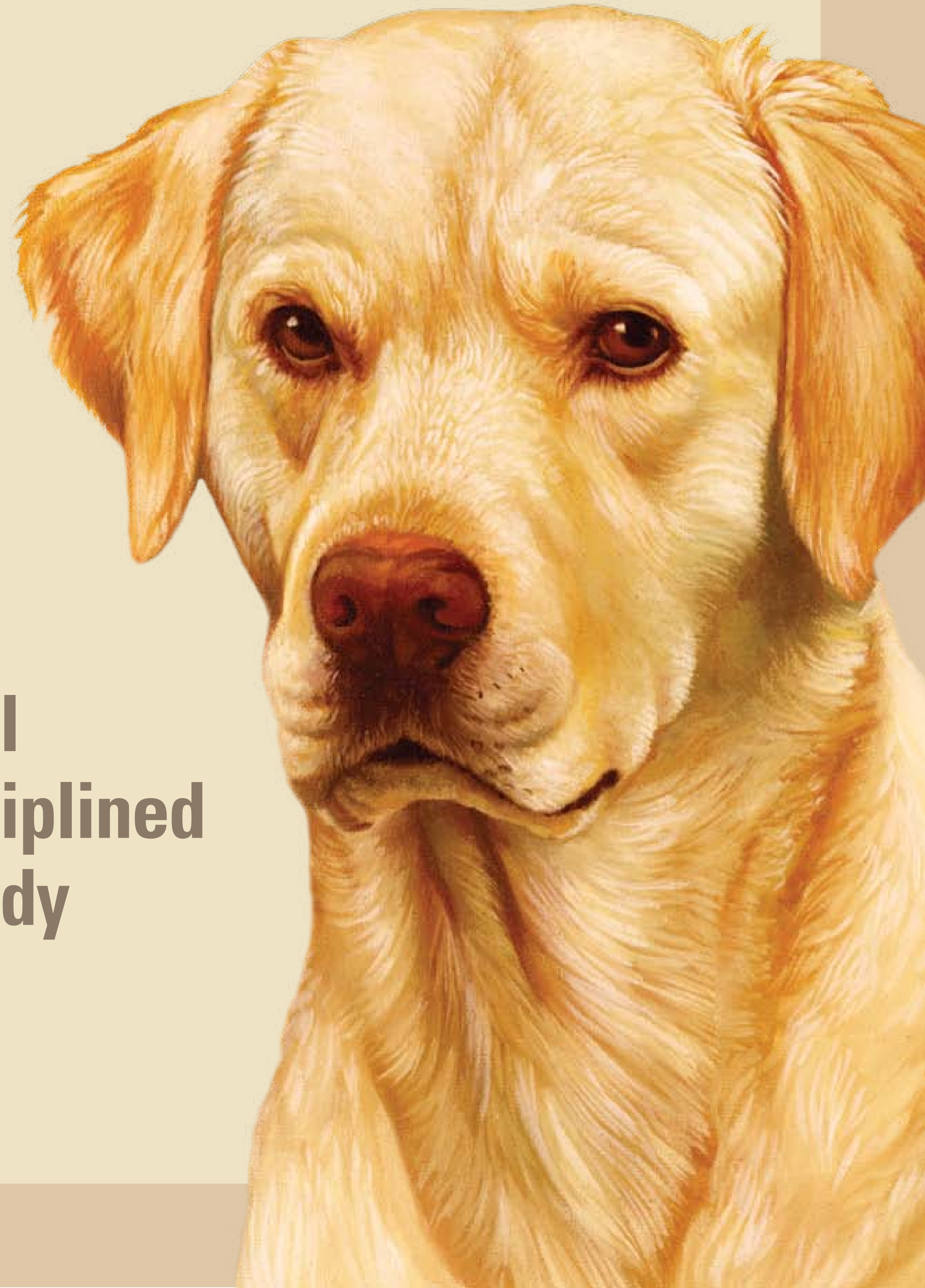
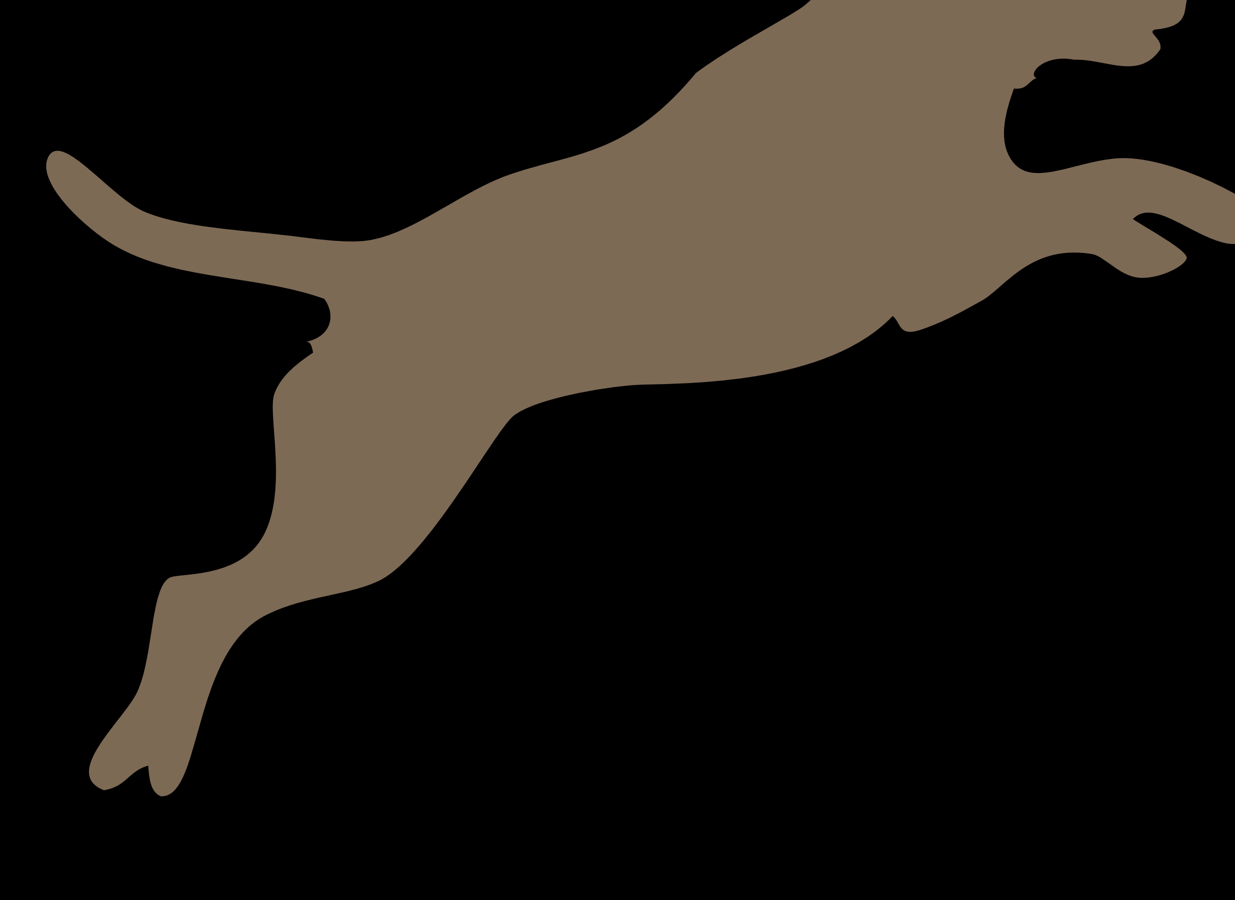
Exchange Income Corporation
annual report 2009



loyal
disciplined
steady

Exchange
Income
Corporation

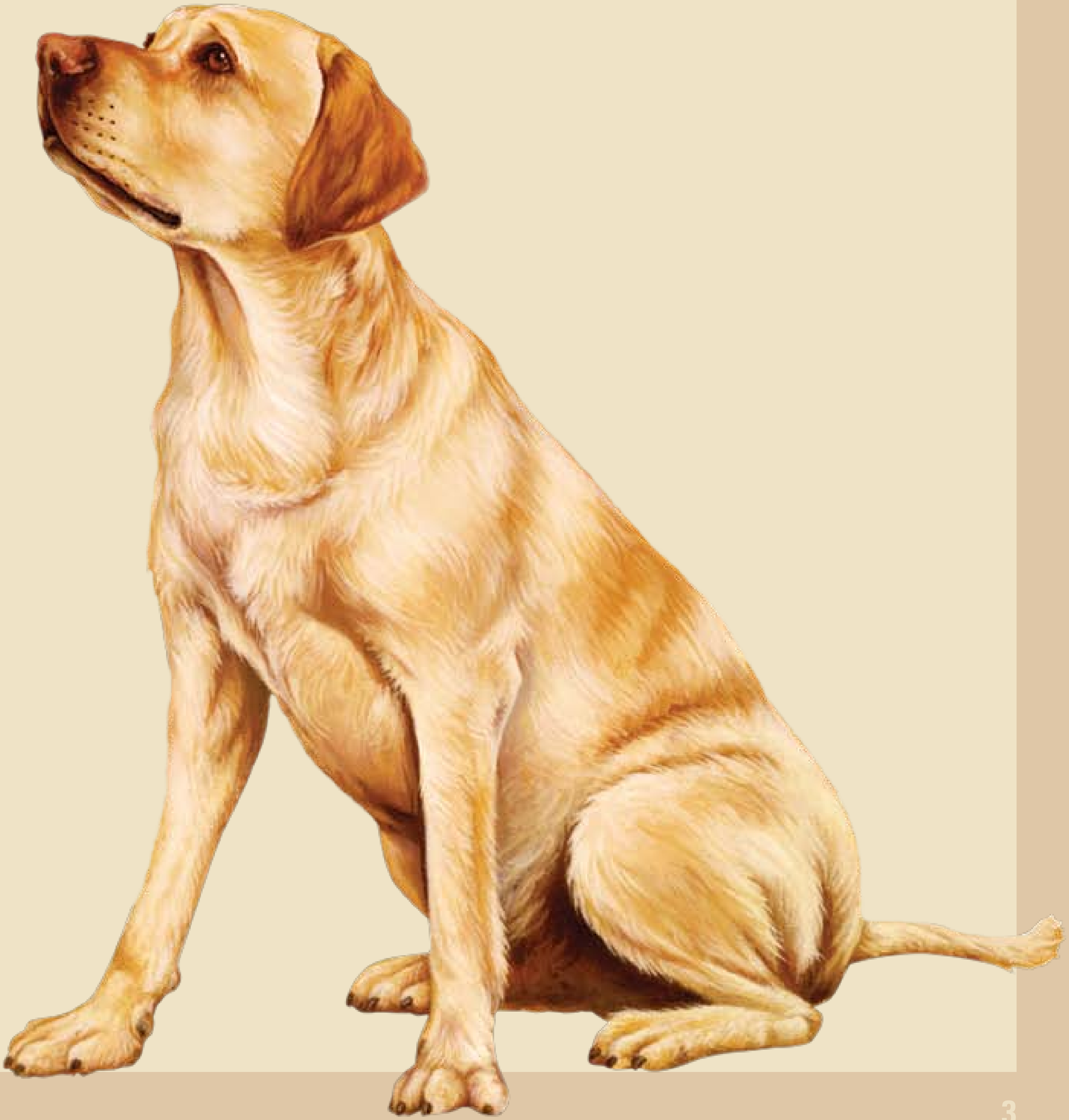


Let others fetch and chase the latest business fads and newest trends.

We'd rather stay. Stay focused, that is, on the core principles that have guided us since day one: be loyal to investors through regular dividends; be disciplined when making acquisitions; and be committed to growth that is stable and sustainable.

Who would you rather follow?

Meet Dividend.
Born in 2004, Dividend is a special breed.
Loyal. Disciplined. Dependable. Steady.
A winner.
And determined to get bigger and stronger.
Call him a shareholder's best friend.



Our disciplined approach to acquisitions

Identifying an acquisition target is relatively easy. The hard part – what we do best – is to take a disciplined approach to buy right. Each of our criteria must be satisfied or we walk away.

1. **get** it

The companies that we acquire have to be easy to understand. The reason? It reduces the chances of investing in the wrong companies or blindly chasing opportunities that will never pan out. Most of all, it helps us to avoid some of the pitfalls for failure.

2. **big on** management

Each of the companies we acquire must have a strong management team. Not just the CEO, but people that know the business and make it run. People who will help us grow the business to its full potential. People like the maintenance manger who keeps the fleet of planes running on time or the procurement manager who buys the right types of raw materials at the right price.

3. **defensible** cash-flows

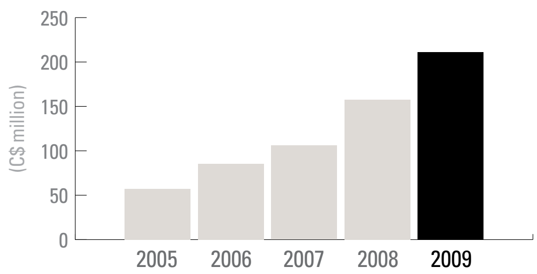
Our business is about generating free cash flows. Without it, we can't pay our dividends – the reason for our being. That's why we look for companies with strong cash flows. Those that are less likely to be threatened by competitors or volatile economic conditions.

4. **buy** right

We never pay more than a company is worth. Regardless of its future growth potential, we base our price on how the company has performed historically – and on how much revenue, EBITDA and cash flows it will generate for us today. In essence, the acquisitions have to be immediately accretive on a per share basis. Let others overpay, we won't budge from our convictions.

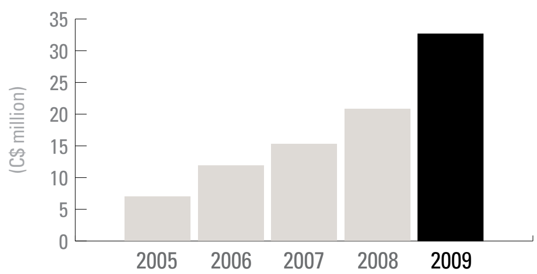
2009 financial highlights

revenue



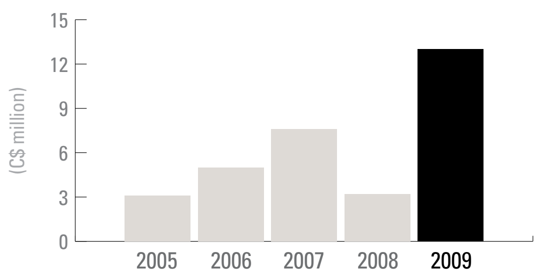
34%
growth to $211 Million

EBITDA



57%
growth to $32 Million

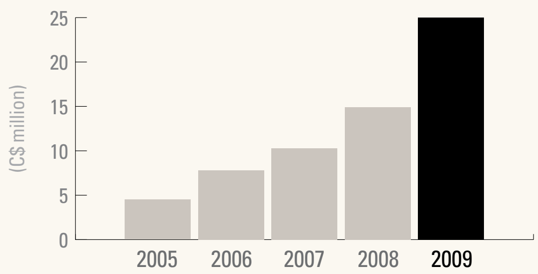
net earnings



307%
growth to $13 Million

2009 key performance highlights

distributable cash

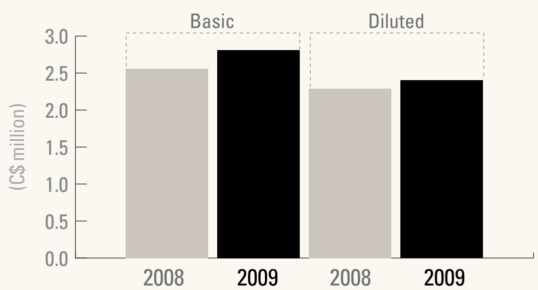


67%

growth to $25 Million

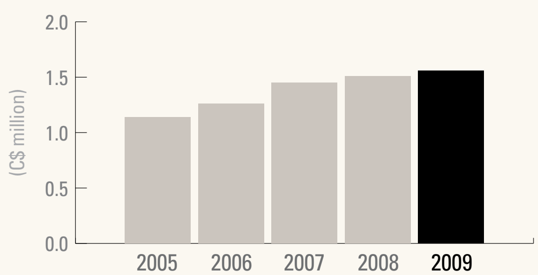
Distributable cash represents the sum of funds available to unit holders. It is provided for a basis of historical comparison when the Company operated as an income trust.

distributable cash per share



Basic	Diluted
10%	5%
growth to $2.81 per basic share	growth to $2.40 per share fully diluted

distributions per share



3%

growth to $1.56 per share, marking the sixth consecutive year of dividend increase

our subsidiaries

Aviation

	Perimeter	Keewatin	Calm Air
Year Acquired	May 2004	July 2005	April 2009
Assets	31 turbo-prop aircrafts (up to 36 seats)	9 turbo-prop aircrafts (up to 19 seats)	15 turbo-prop aircrafts (up to 68 seats)
Products / Services	Scheduled & chartered air transportation service for passengers & cargo; air ambulance services; commercial flight training school	Medical evacuation service under the Nunavut Lifeline brand; scheduled transportation service for passengers & cargo	Scheduled & chartered air transportation service for passengers and cargo.
Markets	Remote communities in northern Manitoba & Nunavut Territory; Provincial, Territorial, and Federal Governments		
Competitive Advantage	First Nations ownership in EIC; strong relationships with the First Nations community; Adjustable aircraft for quick reconfiguration to accommodate varying numbers of passengers vs. cargo; operates from own terminal at Winnipeg Airport enabling it to cater to customers' needs	Staffed with highly experienced medical professionals & flight crew; exclusive ownership of hangar facility at the Rankin Inlet airport; specially equipped aircraft for medical transport	Direct route between Winnipeg and Thompson, Manitoba; scheduled Nunavut service; strong reputational franchise; fleet specially adapted for passenger & freight configuration in the Arctic; state of the art hangar facility in Winnipeg, Thompson, & Churchill

Manufacturing

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

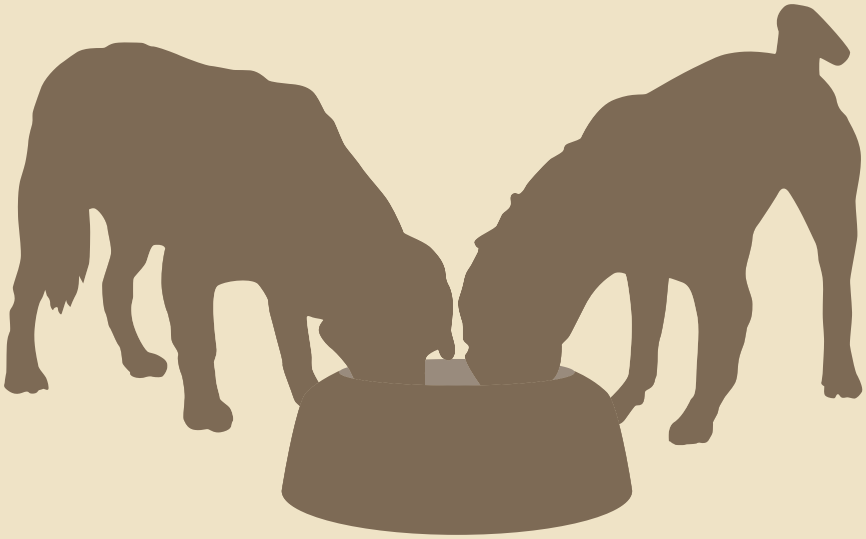
our discipline in action

A couple of years ago, we found a great company that matched our acquisition criteria. It was a simple story with strong defensible cash flows and we liked management.

We liked the fact that they had been in operation for more than 10 years and that the business had a recurring revenue stream. After a rigorous due diligence process and advanced negotiations, we reached a tentative deal at the high end of our valuation range.

At the 11th hour, we received an unexpected call. The company had received a higher offer from someone else and wanted us to match it. To be clear, we wanted to own the company. It would have fit in perfectly with our portfolio. We were excited to close the deal.

Instead, we walked. It was an easy decision.



chairman's message

2009 was a very exciting year for Exchange. In spite of a pronounced recession and the most difficult financial markets in a generation we were able to implement our business strategy, grow our assets and bottom line which has resulted in an improvement of 44% in our share price during 2009 to close the year at $12.91.

Our business model is predicated on a disciplined growth strategy, implemented by a strong management team which is backed by a dedicated and experienced board. We do not believe in growth for the sake of growth but rather look for acquisition opportunities that are accretive and will enable us to grow our dividends to our shareholders over time while maintaining a sustainable payout ratio.

Since our first acquisition in 2004, when we purchased Perimeter Aviation, the criteria that must be met for the Company to complete an acquisition remain unchanged. Any acquisition must have a proven market niche. It must have proven defensible cash flows. It must have an experienced management team. Lastly, it must be available at a price that is accretive to our shareholders. Our commitment to this strategy has served us well during the current economic downturn as the strength of our stronger performing subsidiaries has enabled us to deal with the challenges in others, while maintaining and in fact increasing our dividends.

We completed three significant transactions during 2009. In April we completed the acquisition of Calm Air, a regional airline servicing Northern Manitoba and Nunavut. Calm Air is a company which we have been interested in since our inception, and it has essentially doubled the size of our Aviation segment. We were able to finance this acquisition during a time of tremendous upheaval in the capital markets by raising approximately $29 million in units, warrants and convertible debentures. The commitment of the management team and Board of Directors to this transaction was very evident in this capital raise as over half of these funds were sourced from management, the Board of Directors, and other insiders.

Shortly after we completed the Calm Air transaction, our management team recommended that we convert from an income trust structure to a corporation through the acquisition of HMY Airways as a conversion vehicle. In order to complete this transaction, we went to the capital markets for a further $8 million. The conversion to the corporate structure has been a very important step for the Company as it eliminates investor concern about what will happen when the new tax laws for income trusts come into effect in 2011 and thereby has greatly increased our universe of potential investors.

We have already seen the benefits of this change as the liquidity of our stock has increased greatly since the conversion was completed and the share price of our stock has also increased over this time.

Finally, we completed a $30 million convertible debenture offering in September. While we had no immediate need for these funds, they have provided us with the ability to close an acquisition quickly should the opportunity present itself. Not all vendors are prepared to enter into a transaction that is subject to financing and having completed this offering, together with our debt facilities we are in a position to move quickly if and when required. In the short term we have reduced our long term debt with the proceeds of the debenture offering.

While the North American economy has begun to show signs of recovery, our Manufacturing segment is expected to continue to operate well below capacity in 2010. We believe that this will be offset by the performance of our aviation businesses. We are very well capitalized, with cash of $5 million and available credit of $80 million as at December 31, 2009 in our revolving credit facility. We remain committed to our business strategy of accretive acquisition. We will continue to perform to the highest standards of fiscal responsibility as we strive to grow Exchange Income Corporation and maximize the long term returns for our shareholders.

On behalf of the Board of Directors, I would like to thank shareholders for their continued support and welcome any new shareholders that are being introduced to our story here for the first time.

Gary Filmon

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

president's message

2009 was a year of significant achievement for our company. Against a backdrop of economic uncertainty and extreme volatility in the capital markets, we accomplished a series of milestones that validated our business model, disciplined approach to acquisitions and commitment to delivering stable dividends to our shareholders.

Our business model is designed to generate revenue streams from diversified operations. The intent is to deliver steady growth and withstand any fluctuations in the economy or adverse conditions in specific markets. The success of our approach was clearly evident in 2009. While our Manufacturing Segment was significantly impacted by a softening of demand for our specialty steel products, particularly in the oil and gas sector, our Aviation segment, which operates in remote areas with little competition, proved to be recession resistant and was responsible for our considerable growth.

Our disciplined approach to acquisitions was reflected through our purchase of Calm Air, a regional airline that provides essential passenger and freight services to northern Manitoba and Nunavut. Calm Air was acquired because we applied specific criteria that identify undervalued companies with strong management teams, generate revenue and cash flows that are immediately accretive, and operate in defensible markets. The acquisition of Calm Air, our largest to date at $59 million, essentially doubled the size of our Aviation segment and considerably strengthened our position as the dominant carrier in the communities that we serve.

Combined, our business model and strategic acquisition enabled us to achieve record financial results in 2009 across each of our key financial metrics. Most notably:

- Revenue grew by 34% to $211.3 million
- EBITDA increased by 57% to $32.7 million
- Net earnings were $13.0 million, or $1.47 per share ($1.39 fully diluted), up from $3.2 million, or $0.55 per share ($0.55 fully diluted), for 2008
- Distributable cash grew by 67% to $25 million
- Distributable Cash per share grew by 10% to $2.81 (or 5% fully diluted to $2.40)
- Total combined dividends and distributions paid to shareholders increased by 59% to $14.1 million
- Dividends per share paid to shareholders grew to $1.56, marking the six consecutive year of an increase in amounts returned to shareholders.

While 2009 was a year of considerable achievement, it was also marked by transformation. In July, we completed the conversion from an income trust structure to a publicly-traded corporation under a unit for share distribution arrangement. The conversion also resulted in the adoption of a new corporate name, Exchange Income Corporation.

Although the conversion required considerable effort, completing it well in advance of the mandated deadline delivers several advantages. Most notably, we can now concentrate our efforts on growing our business to new heights.

Looking ahead, our successes over the past year provide a solid platform on which we can grow. Even though adverse economic conditions continue to impact our Manufacturing segment, our diversified operations should help mitigate these negative effects. The success of our Aviation segment may attract potential competitors, but our low cost structure, customer relationships and management teams within that segment have historically enabled us to deal successfully with this competition.

Our focus throughout 2010 will be to identify companies that match our acquisition criteria. In particular, we will look for companies that will complement our existing operations. Over the longer term, we expect to add to our operating segments, which will enable us to further diversify our revenue streams, sustain our growth and increase our dividend payments to you, our shareholders.

Mike Pyle,
President and Chief Executive Officer

2009 operational milestones

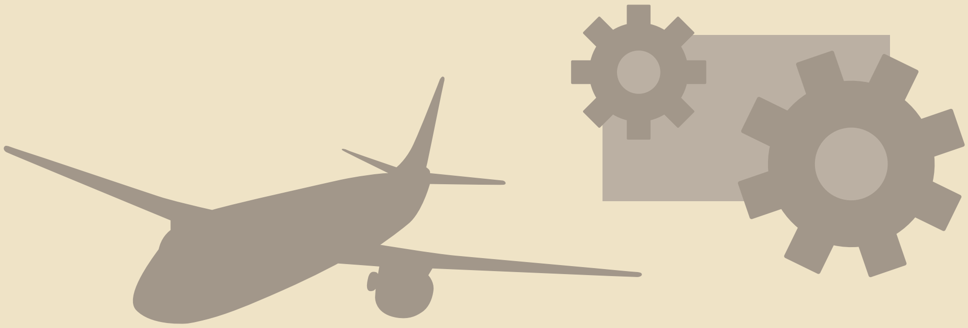
Acquired Calm Air, a regional carrier serving Manitoba and Nunavut. The acquisition, at $59 million, is our largest to date.

Completed the conversion from an income trust structure to a publicly-traded corporation under a unit for share distribution arrangement. The conversion was overwhelmingly approved by shareholders.

Changed the name of company to Exchange Income Corporation.

Completed a $30 million convertible debenture offering on a bought deal basis.

Implemented a Dividend Re-investment and Cash Purchase (DRIP) plan, enabling qualified shareholders to reinvest dividends they receive into additional shares at a discount to market.



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Management's Discussion and Analysis

March 11, 2010

Corporate Conversion

Pursuant to the plan of arrangement, the conversion of the Exchange Industrial Income Fund ("EIIF" or "the Fund") trust structure to a corporation resulted in unitholders of the Fund receiving one common share of Exchange Income Corporation ("EIC" or "the Company") for each trust unit held on the effective date of conversion, July 28, 2009. The Fund's convertible debentures outstanding at the effective date are now exchangeable into common shares of the Company ("Shares"). The Fund's warrants outstanding at the effective date are now exercisable into Shares of the Company. The consolidated financial statements of the Company have been prepared applying the continuity of interests method of accounting with the assets, liabilities and equity transferred from the Fund to EIC at their net book values as at the effective date of conversion. Accordingly, the comparative figures presented herein for the period prior to the effective date of the conversion are those of the Fund. As a result of the application of the continuity of interests method of accounting, certain terms such as shareholder/unitholder, dividend/distribution and share/unit may be used interchangeably throughout this discussion and analysis.

Introduction

This Management's Discussion and Analysis ("MD&A") supplements the audited consolidated financial statements and related notes for the year ended December 31, 2009 ("Consolidated Financial Statements") of the Company. All amounts are stated in thousands of Canadian dollars, except per share or per unit data, unless otherwise stated and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This discussion has been prepared with all available information up to and including the date of this report.

In accordance with the Canadian Institute of Chartered Accountants ("CICA") Emerging Issues Committee Abstract 170— Conversion of an Unincorporated Entity to an Incorporated Entity, the plan of arrangement as described above did not constitute a change of control. Accordingly, the consolidated financial statements of the Company have been prepared applying continuity of interests accounting. For the purpose of this Management's Discussion and Analysis, the term "Company" shall denote the financial position and results of operations for the Company and the Fund, and its respective subsidiaries, for all periods presented herein.

Forward Looking Statements

This annual report contains forward-looking statements. All statements other than statements of historical fact contained in this annual report are forward-looking statements, including, without limitation, statements regarding the future financial position, business strategy, proposed acquisitions, budgets, litigation, projected costs and plans and objectives of or involving the Company or the businesses in which it has invested. Persons reading this annual report can identify many of these statements by looking for words such as "believe", "expects", "will", "may", "intends", "projects", "anticipates", "plans", "estimates", "continues" and similar words or the negative thereof. Although management believes that the expectations represented in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct.

By their nature, forward-looking statements require assumptions and are subject to inherent risks and uncertainties including those discussed in this annual report. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. Readers of this annual report are cautioned to not place undue reliance on forward-looking statements made or incorporated by reference herein because a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to those risk factors set out in this annual report described in Section 11 – Risk Factors of the MD&A. We caution that the list of risk factors set out herein is not exhaustive and that when relying on forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this annual report form are made as of the date of this annual report or such other date specified in such statement.

Non-GAAP Financial Measures

Free Cash Flows, EBITDA, Distributable Cash and Adjusted Net Earnings are not recognized measures under Canadian GAAP and are therefore defined below. Free Cash Flows for the period is equal to cash flow from operating activities as defined by Canadian generally accepted accounting principles (GAAP), adjusted for changes in non-cash working capital and any unusual non-operating one-time items. Free Cash Flows is a performance measure used by investors to analyze the cash generated from operations before the seasonal impact of changes in working capital items or other unusual items such as conversion costs. It is used by management to assess its consolidated results and the results of its operating segments. 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. EBITDA is not a defined performance measure under GAAP and the Company's calculation of EBITDA may differ from similar calculations used by comparable entities. Distributable Cash is a performance measure used to summarize the funds available to unitholders of an income fund and was previously used by management to evaluate the ongoing performance of the Fund prior to the conversion to a corporation in addition to GAAP's defined measures such as net income for the period. Adjusted Net Earnings is defined as the Net Earnings for the period after adding back the after-tax impact of the conversion costs and the non-cash impairment losses. These conversion costs are considered to be one-time expenses. Investors are cautioned that Free Cash Flows, EBITDA, Distributable Cash and Adjusted Net Earnings should not be viewed as an alternative to measures that are recognized under Canadian GAAP such as net earnings, or cash from operating activities. The Company's method of calculating Free Cash Flows, EBITDA, Distributable Cash and Adjusted Net Earnings may differ from that of other corporations or of income funds and therefore may not be comparable to measures utilized by them. A reconciliation of cash flow from operating activities to Free Cash Flows and Distributable Cash is provided in Section 3 of this document below.

Additional Information

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

1. FINANCIAL HIGHLIGHTS

FINANCIAL PERFORMANCE	2009	per share basic	per share fully diluted	2008	per share basic	per share fully diluted
For the year ended December 31						
Revenue	$ 211,251			$ 157,663		
EBITDA	32,731			20,797		
Net earnings	12,989	1.47	1.39	3,188	0.55	0.55
Adjusted net earnings(1)	15,673	1.77	1.63	8,708	1.49	1.47
Free cash flows	27,706	3.14	2.65	18,577	3.19	2.82
Distributable cash	24,867	2.81	2.40	14,917	2.56	2.29
Dividends/distributions declared	14,060	1.56		8,862	1.51	
FINANCIAL POSITION	December 31, 2009			December 31, 2008		
Working capital	$ 5,458			$ 25,871		
Capital assets(2)	119,400			64,459		
Total assets	267,809			161,330		
Senior debt	28,390			40,911		
Equity	107,302			62,754		

(1) Net earnings include the non-recurring items and have been adjusted after tax for the following: conversion costs incurred in 2009 of $2.7 million ($2.3 million after tax) expensed by the Company in association with the conversion from an income trust to a corporation; and impairment write-downs in 2009 of $0.6 million ($0.4 million after tax) and in 2008 of $5.7 million ($5.5 million after tax). These non-recurring items are described below in Section 4 — Analysis of Operations.

(2) See Section 9—Accounting Policies and Estimates for accounting policy changes effective January 1, 2009 that restated prior periods.

2. OVERVIEW

Exchange Income Corporation

The Company is a diversified, acquisition-oriented corporation focused on acquisition opportunities in the Manufacturing and Aviation segments, in particular businesses that are suited for public markets, except, in certain circumstances, for their size. The business plan of the Company 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 Company are:

(i) to provide shareholders with stable and growing dividends;

(ii) to maximize share value through on-going active monitoring of its operating subsidiaries; and

(iii) to continue to acquire additional companies or businesses or interests therein in order to expand and diversify the Company's investments.

The Company's reportable business segments are strategic business units that offer different products and services. The Company has two reportable business segments: Aviation and Manufacturing:

(a) Aviation – providing scheduled airline service and emergency medical services to certain First Nations communities located in northern Manitoba and Nunavut, operated by Calm Air, Keewatin, Perimeter and 4873999 Manitoba Ltd.; and

(a) Manufacturing – manufacturing custom tanks for the transportation of oil and gas, operated by Jasper Tank; manufacturing precision sheet metal and tubular products, operated by Overlanders; manufacturing specialized stainless steel tanks, vessels and processing equipment, operated by Stainless; and manufacturing specialized heavy duty pressure washing and steam systems, operated by Water Blast. Water Blast is also the exclusive distributor in Alberta and British Columbia for Hotsy pressure washing cleaning equipment, which is used for a variety of light commercial and industrial applications.

The operating subsidiaries of the Company operate autonomously and maintain their individual business identities. Management of the Company continuously monitors the operating subsidiaries, and will undertake future acquisitions and divestitures as deemed beneficial to the Company.

Acquisitions

On April 8, 2009, the Company acquired 100% of the shares of A. Morberg Investment Corporation, the parent company of Calm Air International Ltd. ("Calm Air"). Calm Air is a regional airline carrier that provides both regularly scheduled and chartered passenger and cargo flights to 16 communities in Manitoba and Nunavut.

The total consideration for the acquisition was approximately $48.7 million. On closing of the transaction, the Company made a preliminary payment of $43.0 million which was funded with a combination of gross proceeds from the Company's public offering that closed on April 7, 2009 and a drawdown of the Company's amended bank credit facility. The vendor also received 624,211 Shares with a value of $5.9 million. The working capital adjustment was finalized in the fourth quarter, resulting in the Company receiving a payment from the vendor of $0.4 million. The Company also assumed certain debt obligations of $7.5 million (US$6.0 million) and paid certain other debt obligations of $2.9 million.

The gross proceeds of the April 7, 2009 public offering came from the issuance of Shares, warrants, and convertible debentures. The Company issued 2,398,554 Shares for gross proceeds of $21.8 million with a $9.10 per Share value. The Company issued 2,398,554 warrants for gross proceeds of $1.0 million with a $0.40 per warrant. Each warrant entitles the holder thereof to purchase one Share at a price of $10.00 per Share for a period of two years from the date of issuance of the warrant. A warrant does not give its holder any voting right or other right attaching to the Shares until the warrants are properly exercised and the Shares issued. Included in the issued Shares and warrants of the Company in the offering, the Company issued 198,765 Shares and warrants with a combined value of $1,888 pursuant to the over-allotment option of the offering. The Company also issued $4.1 million of Five Year 10% Series F Subordinate Secured Convertible Redeemable Debentures. These debentures bear interest at the rate of 10% per annum payable semi-annually in arrears, in cash. Total closing costs of the prospectus of approximately $1.5 million were incurred and assigned to the issued securities.

At the time of closing the acquisition of Calm Air, the Company increased its bank credit facility to $96 million, which included an amended pricing grid and added a fourth bank to the syndicate. The Alberta Treasury Branch was the fourth partner added to the existing syndicate of banks. In relation to the funding of the acquisition, the Company drew down $22.5 million from the amended credit facility. See Section 7—Liquidity and Capital Resources below for a description of the Company's bank credit facility outstanding at December 31, 2009 that was further amended during 2009.

As part of the acquisition of Calm Air, the Company assumed debt with Credit Lyonnais in association with the financing of two aircrafts that were purchased by Calm Air prior to the acquisition. The security provided are two SAAB 340B Plus aircraft within the Calm Air fleet, a spare engine, certain spare parts and a guarantee by the aircraft manufacturer. The weighted average fixed interest rate was 8.51% based on the interest rates of the remaining principal amount outstanding at the time of the acquisition. This debt had two maturities, one in 2009 and the other in 2010, both have monthly principal and interest payments. As at December 31, 2009, the remaining principal outstanding on this aircraft finance debt is US$2.8 million due in 2010 and the Company made principal repayments of $3.2 million during 2009.

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

- January 2, 2008: The Company closed the acquisition of 100% of the shares of Stainless Fabrication, Inc. ("Stainless") for preliminary aggregate consideration of approximately US$22.0 million. The first adjustment that was determined in the second quarter of 2008 based on the two-year annual EBITDA average ending December 31, 2007 and the finalization of the working capital adjustment resulted in a payable of US$1.8 million. This price was finalized in 2009 based on the three-year average EBITDA ending December 31, 2008. The finalization didn't result in any adjustment to the purchase price. Based in Missouri, Stainless designs and manufactures stainless steel tanks, vessels and processing equipment which are sold throughout the United States and Canada in a variety of industries.
- On July 8, 2008, the Company acquired the assets of a small competitor in the Aviation segment together with certain real estate assets owned by parties related to the competitor for aggregate consideration of $3.0 million.

3. KEY PERFORMANCE INDICATORS

The dividends declared by the Company to its shareholders are dependent on its cash flow from operating activities with consideration for changes in working capital requirements, investing activities and financing activities of EIC.

In order to reflect the Company's new corporate structure, certain disclosure and discussion of its key performance indicators and businesses will be different than they were as a trust. The free cash flows and EBITDA generated from operations are the important performance measures that will be used by management to evaluate the performance of the Company.

EBITDA

EBITDA is defined as earnings before interest, income taxes, depreciation, amortization, other non-cash expenses such as unrealized foreign exchange gains or losses and asset impairment, and any unusual non-operating one-time items such as conversion costs. It is used by management to assess its consolidated results and the results of its operating segments. 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. EBITDA is not a defined performance measure under GAAP and the Company's calculation of EBITDA may differ from similar calculations used by comparable entities. The following reconciles net earnings (loss) to EBITDA from operations and further discussion and analysis on the EBITDA results for the period can be found in Section 4—Analysis of Operations below.

EBITDA	2009	2008
Earnings before income tax	$ 13,593	$ 3,126
Interest expense	7,652	5,155
Amortization of intangible assets	1,417	2,034
Depreciation	7,913	4,814
Conversion costs	2,655	—
Foreign exchange gains on debt	(1,052)	—
Impairment loss	553	5,668
	$ 32,731	$ 20,797

Distributable Cash

The Fund converted to a corporation (Exchange Income Corporation) at the end of July 2009. Accordingly, Distributable Cash is not a metric which is commonly utilized to measure operating performance of a public corporation. Historically Distributable Cash was the key performance indicator under the predecessor's trust structure as it summarizes the funds available to unitholders of an income fund and was used by management to evaluate the ongoing performance of the Fund. Management believes, however, that it is a term with which its equity holders are familiar and have continued with this disclosure for 2009 and may do so for future periods. For this analysis, the dividends paid by the Company after the conversion to a corporation are combined with the distributions paid by the Fund in 2009 prior to the conversion.

Distributable Cash is not a term defined by GAAP and as such is not calculated in a consistent manner by other public entities. The Company 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 operations at their 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.

DISTRIBUTABLE CASH	2009	2008
EBITDA	$ 32,731	$ 20,797
Interest on bank debt	2,741	2,854
Interest on debentures	964	311
Interest on convertible debentures	2,057	1,164
Maintenance capital expenditures	2,132	1,581
Cash taxes	(30)	(30)
Distributable Cash	$ 24,867	$ 14,917
Distributable cash per share		
Basic	$ 2.81	$ 2.56
Fully Diluted	$ 2.40	$ 2.29
Dividends/distributions declared per share	$ 1.56	$ 1.51

Distributable Cash for the Company increased to $24.9 million in 2009, an increase of $10.0 million or 67% over the $14.9 million for the comparative 2008 year. The reason for the increase in Distributable Cash generated during 2009 is mainly a result of the higher EBITDA, offset by higher levels of interest paid and maintenance capital expenditures. EBITDA increased by 57% in 2009 and the main reason for this increase is the addition of Calm Air which contributed nine months of operation results. There was improved EBITDA generated at the other operating entities of the Aviation segment that also contributed to the overall consolidated increase but was offset by a decline in the Manufacturing segment EBITDA and higher costs incurred at the head office of the Company. These items are discussed further in Section 4—Analysis of Operations. There were higher levels of interest paid as a result of the Series E debentures outstanding for the full fiscal year in 2009 and only five months in the comparable 2008 year. As well, during 2009, the Company issued $4.1 million of Series F (April) and $30.0 million of Series G (September) convertible debentures with annual interest rates of 10% and 7.5%, respectively. The maintenance capital expenditures are described above under capital expenditures.

On a per share basis Distributable Cash increased to $2.81 for 2009 or $2.40 when calculated on a fully diluted basis. This is an increase of 10% and 5%, respectively, in comparison to 2008.

There were two significant items that affect the per share calculations for distributable cash, free cash flow and net earnings. The two items are the issuance of Shares and warrants to finance the acquisition of HMY Airways and the issuance of the Series G convertible debentures. These items increase the number of Shares outstanding during the period without having a corresponding increase to EBITDA, thus decreasing the per share calculations. The Company issued 938,256 Shares and warrants for the acquisition of HMY Airways on July 28, 2009, however, this transaction did not produce any additional EBITDA, as the transaction was performed to utilize HMY Airways as a vehicle for the conversion of Exchange Industrial Income Fund from an income trust to a corporation. The Company issued $30.0 million Series G convertible debentures on September 11, 2009, which were used to temporarily reduce other debt and were not utilized in a manner to generate additional EBITDA through an acquisition or capital investment, thus decreasing the fully diluted per share calculations. These funds are available to finance a future acquisition when a suitable target is identified. When the dilutive effect of these two equity transactions is removed from the per share calculations, the distributable cash per share increases to $2.98 for 2009 or $2.62 when calculated on a fully diluted basis. In comparison to 2008, this represents an increase to basic and fully diluted Distributable Cash of 16% and 14%, respectively.

Capital Expenditures

Management characterizes capital expenditures as either maintenance capital expenditures or growth capital expenditures.

CAPITAL EXPENDITURES		2009		2008
Maintenance capital expenditures	$	2,132	$	1,581
Growth capital expenditures		9,420		7,799
	$	11,552	$	9,380
Per share—Basic	$	1.31	$	1.61
Per share—Fully Diluted	$	1.03	$	1.34

Maintenance capital expenditures are those required to maintain the operations of the Company at its current level. Other capital expenditures are made to grow the enterprise and are expected to generate additional EBITDA. These other capital expenditures are classified as growth capital expenditures and are not considered by management in determining the cash flows required to sustain the current operations of the Company.

During the 2009 year, the Company invested a total of $2.1 million in maintenance capital expenditures, which is an increase of 35% over the 2008 year. Major items in the Aviation segment included an aircraft engine, improvements to certain hangars, as well as a parts counter and an operations centre, new fuel storage tanks and the installation of improved safety systems with the addition of traffic collision avoidance systems into some of the aircraft, ground equipment, and server upgrades. Major items in the Manufacturing segment included building improvements, server improvements, manufacturing equipment, and vehicles.

The Company also invested approximately $9.4 million in growth capital expenditures during the 2009 year, which is an increase of 21% over the 2008 year. At the end of the 2009 year, the Company took delivery of two aircrafts with a combined cost of $6.3 million, including an ATR 72 and a Metro III, which make up a significant portion of the year's expenditures. Other expenditures made during the 2009 year by the Company include costs related to the conversion of a new ATR aircraft in Calm Air to a freighter aircraft, improvements to various terminal facilities for the Aviation segment, new scanning equipment at Perimeter, a new information technology system at Water Blast, new machinery purchased at Stainless enabling it to enter into a new market and leasehold improvements at the Company's head office to facilitate the staff necessary with the acquisition of Calm Air.

Free Cash Flows

Free Cash Flows generated from operations is used by management to assess its primary sources and uses of cash flow and to assess the Company's ability to sustain its dividend policy. Free Cash Flows for the period is equal to cash flow from operating activities as defined by Canadian generally accepted accounting principles (GAAP), adjusted for changes in non-cash working capital and any unusual non-operating one-time items. Due to the seasonal fluctuation of certain non-cash working capital items and the limited impact those items have on determining the cash flows available to be paid to shareholders of the Company, the change in non-cash working capital items is added back.

FREE CASH FLOWS		2009		2008
Cash flows from operations	$	30,480	$	19,039
Change in non-cash working capital items		(5,429)		(462)
Conversion costs		2,655		—
	$	27,706	$	18,577
Per share—Basic	$	3.14	$	3.19
Per share—Fully Diluted	$	2.65	$	2.82

The Company generated Free Cash Flows of $27.7 million for the 2009 year, an increase of 49% over the $18.6 million generated in 2008. The increase of $9.1 million can be mainly attributed to acquisition growth and the higher amounts of cash generated from operations. The acquisition of Calm Air in April 2009 with its net earnings and cash flows generated from operations for the period is a significant reason for the increase. This is described in greater detail below in Section 4 — Analysis of Operations.

The conversion costs that the Company expensed in relation to the conversion to a corporation are one-time costs and not an operational cash item. As a result, the costs and cash outflows from the conversion are added to the Free Cash Flows for the 2009 year.

On a per share basis, Free Cash Flows decreased to $3.14 for 2009 or $2.65 when calculated on a fully diluted basis. This is a decrease in comparison to 2008 of 2% and 6%, respectively. If the fourth quarter of 2009 per share results for Free Cash Flows was adjusted to remove the dilution effect of the issuance of shares and warrants to finance the acquisition of HMY Airways and the issuance of the Series G convertible debentures as described above in the Distributable Cash section for 2009, the adjusted results for Free Cash Flows per share would be $3.32 or $2.90 fully diluted. The Free Cash Flows per share for comparative 2008 was $3.19 or $2.82 fully diluted.

Reconciliation of Cash Flow from Operations to Distributable Cash

	2009	2008
Cash flow from (used in) operating activities	$ 30,480	$ 19,039
Overhaul accrual	(312)	(2,094)
Changes in non-cash operating working capital items	(5,429)	(462)
Maintenance capital expenditures, net of gain on sale/disposal of capital assets	(2,132)	(1,581)
Conversion costs	2,655	—
Foreign exchange gains on debt (realized portion)	(511)	—
Other	116	15
Distributable Cash	$ 24,867	$ 14,917

The following table provides disclosure regarding the relationship between cash flows from operating activities and net earnings for the 2009 year compared to historical distributed cash amounts.

	2009	2008	2007
Cash flow from operating activities	$ 30,480	$ 19,039	$ 7,821
Net earnings for the year	12,989	3,188	7,594
Dividends/distributions declared	14,060	8,862	6,464
Excess (shortfall) of			
Cash flows from operating activities over dividends/distributions declared	16,420	10,177	1,357
Net earnings for the year over dividends/distributions declared	$ (1,071)	$ (5,674)	$ 1,130
Payout ratios			
Over cash flow from operating activities	46.1%	46.5%	82.6%
Over net earnings for the year	108.2%	278.0%	85.1%

Based on the information in the table above, there is a shortfall of net earnings for the 2009 year of 8% over distributions/dividends declared and the shortfall is attributable to two main factors that each individually would more than fully cover the shortfall. First and most importantly, an expense of $2.3 million after tax was recorded during 2009 resulting from the conversion from an income trust to a corporation. This expense is a one-time cost related to this restructuring and clearly will not recur in the future. If earnings are normalized for this amount, there is a considerable margin of earnings over the amount of distributions/dividends paid. Second, net earnings is impacted by the amortization of intangible assets that are purchased at the time of acquisition. The intangible assets are depreciable assets that do not need to be replaced. As a result, amortization of intangible assets increases the magnitude of any shortfall. During the 2009 year, amortization of intangible assets was $1.4 million and also fully covers the shortfall.

There is excess cash flow from operations over the distributions/dividends declared.

No debt obligations were incurred by the Company to satisfy distribution/dividend payments. No covenants were breached and no waivers or consents were required or requested. The net cash position of the Company is $4.9 million as at December 31, 2009, which is an increase of $0.9 million over the net cash position as at December 31, 2008. During the second half of the 2009 year, the Company closed a prospectus offering of convertible debentures in the amount of $30.0 million. The net proceeds of this offering were used to pay down the Company's secured long-term debt.

Dividends/Distributions and Payout Ratio

Actual combined dividends and distributions for the 2009 year totaled $14.1 million. This was an increase of 59% from 2008 when the actual payout was $8.9 million (118% over the $6.5 million payout in the 2007 year). Per share combined dividends and distributions for the 2009 year was $1.56, which was up 3% over the $1.51 paid in 2008.

The payout ratio for the actual combined dividends and distributions for the 2009 year compared to the Distributable Cash was 56%, or 65% when calculated on a fully diluted basis. The payout ratios for the 2008 year were 59% or 66% fully diluted. The payout ratio is considered to be prudent and is reviewed by the Company's Board of Directors on a quarterly basis.

The Board of Directors for the Company regularly examines the dividends paid to shareholders. The current dividend rate per share is $0.13 per month. Management expects that the Company will generate sufficient cash in 2010 to meet or exceed this level.

The dividends declared during the fourth quarter of 2009 totaled $4.2 million, which was an increase of 80% over the $2.3 million of distributions paid in the fourth quarter of 2008. A total of $0.39 per share was paid in dividends during the fourth quarter of 2009 in comparison to the $0.385 per unit of distributions paid during the fourth quarter of 2008. The payout ratio for the fourth quarter of 2009 was 63%, or 76% when calculated on a fully diluted basis (2008—57% or 63% fully diluted).

The amounts and record dates of the combined distributions and dividends declared during the 2009 and comparative 2008 years were:

	2009 Distributions and Dividends			2008 Distributions		
Month	Record date	Per unit	Amount	Record date	Per unit	Amount
January	January 30, 2009	$ 0.13	$ 776	January 31, 2008	$ 0.125	$ 726
February	February 27, 2009	0.13	777	February 29, 2008	0.125	726
March	March 31, 2009	0.13	778	March 31, 2008	0.125	726
April	April 30, 2009	0.13	1,174	April 30, 2008	0.125	727
May	May 29, 2009	0.13	1,184	May 30, 2008	0.125	727
June	June 30, 2009	0.13	1,284	June 30, 2008	0.125	727
July	July 28, 2009	0.13	1,284	July 31, 2008	0.125	730
August	August 31, 2009	0.13	1,318	August 29, 2008	0.125	730
September	September 30, 2009	0.13	1,323	September 30, 2008	0.125	730
October	October 30, 2009	0.13	1,372	October 31, 2008	0.125	751
November	November 30, 2009	0.13	1,389	November 28, 2008	0.13	780
December	December 31, 2009	0.13	1,401	December 31, 2008	0.13	782
Total		$ 1.56	$ 14,060		$ 1.51	$ 8,862

For income tax purposes, distributions paid on trust units of the Fund are classified as other income or a return of capital. For Canadian taxable shareholders, dividends declared by the Company will be taxed at a lower rate to the individual than were distributions classified as other income. The dividends declared by the Company in the third quarter of 2009 totaling $0.26 per share are considered "non-eligible" dividends for tax purposes, which makes them ineligible for the Canadian taxable shareholders to receive an enhanced dividend tax credit but these are still taxed at a lower rate to the individual than the distributions classified as other income. The October 2009 dividend of $0.13 per share consisted of $0.07 of non-eligible dividend and $0.06 of eligible dividend. Including the October 2009 eligible dividend and going forward beyond 2009, it is expected that the Canadian taxable shareholders of the Company will receive the added benefit of an enhanced dividend tax credit on eligible dividends. For the comparative periods in 2008, all distributions to unitholders were in the form of trust unit distributions classified as other income.

Fourth Quarter Key Performance Indicators

The Company generated Distributable Cash of $6.5 million in the fourth quarter of 2009 which was an increase of 62% over the $4.0 million generated during the same period in 2008. Consistent with the explanation given for the full year's results, the increase in the fourth quarter of 2009 is a result of an increase in EBITDA generated during the period which is offset by higher cash interest charges and higher maintenance capital expenditures.

On a per share basis, Distributable Cash was $0.62 in the fourth quarter, or $0.51 when calculated on a fully diluted basis. Distributable Cash was $0.68 and $0.61, respectively in the fourth quarter of 2008. This is a decrease of 9% and 16%, respectively. If the fourth quarter of 2009 per share results for Distributable Cash was adjusted to remove the dilution effect of the issuance of shares and warrants to finance the acquisition of HMY Airways and the issuance of the Series G convertible debentures as described above in the Distributable Cash section for 2009, the adjusted results for Distributable Cash per share would be $0.68 or $0.62 fully diluted.

The Company invested $7.8 million in capital expenditures in the fourth quarter of 2009 (2008—$1.3 million). Approximately $0.7 million was classed as maintenance capital expenditures (2008—$0.6 million) with the balance of $7.1 million classified as growth expenditures (2008—$0.7 million). Included in the growth expenditures for the fourth quarter of 2009 is the Company's purchase of an ATR 72 aircraft for $5.8 million, which is the largest aircraft in the combined fleet of the Aviation segment.

The Company generated a higher level of Free Cash Flows during the fourth quarter of 2009 of $7.2 million in comparison to $5.7 million generated in the 2008 comparative period. Consistent with the explanation given for the full year's results, the increase in the fourth quarter of 2009 is a result of the improved cash flows generated from operations, which include the addition of Calm Air that has no comparable in the 2008 period. On a per share basis, the Company's Free Cash Flows for the fourth quarter of 2009 was $0.69, or $0.57 fully diluted. This was a decrease of 30% and 33%, respectively, in comparison to Free Cash Flows of $0.98 and $0.86 fully diluted that was generated in the same period in 2008. If the fourth quarter of 2009 per share results for Free Cash Flows was adjusted to remove the dilution effect of the issuance of shares and warrants to finance the acquisition of HMY Airways and the issuance of the Series G convertible debentures as described above in the Distributable Cash section for 2009, the adjusted results for Free Cash Flows per share would be $0.75 or $0.67 fully diluted.

4. ANALYSIS OF OPERATIONS

	2009				2008			
	Aviation	Manufacturing	Head Office[2]	Consolidated	Aviation	Manufacturing	Head Office[2]	Consolidated
Revenue	$ 153,480	$ 57,771	$ —	$ 211,251	$ 84,678	$ 72,985	$ —	$ 157,663
Expenses[1]	122,405	50,877	5,238	178,520	70,768	62,816	3,282	136,866
EBITDA	31,075	6,894	(5,238)	32,731	13,910	10,169	(3,282)	20,797
Interest expense				7,652				5,155
Amortization of intangible assets				1,417				2,034
Depreciation				7,913				4,814
Conversion costs				2,655				—
Foreign exchange gains on debt				(1,052)				—
Impairment loss				553				5,668
Earnings before taxes				13,593				3,126
Current income tax expense (recovery)				(30)				(30)
Future income tax expense (recovery)				634				(32)
Net earnings for the year				$ 12,989				$ 3,188

(1) Expenses exclude interest expense, depreciation, amortization, non-cash expenses and any unusual non-operating one-time items.
(2) Head office is not a separate reportable segment. It includes expenses incurred at the head office of the Company and is presented for reconciliation purposes.

On a consolidated basis, revenue for the Company for 2009 increased by 34% or $53.6 million to $211.3 million when compared to 2008. The main driver of the increase in revenues for the period is the addition of Calm Air, which was acquired in April 2009. The revenues for the Aviation segment increased by 81% to $153.5 million when compared to 2008 and the revenues for the Manufacturing segment decreased by 21% to $57.8 million when compared to 2008.

On a consolidated basis, EBITDA for the Company for 2009 increased by 57% or $11.9 million to $32.7 million when compared to 2008. The EBITDA for the Aviation segment increased by 123% to $31.1 million when compared to 2008 and the EBITDA for the Manufacturing segment decreased by 32% to $6.9 million when compared to 2008. Costs incurred at the head office of the Company increased 60% to $5.2 million when compared to 2008.

Aviation Segment

Aviation Segment	2009	2008	Variance	Variance %
Revenue	$ 153,480	$ 84,678	$ 68,802	81%
Expenses	122,405	70,768	51,637	73%
EBITDA	31,075	13,910	17,165	123%

The results for the Aviation segment for the 2009 year were significantly impacted with the addition of Calm Air in April 2009. Revenues earned at Calm Air during the nine months of operations after being acquired by the Company were $63.9 million and EBITDA for the same period was $13.4 million, both of which do not have any comparison in 2008. With the acquisition of Calm Air, the Aviation segment as a whole benefits from a significant market share of scheduled passenger, medevac and cargo services for the Province of Manitoba and Nunavut.

Revenues generated by the segment's existing operations contributed $89.5 million, an increase of $4.9 million or 6%, which was driven by strong demand for scheduled services and medevacs. Strong demand in Manitoba and Nunavut resulted in the scheduled passenger services' revenue increasing by $3.5 million over the prior year. This increase in demand was offset by a $0.5 million revenue decrease from lower fares in 2009, as fuel surcharges were decreased and/or eliminated to account for lower fuel prices. The medevac operations realized a $2.5 million increase driven by both Nunavut and Manitoba medevacs. The increases in these two revenue streams were offset by a $1.5 million decrease in charters, as the Company made the strategic decision to drop a low margin charter contract that generated $1.1 million in 2008 and a decrease in tourism charters centered around the fishing lodge industry. Revenues generated by Calm Air were in line with Exchange's expectations based on purchase due diligence. Revenue across its scheduled services remained strong, while its charter business experienced a small decrease from the prior years as tourism and mining activity in the region decreased slightly as a result of the economic recession.

Operational expenses for the existing operating entities within the segment increased in comparison to 2008 by $1.1 million or 2%, which is attributed to the 6% increase in revenue. During 2009, these entities were able to realize significant cost savings as a result of decreased fuel pricing and increased load factors. As is the case for all entities within this segment, when load factors increase, higher margins are realized due to the large component of fixed costs associated with operations. In 2009, these entities increased revenue by 6% while only increasing flight hours by 0.5%, thus driving higher EBITDA margins. The existing operating entities of the segment also benefited in 2009 from the completion of the rationalization of their aircraft fleet. As a result, EBITDA margins increased from 16.4% to 19.6%. The existing operating entities within the segment generated a net increase to this segment's EBITDA of $3.8 million or 27% over 2008. EBITDA margins generated by Calm Air were in line with expectations and are very similar to the EBITDA margins generated by the segments' existing operations. Calm Air experienced higher maintenance costs than expected as they transitioned to EIC's more conservative accounting policies, which expense rotable parts and engine overhauls versus the accounting policies for some other airlines which capitalize and depreciate these items instead of expensing them directly to maintenance expense. These higher maintenance costs were offset by lower fuel costs experienced in 2009.

Manufacturing Segment

Manufacturing Segment	2009	2008	Variance	Variance %
Revenue	$ 57,771	$ 72,985	$ (15,214)	–21%
Expenses	50,877	62,816	(11,939)	–19%
EBITDA	6,894	10,169	(3,275)	–32%

The results for the Manufacturing segment for the 2009 year were significantly impacted by the softer market conditions. Revenues generated by the segment overall decreased by $15.2 million or 21%. This economic recession was most pronounced in the Alberta marketplace and, correspondingly, the Company's Alberta operations were affected the most by the declining economy, as revenues in this market decreased by 34% or $10.8 million. A significant decline in the oil and gas activity as a result of the economy and the new royalty regime in this province were the primary causes of the reduced demand. The decline in the sales of crude tankers started in 2008 and continued in 2009 however, the sales of Water Blast pressure products was not significantly affected until the first quarter of 2009. Compounding this decline in demand was the decision to exit the cold water washer distributor business, which resulted in a $3.5 million sales reduction. The stainless steel tank market and the precision metal parts divisions were much less affected by the economic recession as revenues only decreased by 10%. Both these companies performed significantly better than their industries as strong order books and good customer relationships led to a much smaller decline in sales than their competitors experienced.

Operational expenses for the segment decreased in comparison to 2008 as a result of the lost revenues. However, there are many expenses that are largely fixed in the short-term, such as leases and overhead, and therefore the decrease in EBITDA in percentage terms was larger than the decrease in sales. The net impact resulted in a net decrease to this segment's EBITDA of $3.3 million or 32%. Again, the majority of this decrease is driven by the Alberta operations as their EBITDA decreased by $2.6 million, while the stainless steel tank and the precision metal parts divisions limited the decrease in EBITDA to $0.7 million or 10%. The Company put initiatives in place for cost reductions as a result of the identified softer market such as labour reductions, work-share programs, and reduced work weeks. These measures were not sufficient to offset the 34% decline in revenues in the Alberta operations, resulting in a significant decline in the EBITDA margins for its products. However, the cost-cutting initiatives and diligent management of expenses enabled the stainless steel tank and the precision metal parts divisions to maintain EBITDA margins consistent with 2008 even as they had lower sales to cover their fixed costs.

Head Office

Head Office Costs	2009	2008	Variance	Variance %
Expenses	$ 5,238	$ 3,282	$ 1,956	60%

Costs incurred at the head office of the Company increased by 60% to $5.2 million for the 2009 year over 2008. There are a few factors contributing to this increase in 2009. First, professional fees and investor relation costs have increased with the additional corporate events that took place during 2009. Those costs do not include any items that pertain to the conversion from an income trust to a corporation as those costs are captured separately and presented as Conversion costs on the consolidated statement of net earnings. Also, there were additional personnel-related costs incurred as the head office has grown over the comparative 2008 year as it manages the overall growth of the consolidated entity and other requirements as a publicly traded company. Included in the personnel-related items are costs incurred relating to the vesting of Shares under the Deferred Share Plan and the Employee Share Purchase Plan for employees within all entities of the Company, and the fair value adjustment of the Company's liability recorded for these plans based on the market price of the Company's Shares at the period-end date. As a result of the conversion to a corporation, certain capital tax charges are now accrued within the head office of the Company.

Other Non-EBITDA Items

The following analyzes the changes in the other non-EBITDA income statement items for the 2009 year in comparison to the 2008 year that impacts the change in consolidated net earnings. Consolidated net earnings for the 2009 year were $13.0 million, an increase of $9.7 million or over 300% over the comparative 2008 year.

	2009	2008	Variance	Variance %
Interest expense	$ 7,652	$ 5,155	$ 2,497	48%

Interest costs for the 2009 year increased by 48% or $2.5 million mainly as a result of increased debt levels in 2009 in comparison to the 2008 year. The main contributing factor to the increase is the increased outstanding debentures over 2009. During 2009, the Company issued new convertible debentures consisting of $4.2 million of Series F in April and $30.0 million of Series G in September, incurring interest of 10% and 7.5%, per annum respectively. Also contributing to an increased interest expense for 2009 was the additional effective interest and accrued penalty on the Series E debentures that were announced to be redeemed early in the beginning of 2010 before their original maturity scheduled for 2013. The early redemption resulted in all of the unamortized transaction costs from these debentures to be amortized in 2009 and the penalty for early redemption was 1% of the $9.7 million principal, resulting in an additional interest expense of $0.7 million of which $0.6 million was non-cash interest. Offsetting these additional interest items in 2009 was the maturing of the Series A convertible debentures in May. Overall, the Company expensed an additional $2.4 million of interest on all the series of debentures in 2009 over 2008.

Interest incurred on long-term debt items was impacted by the changes in the amount of the Company's credit facility outstanding, the addition of the aircraft financing debt assumed with the acquisition of Calm Air, the changes in interest rates, and the increased cost of unutilized credit available. Overall, the interest incurred for the long-term debt items was relatively consistent with the expense in 2008. The average cash interest rate the Company paid on its credit facility, net of cash on hand over the period, was 4.8% for 2009 and 5.9% for 2008.

Other interest bearing items, including the vendor note that was outstanding for a portion of 2008 and settled in April of 2009, were relatively consistent over both years.

	2009	2008	Variance	Variance %
Amortization of intangible assets	$ 1,417	$ 2,034	$ (617)	–30%

The amortization of intangible assets expensed by the Company is impacted by acquisitions that generally produce intangible assets. Intangible assets of the businesses acquired by the Company are required to be valued to comply with GAAP. These intangible assets are subsequently amortized and reduce earnings, but do not have to be replaced or replenished and, accordingly, there will be no future cash expense.

During 2009, the acquisition of Calm Air created $5.8 million of intangible assets and $0.4 million of amortization was expensed on those new intangible assets during the 2009 year. In comparison, the acquisition of Stainless in 2008 generated amortization of intangible assets of $1.2 million during the 2008 year. The amortization expensed by Stainless in the 2009 year was $0.5 million, a decrease of $0.7 million from the prior year.

	2009	2008	Variance	Variance %
Depreciation	$ 7,913	$ 4,814	$ 3,099	64%

Depreciation of capital assets increased in 2009 mainly as a result of the addition of $52.7 million of capital assets purchased as part of the Calm Air acquisition. Depreciation expensed by Calm Air for the 2009 year was $2.6 million. The remaining reason for the increased deprecation expensed in 2009 is due to capital asset additions in the other entities of the Company.

	2009	2008	Variance	Variance %
Conversion costs	$ 2,655	$ —	$ 2,655	0%

As a result of the Company converting to a corporation during 2009, the Company incurred professional fees in association with the conversion. These fees were incurred in 2009 and are considered a one-time item as the conversion process was completed in 2009. The Company incurred tax of $0.4 million on these conversion costs.

	2009	2008	Variance	Variance %
Foreign exchange gains on debt	$ (1,052)	$ —	$ (1,052)	0%

During 2009, the Company recorded net unrealized foreign exchange gains of $0.6 million as a result of the conversion of the U.S. dollar based aircraft finance debt outstanding at December 31, 2009 that the Company took on with the acquisition of Calm Air during the year. Since the acquisition in April 2009, the value of the Canadian dollar has strengthened over the U.S. dollar and, as a result, an unrealized foreign exchange gain has been recorded and there is no comparative in 2008. The realized foreign exchange gain/loss on actual U.S. dollar payments against the aircraft finance debt using the rate at the time of the payment are recorded in general and administrative costs in the period of the payment. During 2009, the Company recorded $0.5 million of realized foreign exchange gains on US$3.2 million of payments made against the aircraft finance debt during the 2009 year after the acquisition of Calm Air.

The foreign exchange gains are considered to be outside of normal operations and are being recorded as a result of the aircraft financing that is outstanding. The Company kept this aircraft financing outside of its credit facility due to the near maturity of the financing in comparison to cancelling the aircraft financing arrangement at the time of acquiring Calm Air. The aircraft financing matures in 2010 with monthly payments throughout the year.

The U.S. dollar portion of the Company's credit facility that is outstanding is accounted for differently as a result of it being considered part of the foreign currency translation of the U.S. based operations of Stainless. Changes in the foreign currency translation of the net investment in Stainless is recorded through Other Comprehensive Income and is only recorded in net earnings when the investment is disposed of.

	2009	2008	Variance	Variance %
Impairment loss	$ 553	$ 5,668	$ (5,115)	–90%

During 2009, the Company decided to construct a new terminal building for one of the entities in the Aviation segment as the existing building was not sufficient any longer and modifications to the existing building would not be adequate. As a result, the building is being demolished and the carrying value of the building of $0.6 million ($0.4 million after tax) was recorded by the Company as an impairment loss in the period.

During 2008, the annual review for impairment of goodwill and intangible assets for the Manufacturing segment was performed. Due to changes in the Alberta oil and gas industry and environment, revenues, EBITDA and cash flows were lower than expected, which impacted the results for Jasper which operates in that industry and market. As a result, the earnings forecast was revised to incorporate those changes and resulted in the fair value of the Jasper business to be decreased to a point where the goodwill and certain intangible assets of Jasper became impaired. As a result, the Company recorded an impairment loss during the 2008 year of $5.7 million ($5.2 million against goodwill and $0.5 million against intangible assets) or $5.5 million after tax.

	2009	2008	Variance	Variance %
Current income tax expense (recovery)	$ (30)	$ (30)	$ —	0%
Future income tax expense (recovery)	634	(32)	666	–2081%
Net Income Tax Expense (Recovery)	$ 604	$ (62)	$ 666	–1074%

Income tax expense for the year was $0.6 million, representing an increase of $0.7 million over the prior year. This increase is primarily due to the Company's conversion to a corporation on July 28, 2009. Prior to July 28, 2009, the Company was structured as an income fund and as such the income that was distributed to the unitholders was not subject to tax at the Company level. Changes to legislation that affected the taxation of income funds resulted in a need to convert the Company into a corporation. As such, the Company is now subject to tax on its net income.

See Note 16 of the consolidated financial statements for a detailed description of the income tax expense for the 2009 and 2008 years and the related balance sheet amounts.

5. SUMMARY OF QUARTERLY RESULTS

	2009				2008				2007
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	$ 58,028	$ 60,175	$ 55,852	$ 37,196	$ 40,793	$ 41,455	$ 40,995	$ 34,420	$ 29,407
EBITDA	9,039	11,128	8,478	4,086	5,597	5,712	5,657	3,831	4,126
Net earnings/(loss)	3,703	3,869	4,032	1,385	(2,968)	1,688	3,095	1,373	2,607
Basic	0.35	0.39	0.46	0.24	(0.51)	0.29	0.53	0.24	0.54
Diluted	0.33	0.36	0.44	0.24	(0.51)	0.29	0.50	0.24	0.50
Free cash flow	7,236	9,966	7,039	3,465	5,733	5,353	4,268	3,223	3,540
Distributable cash	6,493	8,986	6,673	2,715	4,005	4,165	4,412	2,335	2,813
Basic	0.62	0.90	0.76	0.46	0.68	0.71	0.76	0.40	0.59
Diluted	$ 0.51	$ 0.77	$ 0.69	$ 0.43	$ 0.61	$ 0.64	$ 0.67	$ 0.38	$ 0.52

As a result of the one-to-one conversion of units of the Fund to shares of the Company, there is no impact of the conversion on the earnings per share calculations as the units of the Fund are directly comparable to the shares of the Company. As a result, the per share results above compare consistently with the historically presented per unit results for the periods before the conversion.

6. REVIEW OF FOURTH QUARTER 2009 RESULTS

As discussed in previous reports, the first and fourth quarters of the year are typically weaker than the second and third largely as a result of the Aviation operations. The seasonality of the first and fourth quarter will be even more pronounced as the size of our Aviation operations has essentially doubled as a result of the acquisition of Calm Air. The reason for the seasonality in the fourth quarter is that 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. Another factor that affects the fourth quarter is that a number of the airports which service certain First Nation communities are located on islands and not on the mainland where the population live. Normally, individuals commute to the airport via boat when the lakes are open or via vehicles when the lakes are frozen. During the periods while the lakes are melting and 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. The fourth quarter contains the Christmas and New Year's holidays which result in the loss of one week of production in the Manufacturing segment, without any corresponding reduction in labour or overhead costs.

The fourth quarter revenues increased by 42% to $58.0 million compared to $40.8 million in 2008. EBITDA also had very strong growth, as it increased by 61% to $9.0 million from $5.6 million in 2008. The main driver of this revenue and EBITDA growth for the period was the addition of Calm Air, which was acquired in April 2009, which contributed $21.9 million of revenue and $4.9 million of EBITDA during the quarter.

Revenues in the Aviation segment increased to $45.1 million, a $22.5 million increase over the prior year, with Calm Air contributing $21.9 million of this increase. The Aviation segment generated EBITDA of $9.3 million, which is up by 156% or $5.7 million from 2008. The addition of Calm Air contributed $4.9 million of this increase, while the existing operations in both Manitoba and Nunavut contributed the remainder of the increase. The improvement in EBITDA in the Aviation segment's existing operations were driven by strong passenger loads resulting in higher operating margins.

Revenues in the Manufacturing segment decreased by $5.3 million to $12.9 million and the EBITDA decreased by $1.5 million to $1.3 million. The majority of the decline was the result of lower performance by the Water Blast product division and the stainless steel tank division. Water Blast continued to experience lower demand consistent with the previous quarters in 2009. The decline in performance of Stainless was the result of the fourth quarter of 2008 being by far the best quarter that Stainless has had since joining the Company at the beginning of 2008. The 2009 fourth quarter results for Stainless were in line with the rest of 2009, sales declined slightly but this was offset by higher margins as Stainless finished two large profitable field jobs. The performance of the remainder of the Manufacturing segment was consistent with 2008, as EBITDA generated from Jasper and Overlanders were flat compared to 2008.

The costs incurred at the head office of the Company during the fourth quarter of 2009 were $0.8 million higher than the same period in 2008. The majority of this increase related to additional personnel-related costs incurred at the head office and the reason is consistent with the description for the full year described above. Certain cost items such as professional fees, public company costs and other general costs have grown over the comparative 2008 period as the head office manages the overall growth of the consolidated entity and other requirements as a publicly traded company.

7. LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2009, the Company had a net cash position of $4.9 million and net working capital of $5.5 million, which represents a current ratio of 1.10 to 1. The decrease in net working capital is only temporary, given circumstances surrounding the timing of repayment of the Series E debentures that was redeemed in January 2010 and the remaining principal payments of the aircraft financing debt assumed with the acquisition of Calm Air. Both of these items are going to be paid off with the available credit facility described below but are presented as current items in accordance with Canadian GAAP. After removing the combined $12.6 million of current liabilities associated with these two items, the working capital and current ratio increases to $18.1 million and 1.43 to 1, respectively, and this is more reflective of the Company's position.

The Company's dividends are dependent on its ability to generate cash flow from operations. During the 2009 year, the Company generated $25.0 million of cash flow from operating activities before changes in non-cash working capital, which is an increase of $6.5 million over the $18.6 million generated in the comparable 2008 year. The Company's ongoing cash requirements during 2009 were $14.1 million for combined dividends and distributions, and $2.1 million for maintenance capital expenditures. After these cash outflows, the Company had available cash flow of $8.8 million, which was utilized to fund growth capital expenditures of $9.4 million. The Company expects to continue to generate cash flows from operating activities that will exceed its dividend requirements.

The Company completed three significant issuances of securities during 2009. During the second quarter, the Company completed a prospectus offering of shares, warrants and convertible debentures (Series F) raising gross proceeds of $26.9 million, with $22.8 million coming from the sale of shares and warrants, and $4.1 million from the sale of convertible debentures. The five year Series F convertible debentures pay interest semi-annually at 10.0% and are convertible at $10.75 per share. Approximately $1.9 million of this amount represented a drawdown of the agents over allotment option. The shares issued included a warrant that gives the holder the ability to purchase a share of the Company at a cost of $10.00 within two years from the date of issuance. The second issuance was a private placement of shares and warrants on the same terms as the April issuance and was completed late in the second quarter with gross proceeds of $7.9 million. The third issuance was a convertible debenture offering (Series G) that was completed in the third quarter of 2009 with gross proceeds of $30.0 million. The five year Series G convertible debentures pay interest semi-annually at 7.5% and are convertible at $14.50 per share.

The proceeds of the first two issuances were used to fund the strategic acquisition of Calm Air and the acquisition of HMY Airways Inc., which was the vehicle used to convert to a corporate structure, while the issuance of $30.0 million of Series G convertible debentures was raised to enable the Company to fund future acquisitions. In the interim, the proceeds from this offering have been used to pay down the Company's revolving term facility. The Company does not normally raise funds in advance of having a target acquisition; however, the interest rate of this convertible debenture resulted in a cost to the Company that was not materially higher than the cost of locking in a five-year fixed rate on its long-term debt.

At December 31, 2009, the Company had a $106.0 million syndicated secured debt facility that was split into a $95.7 million Canadian dollar facility and US$10.3 million facility. As at December 31, 2009, $18.5 million of its Canadian debt facility was outstanding and US$7.5 million of its U.S. debt facility was outstanding ($7.8 million). Both these amounts are shown on the balance sheet in Canadian dollars, net of unamortized transaction costs and unamortized discount on Bankers' Acceptances. During 2009, the credit facility was first increased from $66.0 million to $96.0 million in order to facilitate the acquisition of Calm Air. This facility was used to fund $22.5 million of the acquisition of Calm Air and, subsequent to this draw, the facility was paid down with the proceeds of the $30 million Series G convertible debenture offering. Also, during 2009, the credit facility was increased to $106.0 million in order to create a facility that was split equally among all four members of the syndicate. Other than the increased size of the credit facility, the terms of the credit facility have remained constant over 2009. As at December 31, 2009, the Company had approximately $80 million available to be drawn under this credit facility but, as described below, $10.0 million was subsequently drawn from the credit facility in association with the early redemption of the Series E debentures. The credit facility is a three-year revolving facility that expires May 2012. Management fully anticipates that this facility will be extended another year as part of the regular annual review process in May of 2010. As at December 31, 2009, the Company was in compliance with all financial covenants associated with its credit facility. In addition to this debt facility, the Company has assumed debt with Credit Lyonnais as part of the acquisition of Calm Air. The balance outstanding at December 31, 2009 is US$2.8 million, which is due in 2010. The Company anticipates funding these principal repayments utilizing a combination of current cash on hand, cash flow generated from operations and, if necessary, the credit facility.

The Company has multiple series of convertible debentures and debentures as outlined below. The first series of 9% Senior Secured convertible debentures matured on May 7, 2009. At the time of maturity the debentures outstanding were $0.8 million and were paid by the Company along with interest owing to the debenture holders of less than $0.1 million. Within the 2010 year, the Company has two series of convertible debentures that will become due (Series B and Series C). Currently, there is $3.4 million of Series B convertible debentures and $2.5 million of Series C convertible debentures outstanding, which both mature in the third quarter of 2010. The conversion prices for these series of convertible debentures are $11.50 and $13.25, respectively, per share. At the time of this report, the Company's current share price is above both series of convertible debentures' conversion price, which could result in a large portion of these series converting. Regardless of the principal balances outstanding on these two series of convertible debentures at maturity, the Company anticipates having adequate resources to fund these debentures, utilizing a combination of current cash on hand, cash flow generated from operations and, if necessary, the credit facility. If considered advantageous at the time, in accordance with the terms of these series of debentures, the Company has the ability to settle these debentures through the issuance of Shares.

Prior to the end of 2009, the Company announced the redemption all 9,691 Series E debentures. The debentures bear interest at a fixed rate of 9.0% per annum, would mature in 2013 and contain no conversion terms into shares of the Company. Subsequent to the 2009 year, effective January 25, 2010, the Company paid $10.2 million, consisting of a redemption price of 101% of the principal amount of each Series E debenture plus all accrued and unpaid interest up to but excluding that effective date. Interest on the debentures ceased to be payable from and after the effective date. The Company drew $10.0 million from its credit facility at the time of the redemption payment.

The following summarizes the changes in the shares outstanding of the Company during the 2009 year:

	Date issued	Number of shares
Shares outstanding, beginning of year		—
Issued to trust unitholders pursuant to Plan of Arrangement	July 28, 2009	9,878,277
Issued for purchase consideration in part with Plan of Arrangement	July 28, 2009	102,446
Issued from warrants exercised	various	725,551
Issued under the Employee Share Purchase Plan (ESPP)	November 13, 2009	59,564
Issued under Dividend Reinvestment Plan (DRIP)	various	7,215
Issued for First Nations Community Partnership Agreements	various	7,000
Issued upon conversion of convertible debentures	various	651
Shares outstanding, end of year		10,780,704

The following summarizes the changes in the units outstanding of the Company during the 2009 year:

	Date issued	Number of units
Units outstanding, beginning of year		5,872,464
Issued for public offering	April 7, 2009	2,398,554
Issued for private placement	June 22, 2009	835,810
Issued to Calm Air vendor	April 8, 2009	624,211
Issued upon conversion of convertible debentures	various	77,666
Issued to TCIG[(1)]	June 18, 2009	66,072
Issued from warrants exercised	various	3,500
Decrease resulting from implementation of Plan of Arrangement	July 28, 2009	(9,878,277)
Units outstanding, end of year		—

(1) Amounts earned by the Tribal Council Investment Group ("TCIG"), a related party of the Company, were paid in Shares of the Company in accordance with the marketing agreement between the parties.

The following summarizes the changes in the units outstanding of the Company during the 2008 comparative year:

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

The following summarizes the changes in the warrants outstanding of the Company during the 2009 year:

	Date issued	Number of warrants
Warrants outstanding, beginning of year		—
Issued for public offering	April 7, 2009	2,398,554
Issued for private placement	June 22, 2009	835,810
Warrants exercised	various	(729,051)
Warrants outstanding, end of year		2,505,313

The following summarizes the convertible debentures outstanding as at December 31, 2009 and the changes in the amount of convertible debentures outstanding during the 2009 year:

	Par Value Debentures Outstanding
Series A, 9% SENIOR SECURED, MAY 7, 2009 MATURITY CONVERTIBLE AT $9.00, outstanding beginning of year	$ 1,511
Debentures converted into shares	(699)
Debentures repaid upon maturity	(812)
Debentures outstanding, end of year	—
Series B, 8% SENIOR SECURED, JULY 8, 2010 MATURITY CONVERTIBLE AT $11.50	3,385
Series C, 8% SENIOR SECURED, SEPTEMBER 1, 2010 MATURITY CONVERTIBLE AT $13.25	2,500
Series D, 8% SENIOR SECURED, AUGUST 12, 2011 MATURITY CONVERTIBLE AT $13.25	7,000
Series F, 10% SENIOR SECURED, APRIL 8, 2014 MATURITY CONVERTIBLE AT $10.75, outstanding beginning of year	—
Debentures issued	4,102
Debentures converted into shares	(7)
Debentures outstanding, end of year	4,095
Series G, 7.5% SENIOR SECURED, SEPTEMBER 30, 2014 MATURITY CONVERTIBLE AT $14.50, outstanding beginning of year	—
Debentures issued	30,000
Debentures outstanding, end of year	30,000
Total convertible debentures outstanding, end of year	$ 46,980

With the addition of Calm Air during the second quarter, the contractual obligations of the Company have changed and the following are the contractual obligations of the Company and its subsidiaries as at December 31, 2009:

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Long-term debt	$ 29,240	$ 2,943	$ 26,297	$ —	$ —
Debentures—series B—D, F, G	46,980	5,885	7,000	34,095	—
Debentures—series E	9,691	9,691	—	—	—
Operating leases	19,349	4,776	5,838	1,855	6,880
Total contractual obligations	**$ 105,260**	**$ 23,295**	**$ 39,135**	**$ 35,950**	**$ 6,880**

8. RELATED PARTY TRANSACTIONS

The Company has a marketing agreement with Tribal Council Investment Group ("TCIG"), whose President is a director of the board of the Company. The agreement is in the normal course of operations and at market terms and conditions, except that the compensation is payable to TCIG in shares rather than cash. The compensation to TCIG is conditional on the annual increase in sales at Perimeter. The Company incurred commissions of $0.4 million in 2009 (2008—$0.3 million). The amount payable to TCIG at December 31, 2009 is $0.4 million (2008—$0.8 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 Company. The terms of these leases are considered to be at market terms and recognized in the consolidated financial statements at the exchange amounts. The remaining length of term for the leases range between 2 to 3 years. The total costs incurred in 2009 under these leases are $0.7 million (2008—$0.7 million) and recorded under general and administrative expenses, and, at December 31, 2009, there is no related party balance recorded on the balance sheet (2008—nil).

With the acquisition of Stainless effective January 2, 2008, certain buildings are leased by Stainless from the vendors, one of whom is the current president of Stainless. The terms of the lease are considered to be at market terms and are recognized in these consolidated financial statements at their exchange amount. The length of term for the lease is five years commencing at the time of acquisition. The total costs incurred during 2009 are approximately $0.4 million and recorded under general and administrative expenses (2008—$0.4 million). As at December 31, 2009, there is no related party balance recorded on the balance sheet (2008—nil). The future minimum lease payments under the lease are approximately US$0.4 million annually for the remaining three years of the lease term.

The Company's legal counsel is Aikins, MacAulay & Thorvaldson LLP ("Aikins") in Winnipeg, Manitoba, whose Managing Partner is a director on the board of the Company. The transactions are at market terms and conditions. These transactions are in the normal course of operations associated with legal professional services and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Depending on the services provided, certain costs are expensed in the period incurred, some costs that are considered transaction costs associated with financial liabilities are recognized as interest expense over the life of the related financial instrument, while other costs associated with the raising of equity are recorded as issuance costs against the related equity item. The total costs of services provided during 2009 are $2.3 million (2008—$0.3 million). As at December 31, 2009, a payable balance of less than $0.1 million is recorded on the balance sheet (2008—nil).

The Company has had business relationships with Wellington West Capital Inc. ("Wellington West") in Winnipeg, Manitoba. The chairman of the board of directors for the Company is also a member of the board of Wellington West. The transactions are at market terms and conditions. These transactions are in the normal course of operations associated with the raising of funds for the Company through private and public offerings, and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Depending on the services provided, certain costs are expensed in the period incurred, some costs that are considered transaction costs associated with financial liabilities are recognized as interest expense over the life of the related financial instrument, while other costs associated with the raising of equity are recorded as issuance costs against the related equity item. The total costs of services provided during 2009 are $0.8 million (2008—$0.3 million). The amount payable to Wellington West recorded as at December 31, 2009 is nil (2008—nil).

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 Company's consolidated financial statements.

The significant areas requiring the use of management estimates are disclosed in Note 2 of the Notes to the Consolidated Financial Statements for 2009. The Company's management believes that the following accounting estimates are critical as described above.

Business Combination

The Company'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, certifications and brand name. To determine the fair value of these intangible assets, the Company adopted the excess earning method. This valuation technique values the intangible assets based on the capitalization of the earnings, which are calculated to be in excess of what a reasonable amount of earnings would be on the tangible assets used to generate the earnings associated with the intangible asset. Significant assumptions include, among others, the determination of projected revenues, cash flows, customer retention rates, discount rates and anticipated average income tax rates.

Goodwill and Intangible Asset Impairment

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

Overhaul Provision

The purpose of the reserve is to ensure that the cost to overhaul a capital component of an aircraft and to perform the hot section inspection is expensed evenly over the period that the item is used and generates income. 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 bring the item back to the condition when acquired. To calculate the accrual rate, management estimates the cost to perform a standard overhaul and divides this by the flying hours before the overhaul is performed. The accrual rate is reviewed annually to ensure that the costs have not changed significantly.

Stainless Revenue Recognition

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

Future Income Taxes

The determination of the Future Income Tax Asset requires an analysis as to how the asset is expected to reverse in the future. Management has prepared estimates of the reversal of temporary differences based on income projections. Results as determined by actual events could differ from these estimates.

Changes in Accounting Policies

The critical accounting policies are substantially unchanged from those identified in the MD&A of the Fund for the year ended December 31, 2008, with the exception of the adoption of the new accounting standards and new accounting policies described below.

The following standards were adopted effective January 1, 2009.

Goodwill and Intangible Assets

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. 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. As a result of adopting the new standard, certain software system implementation costs that were previously recorded within Capital Assets are now recorded as Other Intangible Assets in the Consolidated Balance Sheet. The impact of this change in accounting policy on the current and prior periods is as follows:

Consolidated Balance Sheet	December 31, 2008
(Decrease) in Capital Assets	$ (577)
Increase in Intangible Assets	577

The Company restated the 2008 results for this change in policy and, as a result, depreciation decreased and amortization of intangibles increased by $0.1 million. During the 2009 year, amortization of intangible assets of $0.3 million was recorded related to the reclassed assets.

Warrants

During the 2009 year, the Company issued warrants for the first time within a public offering that closed in April 2009 and, subsequently, in a private placement that closed in June 2009. The warrants are presented separately as part of shareholders' equity and recorded at the consideration given, net of issuance costs. When warrants are exercised, the carrying value of the warrant is transferred to share capital within shareholders' equity. Any unexercised warrants that expire are reclassed to contributed surplus within shareholders' equity.

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

The Company adopted the Emerging Issues Committee Abstract 173—"Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" that clarifies how an entity's own credit risk and that of the relevant counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this abstract had no significant impact on the results of the Company.

Pension Plan

As a result of the acquisition of Calm Air during 2009, the Company has pension-related costs associated with the defined contribution pension plan that certain Calm Air personnel are entered into. The Company's accounting policy is to expense contributions as earned during the period within general and administrative expenses within the Aviation segment. During 2009, the Company recorded pension plan costs of $0.4 million over the period after the acquisition date.

Future Accounting Standards

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

Business Combinations, Consolidated Financial Statements and Non-controlling Interests

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

Section 1582 replaces Section 1581, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3—Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period, beginning on or after January 1, 2011. Changes in the section include expensing acquisition-related costs in the period incurred, with the exception of costs incurred to issue debt or share capital. The Company's current accounting policy would be to include these acquisition-related costs as part of the total consideration paid used in valuing the assets acquired and liabilities assumed in the acquisition. The expected impact is indeterminable without knowing the timing and extent of acquisitions made by the Company going forward.

Sections 1601 and 1602 together replace Section 1600 — Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27—Consolidated and Separate Financial Statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Currently, the Company has no non-controlling interests in its subsidiaries that would impact the Company's financial statements.

IFRS

The Accounting Standards Board of Canada ("AcSB") has announced plans that will require the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") for publicly accountable enterprises, including the Company. The changeover date from Canadian GAAP to IFRS is for annual and interim financial statements relating to fiscal years beginning on or after January 1, 2011.

The Company has mobilized an IFRS project team to develop an IFRS transition plan, assess and coordinate ongoing training requirements, and complete an initial IFRS/ Canadian GAAP diagnostic. The overall IFRS transition plan is divided into three separate phases and will take the Company through its conversion to IFRS. The Company has also entered into an engagement with a professional services firm to assist with the whole transition process. During 2009, the Company completed the first phase of its overall IFRS transition plan whereby an IFRS/Canadian GAAP diagnostic was prepared which provided an overview of the significant differences between IFRS and Canadian GAAP. The Company is currently in the second phase of its overall IFRS transition plan whereby it will complete component evaluations on significant accounts and processes and resolve significant issues. Furthermore, during the second phase the Company will prepare a set of mock IFRS-compliant financial statements. The third phase of the project will require the integration of any business, internal control and IT changes required. As the Company is currently in its second phase, it is unable to reasonably estimate the impact that the adoption of IFRS may have on its future operating results or financial position. Experiences noted from the transition to IFRS in other jurisdictions have shown that net earnings may tend to become more volatile, and the volume and complexity of the financial disclosures will increase. The Company's preliminary assessment of areas that may have a significant impact upon adoption of IFRS consist of, but may not be limited to:

- Overhaul accrual method of accounting—The Aviation segment will be required to amend its accounting policy, such that costs of overhaul-related services will be added to the cost of the related capital asset and amortized over the period to the next major overhaul;
- Capital assets may be impacted as IFRS reinforces the requirement to record, disclose and amortize on the basis of material components;
- Asset impairments recorded, under certain circumstances (excluding goodwill impairments), are eligible to be reversed under IFRS. In addition, the approach for impairment testing of non-financial assets will be different under IFRS. Currently, Canadian GAAP requires the two-step approach in assessing long-lived assets for impairment. In the first

step, a recoverability test is based on undiscounted cash flows and if the recoverability test is failed, then the asset is written down to discounted cash flows. Under IFRS the long-lived assets carrying value is compared to discounted cash flows which could result in the recognition of impairment losses earlier than under Canadian GAAP;

- Accounting for income taxes will be impacted primarily due to other changes in measurement that are a result of the adoption of IFRS;
- The classification of financial statement items may differ under IFRS; and
- Financial statement disclosures under IFRS tend to be more robust than those under Canadian GAAP.

As part of the transition process to IFRS, the Company has optional exemptions available under IFRS 1—First-time Adoption of IFRS ("IFRS 1"). The Company has begun to analyze these optional exemptions available under IFRS 1 but the decisions are only preliminary at this time and will be subject to ongoing assessment during the transition year.

The International Accounting Standards Board ("IASB") is currently undertaking several projects which will result in changes to existing IFRS standards that may affect the Company:

IFRS Standard	Expected date of issuance
Consolidations	Q3 2010—Final Standard
Fair Value Measurement Guidance	Q3 2010—Final Standard
Hedge Accounting	Q3 2010—Final Standard
Impairment	Q4 2010—Final Standard
Employee Benefits	Q1 2010—Exposure Draft
Leases	Q2 2010—Exposure Draft
Revenue Recognition	Q2 2010—Exposure Draft
Financial Statement Presentation	Q2 2010—Exposure Draft
Income Taxes	No timeline identified

Source: IASB website at www.iasb.org

The Company continues to monitor the changes proposed by the IASB and will be considering the impact any change in the standards may have on our operations and financial position, and the effect they may have on the IFRS changeover plan.

Key IT and Data Systems Requirements
In early 2010, the Company will be performing an initial analysis of our data system infrastructure; however, the Company does not anticipate that the transition to IFRS will result in a material modification to our IT processes as a result of the divergences that have been identified to date.

Internal Control over Financial Reporting and Disclosure Controls and Procedures
As part of the second and third phase of our overall IFRS transition plan, the Company will be assessing any required changes to ensure the integrity of internal controls over financial reporting and disclosure controls and processes. Any significant required changes in our internal controls will be disclosed in future filings when the assessment will be finalized.

Financial Reporting Expertise, Including Training Requirements
Certain members of senior management have attended external training seminars on relevant IFRS standards and their potential impact. The Company is developing a training plan for its Board of Directors, Audit Committee and other employees, as appropriate. The senior management team, the Audit Committee and the Board of Directors are provided formal updates as required on the progress and decision making surrounding the transition to IFRS.

Business Activities
Based on the divergences identified to date, the Company has not noted any significant changes in contractual arrangements, including debt covenants, executive compensation arrangements or other arrangements, that would be significantly negatively impacted by the adoption of IFRS.

The Company will continue to assess the impact of IFRS throughout 2010, including the impact on its consolidated financial statements, financial reporting systems and internal control systems. The decisions about accounting policy choices made by the Company, including the optional exemptions available under IFRS 1, will be disclosed throughout 2010 as they are reviewed and approved.

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 accordance with Canadian GAAP.

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

Management has evaluated the design and operation of the Company's internal controls over financial reporting as of December 31, 2009, and based on that evaluation has concluded that such internal controls over financial reporting are not effective, due to the following material weaknesses. Control weaknesses exist around information technology general controls, including controls around change management, security, and access controls. This weakness in information technology general controls has the potential to result in material misstatements in the financial statements as well as inappropriate authorizations of transactions. Although the information technology control design has been completed for some of the subsidiaries within the Aviation segment during 2009, further design of information technology controls on the remaining subsidiaries has yet to be completed. The addition of a new Chief Information Officer early in 2010 will provide assistance in the design and evaluation of information technology controls throughout 2010. Control weaknesses also exist around inventory management, specifically around the existence, accuracy, valuation of inventory and the related payable cut-off at one of the subsidiaries. The implementation of a new inventory management and financial software system late in 2009 has greatly enhanced control around inventory. Due to the relatively short period of operation of the system during 2009, we were unable to fully conclude on the remediation of inventory controls relating to the material weakness.

There have been no material changes to the Company's internal controls during the three month period ended December 31, 2009 that have materially affected or are likely to materially affect the internal controls over financial reporting. Management has limited the scope of design of internal controls over financial reporting to exclude Calm Air as it was purchased April 7, 2009. Calm Air had revenue of $63.9 million and EBITDA of $13.4 million included in the consolidated results of the Company for the 2009 year. As at December 31, 2009, it also had current assets and current liabilities of $9.5 million and $10.9 million, respectively. Additional financial summary information with regards to Calm Air is included above in Section 4—Analysis of Operations.

Disclosure Controls and Procedures

Management has established and maintained disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to management in a timely manner and that information required to be disclosed by the Company is reported within the time periods prescribed by applicable securities legislation. Based on the above weaknesses in internal controls over financial reporting as noted above during our evaluation, management has concluded that disclosure controls and procedures as at December 31, 2009 were not effective.

11. RISK FACTORS

Risk Management

The Company and its subsidiaries are subject to a number of business risks. These risks relate to the structure of the Company and to the operations at the subsidiary entities. The following sections summarize the principal risks and uncertainties that could affect the Company's future business results going forward and explains how these risks are managed to an acceptable level.

Economic Growth

The Canadian and U.S. economies went through difficult times during fiscal 2009 that started at the end of 2008. Both economies declared being in a recession at some point during this time and experienced a significant reduction in commodity prices, weakened global economic growth and tight global credit conditions. Some indicators of recovery, especially in the Canadian economy, started to appear near the end of 2009 and the beginning of 2010, but both economies continue to show continued weakness. The weaker economies that the Company operates in impact the ability of the Company to sustain its operating results or create any growth.

In particular, the Manufacturing segment, which has significant operations within the U.S. and the Alberta markets which have witnessed softer demand during 2009. Certain customers of this segment have put on hold or cancelled certain capital projects as businesses try to reduce funding for major projects. This has caused the entities within the Manufacturing segment to pursue a number of initiatives that try to mitigate this risk through finding additional customers, increasing focus on service work, maximizing efficiency and controlling costs. This segment historically has some time lag between the economy's recovery and financial improvements as the customers have to first realize the benefits of the recovery and then commit the funds, which is usually not immediate given the size of certain projects.

The characteristics of the markets that the Aviation segment operates within are not impacted by the state of the overall economy as directly as the Manufacturing segment. This is a result of a large portion of the services being provided are considered a necessity, such as medevacs, versus a consumer choice. The reductions in certain commodity prices, such as aircraft fuel, witnessed during 2009, have actually benefited the Aviation segment through reduced costs to operate. As a result, as the Canadian economy recovers and certain commodity prices increase, the Aviation segment could experience reduced margins if pricing of services cannot recover those increased costs from customers.

Interest Rates

As at December 31, 2009, the Company has $26.3 million outstanding of its syndicate credit facility that has a variable interest rate. A one-percentage point increase in average interest rates would cost the Company approximately $0.3 million per annum for the credit facility. The terms of the credit facility allow for the Company to choose the base interest rate between Prime, Bankers' Acceptances or London Inter Bank Offer Rate (LIBOR). The Company manages the base rate used on the outstanding facility to mitigate this risk and seeks financing terms in individual arrangements that are most advantageous. No derivative instruments are used by the Company to mitigate this risk beyond this level. The Company's outstanding debentures and aircraft financing debt all have fixed interest rates which are not affected by changes in rates.

The Company is examining alternatives with its lenders to fix the rate on all or a portion of its floating rate debt and continues to manage the interest rates incurred through choices on the base interest rate in its credit facility. The Company paid out 56% of its Distributable Cash through combined dividends and distributions declared during the 2009 year (65% if calculated on a fully diluted basis). Management believes that this relatively low payout ratio mitigates the risk of increasing interest rates on Distributable Cash and the Company's other key performance indicators.

Fuel Prices

Fuel is a very significant cost component in the operation of the Aviation segment. Each $0.01 increase per litre in the average cost of fuel increases the operating costs of the segment by approximately $0.4 million. While most of the travel by the Aviation segment's customers is not discretionary (i.e. for medical or other necessary reasons) and overland travel from and to many of the communities serviced is only possible for brief periods of the year over winter roads, if prices were to escalate significantly it may impact demand for services. Second, if the competitive environment was to change, and the companies were unable to pass these increased costs on to the customer, future profits would be negatively impacted.

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

Competition

The Company believes that it is an industry leader in its Aviation segment and strives to be as well in its Manufacturing segment. The Company recognizes that there are threats in the operating environment, which may challenge each segment's 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 the entities currently operate. At the beginning of 2010, new competition entered into the Kivalliq region where Calm Air and Keewatin operate scheduled services. Management's approach on this new competition, which is consistent with all competitors, is to continue to deliver exceptional services at a competitive price that has historically been successful given the operational cost structure and fleet of these Aviation segment entities.

The Aviation segment has historically dealt well with changes in the competitive landscape through its low cost of operation, fleet of appropriately sized owned aircraft and its relationship with its customers. Each of the entities within the Aviation segment have significant competitive advantages and barriers to entry in their respective markets. As the Aviation segment has grown, including the size of the overall fleet of aircraft, the ability for the entities to support each other has given it an ability to take advantage of certain opportunities that would not normally be available if these individual entities were restricted to only their own aircraft. The impact of competition in the Aviation segment could result in reduced revenue and profitability, in particular, during the short term.

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

Government of Nunavut Contracts

Keewatin has a medical evacuation contract with the Government of Nunavut, which provides Keewatin with the exclusive rights to provide medical evacuations ("medevacs") in the Kivalliq region of Nunavut. The contract provides Keewatin with a fixed base fee to cover the costs of operating in Nunavut plus a variable fee per hour flown. During 2008, the contract was extended to 2010 and it is anticipated that Keewatin will be extended to March 2011, but there is a risk that Keewatin will not retain or extend the contract, which would have a significant negative effect on the business of Keewatin at that time.

Keewatin and Calm Air also have contracts with the Government of Nunavut for a certain share of medical travel market, where they provide medical-related travel on scheduled services to communities in the Kivaliq region of the Nunavut territory. The current contract expires in 2011 and there is a risk that one or both of these entities will not retain their share of the medical travel market or extend the contract, which could have a significant negative effect on their business at that time.

This risk factor is mitigated by their long standing relationship with the Government of Nunavut and Keewatin's 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 Company is dependent on a number of key senior employees both at the Company's head office level and at the Company's subsidiary level. The loss of any one of these key employees would impair the Company'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 departs.

Income Tax Matters

The business and operations of the Company and its subsidiaries are complex and the Company has undertaken a number of significant financings, reorganizations, acquisitions and other material transactions over the course of its history. The computation of income taxes payable as a result of these transactions involves many complex factors including the Company's interpretation of relevant tax legislation and regulations. While management believes that the provision for income tax is adequate and in accordance with Canadian GAAP and applicable legislation and regulations, tax filing positions are subject to review by taxation authorities who may challenge the Company's interpretation of the applicable tax legislation and regulations. If such a challenge were to succeed, it could have a material adverse effect on the Company's tax position. Further, changes in tax laws or their interpretation, whether by legislation or judicial decision or action, could materially adversely affect the Company's tax position.

Capital Markets

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

Labour Relations

Certain employees within the Aviation segment have labour-related agreements but there can be no assurance that future agreements with employees' unions or the outcome of arbitrations will be on terms consistent with the Company's expectations or comparable to agreements entered into by the Company's competitors. Any future agreements or outcome of negotiations, mediations or arbitrations including in relation to wages or other labour costs or work rules may result in increased labour costs or other charges which could have a material adverse effect on the Company's business, results from operations and financial condition.

There can be no assurance that there will not be a labour conflict that could lead to an interruption or stoppage in the Company's service or otherwise adversely affect the ability of the Company to conduct its operations, all of which could have a material adverse effect on its business, results from operations and financial condition.

Hotsy Distributorship Contract

The Water Blast business has an exclusive distributorship agreement for the Hotsy line of products that is sells 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 is a 10-year agreement, extended annually, for exclusivity as it relates to third parties from Hotsy, subject to reasonable performance criteria.

Foreign Exchange

The Company's financial results are sensitive to the changing value of the Canadian dollar. In particular, the Company's subsidiaries have significant annual net outflow of U.S. dollars and is affected by fluctuations in the Canada/U.S. dollar exchange rate. Outflows for expenses include items such as aircraft lease costs and 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 U.S. dollar would result in increased costs and adversely affect the profitability of the Company.

A portion of the Company's revenues are generated in U.S. dollars through its operations, primarily Stainless, which acts as a natural hedge and mitigates the foreign exchange risk of the Company. No derivative instruments are used by the Company to mitigate this risk beyond this level.

Accident

The operating subsidiaries of the Company are subject to the inherent business risk of liability claims and adverse publicity if any of their services is alleged to have resulted in adverse effects to a user, including an aircraft accident in the case of the entities within the Aviation segment. The operating subsidiaries currently carry liability insurance that management believes is adequate under their current circumstances, although there can be no assurance that such circumstances will not change and that such insurance will remain available at reasonable costs, if at all. In the event of an inadequately insured liability claim, the business and financial condition of the operating subsidiaries could be materially adversely affected.

Acquisition Strategy

The Company's ability to successfully grow through additional acquisitions will be dependent on a number of factors, including: the identification of suitable acquisition targets in both new and existing markets; the negotiation of purchase agreements on satisfactory terms and prices; securing attractive financing arrangements; and, where applicable, the integration of newly acquired operations into the existing business. Any acquisition will involve a number of risks, including: the potential acquisition of previously undisclosed liabilities; as well as the potential disruption of the Company's ongoing business and the diversion of management's attention from its day-to-day operations. An unsuccessful acquisition could have a material adverse impact on the Company, its results of operations and financial condition. For greater certainty, shareholders are totally dependent upon the Company's management and Board of Directors in making investment decisions.

12. OUTLOOK

Acquisition strategy

The Company is currently well positioned for growth having completed a $30.0 million convertible offering in the third quarter of 2009. These funds have temporarily been utilized to reduce funded debt and are available should an appropriate acquisition opportunity be discovered. The Company's growth strategy is based upon accretive acquisition which requires access to capital, both debt and equity, in order to be successful. There has been a considerable improvement in the stability of the capital markets during 2009 and into 2010. The Company believes that, with its conservative balance sheet and track record of profitability, it will continue to have access to the capital required to implement its strategy. The capital markets are highly volatile, however, and conditions can change very rapidly. As such, there can be no assurance that it will be able to access these markets, beyond the capital already raised, when required to execute its acquisition strategy.

The Company continues to examine a number of acquisition opportunities. We have developed a network of referral sources that regularly present the Company with potential acquisitions. The Company believes that its disciplined approach to acquisitions is largely responsible for the success that has been experienced to date. While the deal flow brought to the Company is considered to be strong, there can be no assurance that target companies that meet the Company's standards will be uncovered.

Aviation Segment

Unlike the majority of North American and world airline carriers, a large percentage of the Company's three aviation companies operate in remote or niche markets, where air travel is an essential service. This shelters them somewhat from larger global economic conditions. While the larger global aviation market struggles with reduced passenger volumes, the outlook for the Company's Aviation segment remains positive.

The First Nation communities located in Manitoba and Nunavut are the key customers for our Aviation segment. The relationship that the airlines have with these customers is an important factor in their success. Perimeter has made specific efforts to enhance this relationship, not only by improving the service that it provides, but also by entering into agreements with the individual First Nations and Tribal Councils. Under these programs, Perimeter provides discounted bereavement charters, community benefit tickets, and participates in economic development projects. This process has markedly improved the relationship with the leadership of the First Nations and has strengthened Perimeter's competitive position. At the request of many of the First Nations, the Company has recently entered into long-term extensions with a number of these agreements.

The demand for passenger service in most of the communities that are serviced is not predicated on the strength of the overall economy. While the mining sector certainly has some impact on demand, particularly at our Calm Air subsidiary, it is not the driving force in the market. Given the stable demand for service, the greatest variable in the Company's aviation revenues is changes in the competitive market. The Company believes that it is well equipped to deal with changes in the competitive landscape through its low cost of operation, fleet of appropriately sized owned aircraft and its relationship with its customers. All three aviation companies have significant competitive advantages and barriers to entry in their respective markets. While we believe that any competitor entering any of these markets would sustain losses for an extended period, this may not deter a company that believes that they can operate within these markets. All of our aviation subsidiaries have dealt with changes in the competitive environment successfully in the past, but in the short term, in particular, new competitors will reduce revenue and profitability. In late 2009, a competitor in the Kivalliq region of Nunavut announced it would be increasing its service into a number of communities which are serviced by Calm Air and Keewatin. The impact of this change is not known at this time.

The 2009 year saw a weakening of some charter based revenues in the mining and exploration sector, as well as the fishing lodge sector. While some improvement in mining and exploration is anticipated, the fishing lodge business is expected to remain depressed in 2010 although no decline from 2009 levels is anticipated.

Keewatin participated in a tender for medevac service in the Baffin Island region. This would be an extension of the geography serviced by Keewatin and would take advantage of its core competency in the medical evacuation field. While significant capital expenditures would be required, this contract would correspondingly increase revenue and EBITDA. Keewatin expects a response to the tender by the end of the second quarter of 2010. Keewatin's five-year medevac contract with the Government of Nunavut, originally granted in 2003, expired in March of 2008. This contract was recently extended until March 2010. Requests for proposals for this work have still not been tendered, and will not likely be announced until later in 2010. As such, it is expected that this contract will again be extended. When requests for proposals are sought by the Nunavut Government, Keewatin's management team believes that its continued focus on high level medical services and existing operations, together with a strong relationship with the government, positions it well to have the contract renewed.

Perimeter and Keewatin have invested considerable capital over the last few years rationalizing their fleets of aircraft and increasing capacity to deal with increases in demand. While this process is largely complete, they continue to look for opportunities to enhance the fleet. Perimeter, in particular, will acquire additional Metro aircraft to make up for some lost capacity due to new weight restrictions to be imposed by Transport Canada which take effect in 2010. Keewatin has also added a leased jet to its fleet to enhance the service it provides on longer medevac flights. Calm Air will continue to phase out its Hawker Siddley 748 aircraft with ATR aircraft. While this transition will be completed within two to three years, Calm Air will also be transitioning its Saab fleet to ATR aircraft over a longer period. When complete, the single platform fleet will provide further operating efficiencies to Calm Air. In the fourth quarter of 2009, Calm Air completed the purchase of an ATR 72. This aircraft is very similar to the ATR 42, as such, has significant commonality with the ATR 42 in terms of training, maintenance and spare parts. The larger size of the ATR 72 will increase efficiency on certain freight and/or passenger runs without adding the costs inherent in adding a new aircraft type to the operation. This aircraft is expected to go into service in the second quarter of 2010 once certain improvements are complete.

Fuel costs declined in 2009 from the levels seen in 2008. While the Company does not expect the wild swings that occurred during this period to recur, it is likely that fuel prices will rise in 2010. Should prices increase materially, it will force a corresponding increase in prices by the Aviation segment entities. The effect of increasing world fuel prices is expected to be somewhat mitigated by a new fuel supply agreement which has been signed by the Company and will take effect later in 2010. This agreement takes advantage of the combined purchasing power of the three airlines.

The demand for pilots and maintenance staff remains very stable as the slowdown from the major carriers continues. Conversely, nurses to staff the medevac crews remain in tight but manageable supply. While flight simulators and ongoing participation in apprenticeship programs can help alleviate training and recruitment costs for pilots and maintenance staff, respectively, nurses can be more difficult to attract. Recent success has been achieved recruiting some nurses from the Atlantic Provinces.

Manufacturing Segment

The North American recession continues to create challenging operating environments for our manufacturing entities. While there are some positive signs from various industry segments in which we operate, they are at this time anecdotal and our expectations are for continued softness in the economy for the remainder of 2010. While the economic downturn has clearly hurt our financial results, we believe all our entities remain leaders in their particular market segments and will return to historic profitability levels as the economy improves.

In addition to the decline in the overall economy, the significant volatility and reduction in oil and natural gas prices in 2009 created a harsh operating environment for our Alberta entities of Water Blast and Jasper. Volume at both companies was down significantly in 2009, and we expect that this will continue in 2010. With natural gas prices remaining low, new drilling and servicing of this market is expected to remain slow. Oil prices, however, have been somewhat more stable, and we are beginning to see increased activity from this market segment.

To offset the weaker demand, Jasper has expanded its marketing territory into neighboring jurisdictions, including the Yukon, Saskatchewan and parts of the U.S. Midwest. While the selling cycle is longer in new markets, Jasper has seen some success with sales to new customers within these new regions. While quoting in Jasper's historical market remains stable year over year, some customers now have new contracts in hand from the oil producers. This should translate to actual orders as we work our way through 2010. The other positive factor influencing the market is the excess inventory on both dealer and customer's lots that is starting to be liquidated. No material increase in sales throughout the region can be expected until this inventory is sold.

Water Blast also experienced a softening of demand in 2009. While it has begun to experience anecdotal increases in demand at the beginning of 2010 from the levels seen in 2009, it is not expected to return to 2008 levels in the 2010 fiscal period. Water Blast believes that it has maintained and likely increased its market share during the slowdown and is well positioned to benefit from improved conditions in the Alberta economy as a whole and the oil and natural gas sectors in particular. It has also focused on increasing its market share in the British Columbia market. Increases in revenue and profitability in British Columbia are expected in 2010.

Despite the U.S. recession, Stainless had some very large field projects in 2009 which bolstered results. These projects were completed by the end of 2009, reducing the order book substantially for the beginning of 2010. While some significant new customer relationships have been added at the end of 2009, and some large projects could materialize in both Canada and the U.S., Stainless is anticipating a reduction in both revenue and profitability for 2010. The lingering U.S. recession is generating intense competition which reduces both the opportunities to quote new projects and the margins Stainless is realizing on contracts. Stainless has responded by going to a reduced work week, increasing its sales force, and increasing the focus on industry segments with higher demand in the current recessionary environment. With the success of a large tank field project in 2009, the sales force is also looking for additional jobs in this sector of the market. Since their first job in Canada in 2008, Stainless has increased its presence and continues to market actively across Canada.

Increased marketing efforts during the last couple of years have increased the customer base at Overlanders. This new customer base has strengthened revenue and significantly reduced the impact of the economic downturn on Overlanders. Overlanders has also recently renewed a long-term contract with its largest customer which adds further stability to its financial outlook. Overlanders continues to monitor its capacity and is in an enviable position to augment its equipment requirements while there is a surplus of new and used equipment in the market place at affordable pricing.

On a segment wide basis, we are taking a cautious view on the financial outlook of our manufacturing sector, but have taken several steps to ensure we remain in a competitive position in the markets in which we operate.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Exchange Income Corporation for the years ended December 31, 2009 and 2008, and all information in this annual report are the responsibility of management. Financial information contained elsewhere in the annual report is consistent with that shown in the consolidated financial statements. The consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles, applied on a consistent basis. The significant accounting policies, which management believes are appropriate for the Company, 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 Company's independent auditors, Deloitte & Touche LLP have been appointed by the shareholders to audit the financial statements and express an opinion thereon.

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

Adam S. Terwin	Michael C. Pyle
Signed	Signed
Chief Financial Officer	President & Chief Executive Officer
March 11, 2010	

Auditors' Report

To the Shareholders of Exchange Income Corporation

We have audited the consolidated balance sheets of Exchange Income Corporation as at December 31, 2009 and 2008, and the consolidated statements of operations, comprehensive income, equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company'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 Company as at December 31, 2009 and 2008 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 11, 2010

Consolidated Balance Sheets

(in thousands of dollars) As at December 31	2009	2008
ASSETS		
CURRENT		
Cash and cash equivalents	$ 4,857	$ 4,034
Accounts receivable	20,922	21,863
Inventory (Note 5)	27,234	24,773
Prepaid expenses	2,401	1,033
Future income tax (Note 16)	4,560	769
	59,974	52,472
CAPITAL ASSETS (Notes 2 and 6)	119,400	64,449
INTANGIBLE ASSETS (Notes 2 and 7)	13,371	9,125
FUTURE INCOME TAX ASSETS (Note 16)	34,618	—
GOODWILL (Note 8)	40,446	35,284
	$ 267,809	$ 161,330
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ 26,031	$ 18,898
Deferred revenue	6,626	4,207
Current portion of long-term debt (Note 9)	2,943	—
Current portion of convertible debentures (Note 10)	5,761	1,488
Current portion of debentures (Note 11)	9,691	—
Current portion of deferred credit (Note 16)	3,464	—
Vendor note payable (Note 4)	—	2,008
	54,516	26,601
LONG-TERM DEBT (Note 9)	25,447	40,911
CONVERTIBLE DEBENTURES (Note 10)	36,150	11,927
DEBENTURES (Note 11)	—	8,912
OVERHAUL ACCRUAL	7,565	5,060
FUTURE INCOME TAX (Note 16)	638	4,998
DEFERRED CREDIT (Note 16)	36,191	—
CONTINGENT LIABILITIES (Note 24)	—	167
	160,507	98,576
EQUITY	107,302	62,754
	$ 267,809	$ 161,330

The accompanying notes are an integral part of the consolidated financial statements.
See Note 2 for impact of changes in accounting policies.

Duncan Jessiman, Trustee

Donald Streuber, Trustee

Consolidated Statements of Operations

(in thousands of dollars, except for per share amounts) For the year ended December 31	2009	2008
REVENUE	$ 211,251	$ 157,663
EXPENSES		
Direct operating	132,560	105,226
General and administrative	45,960	31,640
	178,520	136,866
EARNINGS BEFORE THE FOLLOWING	32,731	20,797
Interest	7,652	5,155
Amortization of intangible assets (Note 2)	1,417	2,034
Depreciation (Note 2)	7,913	4,814
Conversion costs (Note 3)	2,655	—
Foreign exchange gains losses on debt (Note 23)	(1,052)	—
Impairment loss (Note 18)	553	5,668
EARNINGS BEFORE INCOME TAXES	13,593	3,126
INCOME TAX EXPENSE (RECOVERY) (Note 16)		
Current	(30)	(30)
Future	634	(32)
	604	(62)
NET EARNINGS FOR THE YEAR	$ 12,989	$ 3,188
EARNINGS PER SHARE (Note 17)		
Basic	$ 1.47	$ 0.55
Diluted	$ 1.39	$ 0.55

See Note 2 for impact of changes in accounting policies.

Consolidated Statements of Comprehensive Income

(in thousands of dollars)	2009	2008
NET EARNINGS FOR THE YEAR	$ 12,989	$ 3,188
OTHER COMPREHENSIVE INCOME (LOSS), net of tax (Note 26)	(2,787)	3,461
COMPREHENSIVE INCOME FOR THE YEAR	$ 10,202	$ 6,649

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

Consolidated Statements of Equity

(in thousands of dollars) For the year ended December 31	2009	2008
SHARE CAPITAL (Note 12)	$ 104,451	$ —
TRUST UNITS (Note 12)	—	59,495
CONVERTIBLE DEBENTURES EQUITY COMPONENT (Note 10)		
Balance, beginning of year	1,108	1,110
Issued debentures Series F	301	—
Issued debentures Series G	2,345	—
Maturing debentures to contributed surplus	(61)	—
Issued for debenture conversions	(52)	(2)
Balance, end of year	3,641	1,108
WARRANTS (Note 13)		
Balance, beginning of year	—	—
Issued for cash	1,229	—
Exercised	(277)	—
Balance, end of year	952	—
CONTRIBUTED SURPLUS		
Balance, beginning of year	96	—
Equity component of maturing convertible debentures (Note 10)	61	—
Fair value benefit from ESPP recognized as compensation expense	—	96
Fair value release from vested units from ESPP	(96)	—
Balance, end of year	61	96
(DEFICIT) RETAINED EARNINGS		
CUMULATIVE EARNINGS AND DIVIDENDS/DISTRIBUTIONS		
CUMULATIVE EARNINGS—Balance, beginning of year	20,135	16,947
Net earnings for the year	12,989	3,188
Balance, end of year	33,124	20,135
CUMULATIVE DIVIDENDS/DISTRIBUTIONS—Balance, beginning of year	(21,541)	(12,679)
Distributions declared (Note 15)	(7,257)	(8,862)
Dividends declared (Note 15)	(6,803)	—
Balance, end of year	(35,601)	(21,541)
TOTAL (DEFICIT) RETAINED EARNINGS	(2,477)	(1,406)
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of year	3,461	—
Other comprehensive income (loss), net of tax (Note 26)	(2,787)	3,461
Balance, end of year	674	3,461
	(1,803)	2,055
EQUITY, end of year	$ 107,302	$ 62,754

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

Consolidated Statements of Cash Flows

(in thousands of dollars) For the year ended December 31	2009	2008
OPERATING ACTIVITIES		
Net earnings for the year	$ 12,989	$ 3,188
Items not affecting cash:		
Amortization of intangible assets (Note 2)	1,417	2,034
Depreciation (Note 2)	7,913	4,814
Impairment Loss (Note 18)	553	5,668
Accretion of interest	1,888	830
Long-term debt discount (paid) accretion	(59)	(19)
Overhaul accrual	312	2,094
Foreign exchange gains on debt (unrealized)	(541)	—
Gain on sale of disposal of capital assets	(35)	—
Future income tax	634	(32)
Other	(20)	—
	25,051	18,577
Changes in non-cash operating working capital items (Note 21)	5,429	462
	30,480	19,039
FINANCING ACTIVITIES		
Proceeds from (repayment of) long-term debt, net of issuance costs	(20,535)	12,809
Proceeds from issuance of debentures, net of issuance costs	31,945	8,851
Payment of matured debentures	(812)	—
Proceeds from issuance of shares, net of issuance costs	36,053	255
Proceeds from issuance of warrants, net of issuance costs	1,229	—
Cash dividends/distributions	(14,060)	(8,862)
	33,820	13,053
INVESTING ACTIVITIES		
Purchase of capital assets, net of disposals (Note 2)	(11,552)	(9,380)
Purchase of intangible assets (Note 2)	(27)	(133)
Cash outflow for acquisitions and acquisition costs	(55,255)	(20,415)
Cash acquired in acquisitions	3,417	717
Payment of contingent liability (Note 24)	(60)	—
	(63,477)	(29,211)
NET INCREASE IN CASH AND CASH EQUIVALENTS	823	2,881
CASH POSITION, BEGINNING OF YEAR	4,034	1,153
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 4,857	$ 4,034
Supplementary cash flow information		
Interest paid	$ 9,246	$ 4,084
Income taxes paid (recovery)	$ 539	$ 468

The accompanying notes are an integral part of the consolidated financial statements.
See Note 2 for impact of changes in accounting policies.

Notes to the Consolidated Financial Statements

(in thousands of dollars, except per share or per unit information)

1. ORGANIZATION AND BASIS OF PRESENTATION

On July 28, 2009, Exchange Industrial Income Fund (the "Fund") converted to Exchange Income Corporation (the "Company") pursuant to a plan of arrangement (the "Arrangement") under the Canada Business Corporations Act through a reverse takeover by the Fund of HMY Airways Inc. ("HMY Airways"). Prior to the conversion, the consolidated financial statements included the accounts of the Fund and its subsidiaries. After giving effect to the Arrangement, the consolidated financial statements have been prepared on a continuity of interest basis, which recognizes the Company as the successor entity to the Fund. The continuity of interest basis requires that the comparative results within these consolidated financial statements are those previously presented by the Fund. The conversion is described further in Note 3.

The Fund was 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 participated pro rata in any distribution from the Fund. Income tax obligations related to distributions of the Fund were the obligation of the Unitholders.

As at December 31, 2009, the principal wholly-owned operating subsidiaries of the Company are Perimeter Aviation LP ("Perimeter"), Keewatin Air LP ("Keewatin"), 4873999 Manitoba Ltd., Calm Air International LP ("Calm Air"), Jasper Tank Ltd. ("Jasper"), Overlanders Manufacturing LP ("Overlanders"), and Water Blast Manufacturing LP ("Water Blast") and Water Blast Manufacturing B.C. Ltd. ("Water Blast BC"). Stainless Fabrication, Inc. ("Stainless") is a wholly owned subsidiary of Jasper. Through the Company's subsidiaries, products and services are provided in two business segments: Aviation and Manufacturing. On January 1, 2010, Water Blast BC was amalgamated with the Company but this amalgamation has no impact on operations of that entity.

The accompanying consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles (GAAP), applied on a consistent basis, and include the accounts of the Company and its wholly owned subsidiaries. The Company is considered a continuation of the Fund; as such, these consolidated financial statements follow the continuity of interests method of accounting in accordance with Emerging Issues Committee Abstract 170—"Conversion of an Unincorporated Entity to an Incorporated Entity". Under the continuity of interests method of accounting, the transfer of the assets, liabilities and equity from the Fund to the Company are recorded at their net book values as at the effective date of the Arrangement. As a result of the application of the continuity of interests method of accounting, certain terms such as shareholder/unitholder, dividend/distribution and share/unit may be used interchangeably throughout these consolidated financial statements. For the periods reported up to the effective date of the Arrangement, all dividends/distributions to shareholders/unitholders were in the form of trust unit distributions.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Adoption of New Accounting Policies

The following standards were adopted effective January 1, 2009.

Goodwill and Intangible Assets

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. 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. As a result of adopting the new standard, certain software system implementation costs that were previously recorded within Capital Assets are now recorded as Other Intangible Assets in the Consolidated Balance Sheet.

The impact of this change in accounting policy on the current and prior periods is as follows:

Consolidated Balance Sheet	December 31, 2008
(Decrease) in Capital Assets	$ (577)
Increase in Intangible Assets	577

The Company restated the 2008 results for this change in policy and, as a result, depreciation decreased and amortization of intangibles increased by $107. During 2009, amortization of intangible assets of $212 was recorded related to the reclassed assets.

Warrants

During the second quarter of 2009, the Company issued warrants for the first time within a public offering that closed in April 2009 and, subsequently, in a private placement that closed in June 2009 (Note 13). The warrants are presented separately as part of shareholders' equity and recorded at the consideration given, net of issuance costs. When warrants are exercised, the carrying value of the warrant is transferred to share capital within shareholders' equity. Any unexercised warrants that expire are reclassed to contributed surplus within shareholders' equity.

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

The Company adopted the Emerging Issues Committee Abstract 173—"Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" that clarifies how an entity's own credit risk and that of the relevant counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this abstract had no significant impact on the results of the Company.

Pension Plan

As a result of the acquisition of Calm Air during 2009 (Note 4), the Company has pension-related costs associated with the defined contribution pension plan that certain Calm Air personnel are entered into. The Company's accounting policy is to expense contributions as earned during the period within general and administrative expenses within the Aviation segment. During 2009, the Company recorded pension plan costs of $412 over the period after the acquisition date.

Accounting Standards

The following are the remaining accounting policies of the Company used in generating the consolidated financial statements and notes.

a) Principles of Consolidation

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

b) Revenue Recognition

The Company 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 Company 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 and recognized as flight revenue when the service is provided.

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

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

c) Cash and Cash Equivalents

Cash and cash equivalents comprise cash and temporary investments consisting of highly liquid investments having a maturity of three months or less. Interest is recorded on an accrual basis. As at December 31, 2009, cash equivalents was nil (2008—nil).

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 systematically allocated overhead, and net realizable value. Inventory items previously written down to net realizable value can be subsequently reversed back up to the original cost with an increase in the value of the inventory items.

The Company classifies its inventory into the following categories:

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

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	4%–5%
Aircraft	5%–40%
Equipment	10%–20%
Other	25%–30%
Leasehold improvements over the term of lease	

f) Impairment of Long-Lived Assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recovered. An impairment loss is recognized when the carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is the excess of the carrying value of the asset over its fair value. During 2008, certain intangible assets and goodwill in the Manufacturing segment were determined to be impaired and expensed in that year (Notes 6, 7 and 18).

g) Intangible Assets

Intangible assets are recorded at cost. The Company 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
Backlog	Pro rata based on expected revenues
Non-compete contracts	Straight line over 5 years
Operating certificates	Straight line over 2–30 years
Systems	Straight line over 3–5 years
Other	Straight line over 5 years

The indefinite life intangible assets are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired.

h) Goodwill

Goodwill is recognized to the extent of the excess of the purchase price over the fair value of the underlying identifiable net assets acquired. Management reviews the carrying value of goodwill for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired. Any excess of carrying value over the fair value will be charged to income in the period in which the impairment is determined. During 2008, certain goodwill in the Manufacturing segment was determined to be impaired and expensed in that year (Notes 8 and 18).

i) Income Taxes

As a corporation, the Company utilizes the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect of a change in tax rates on future income tax assets and liabilities is recorded in net earnings in the period in which the change occurs. Unutilized tax loss carryforwards that are not more likely than not to be realized are reduced by a valuation allowance in the determination of future income tax assets.

Prior to the Company's conversion to a corporation, the Fund was a unit trust for income tax purposes and, as such, was 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 accounted for income taxes using the asset and liability method of accounting for income taxes as described above.

j) Overhaul Accrual

The Company accrues in the Aviation segment for the required cost of periodic overhauls to capital components of the aircraft based on the estimated cost to perform the overhaul and the flying hours before the overhaul is to be performed.

k) Financial Instruments and Comprehensive Income

Financial assets and liabilities

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

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

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

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

Effective January 1, 2009, the Company adopted the updates to CICA Handbook Section 3862, Financial Instruments—Disclosures. This guidance establishes requirements for fair value disclosures. The fair value of financial assets designated as held for trading are determined based on quoted prices in active markets for identical assets—Level One of the Fair Value Hierarchy.

Transaction costs are included in the financial asset or liability and recognized over the life of the resulting instrument using the effective interest method. The transaction costs, which have been netted to long-term debt, convertible debentures, and debentures, are being amortized using the effective interest rate method over the life of the related debt. Any changes in the expected cash flows of those instruments result in a modification of the effective interest rate being used to amortize the carrying amount of the transaction costs over the remaining amended cash flows of the instrument from the date of the change. Any transaction costs associated with items classified as held for trading are expensed in the period incurred.

Embedded derivatives

Derivatives may be embedded in other financial instruments (the "host instruments"). An embedded derivative has economic characteristics and risks that are not closely related to the economic characteristics and risks of the host instrument, and are measured at fair value with subsequent changes generally recognized in net earnings. This fair value measurement does not apply to derivatives that are recorded as equity.

Comprehensive income

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

Hedge accounting

The Company has no hedging arrangements where hedge accounting applies.

l) Foreign Currency Translation

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

Monetary items and non-monetary items in a foreign currency outside of the Stainless investment are translated at the rate of exchange in effect at the balance sheet date. Non-monetary items 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 in the period they occur.

m) Use of Estimates

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

n) Stock-Based Compensation

Deferred Share Plan

Certain employees of the Company participate in a stock-based compensation plan of the Company's shares (Note 19). The plan consists of individuals being granted "deferred shares" which are essentially phantom shares that are tracked but not actually issued out of treasury or bought on the market until the time at which the deferred shares are redeemed. The deferred shares vest evenly over a three-year period. The participant has the ability to redeem the vested deferred shares for Company shares, cash or a combination of the two. As a result, this plan is accounted for under the liability method in that a liability is generated over the vesting period and the liability is revalued at each period-end based on the market price of the Company's shares at that time. Any changes in market value of the vested deferred shares liability is charged through compensation expense in that period. If the deferred shares are redeemed for Company shares, then the settlement of the liability is recorded as equity.

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

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

Employee Share Purchase Plan
Certain employees of the Company participate in a stock based compensation plan of the Company's shares (Note 20). The fair value of shares to be awarded to employees is recognized as compensation expense on a straight-line basis over the applicable vesting period. For a share granted to an employee who is eligible to retire at the grant date, the fair value of the share is expensed on the grant date. For a share granted to an employee who will become eligible to retire during the vesting period, the fair value of the share is expensed over the period from the grant date to the date the employee becomes eligible to retire.

Any forfeited shares that were planned to be awarded are adjusted for as a recovery to compensation expense in the time of the forfeiture to the extent the liability has been recognized.

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

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

Section 1582 replaces Section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3—Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Changes in the section include expensing acquisition-related costs in the period incurred with the exception of costs incurred to issue debt or share capital. The Company's current accounting policy would be to include these acquisition-related costs as part of the total consideration paid used in valuing the assets acquired and liabilities assumed in the acquisition. The expected impact is indeterminable without knowing the timing and extent of acquisitions made by the Company going forward.

Sections 1601 and 1602 together replace Section 1600 — Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27—Consolidated and Separate Financial Statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Currently, the Company has no non-controlling interests in its subsidiaries that would impact the Company's financial statements.

International Financial Reporting Standards

The Accounting Standards Board of Canada ("AcSB") has announced plans that will require the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") for publicly accountable enterprises, including the Company. The changeover date from Canadian GAAP to IFRS is for annual and interim financial statements relating to fiscal years beginning on or after January 1, 2011.

3. CORPORATE CONVERSION

As described above, on July 28, 2009, the Fund completed its conversion to the Company pursuant to the Arrangement. Effective on the closing of the Arrangement and related transactions, the Company now directly owns subsidiaries which own and operate the businesses which were held and operated by the Fund and its subsidiaries prior to the closing of the Arrangement. The directors of EIIF Management GP Inc. and management of the Fund prior to the Arrangement are now the directors and officers of the Company.

The Arrangement was approved at the special meeting of the holders ("Unitholders") of Class A trust units of the Fund ("Units") held on July 22, 2009, with 100% of the votes cast by Unitholders in favour of the Arrangement. On July 27, 2009, the Court of Queen's Bench of Manitoba granted the final order required in connection with the Arrangement.

Pursuant to the Arrangement, each Unitholder received one common share (a "Share") of the Company for each Unit held. After giving effect to the Arrangement, there were 9,980,723 Shares issued and outstanding.

The Company expensed costs of $2,655 during 2009 in relation to the conversion.

As part of the reverse takeover, the Company acquired certain assets of HMY Airways for consideration of $10,566, which consisted of cash of $9,566 and 102,446 Shares of the Company with a value of $1,000 (see Note 16).

4. ACQUISITIONS

The following acquisition was closed during the 2009 year:

Acquisition of Calm Air

On April 8, 2009, the Company acquired 100% of the shares of A. Morberg Investment Corporation, the parent company of Calm Air International Ltd. ("Calm Air"). Calm Air is a regional airline carrier that provides both regularly scheduled and chartered passenger and cargo flights to 16 communities in Manitoba and Nunavut. The results of operations are included in the Company's Consolidated Statement of Operations since the date of acquisition and is part of the Aviation segment.

The total consideration for the acquisition was $48,542 before acquisition costs. On closing of the transaction, the Company made a preliminary payment of $43,020 which was funded with a combination of gross proceeds from the Company's public offering that closed on April 7, 2009 (see Notes 10, 12–13) and a drawdown of the Company's amended bank credit facility (Note 9). The vendor also received 624,211 Shares of the Company valued at $5,930 based on the market value of the Company's shares around the time of the acquisition. The working capital adjustment was finalized before the end of the year, resulting in the Company receiving a payment from the vendor of $408. The Company also assumed certain debt obligations of $7,462 (US$6,046) and paid certain other debt obligations of $2,888.

Consideration given:	
Cash	$ 42,612
Issue of 624,211 units of the Fund at a price of $9.50 per unit	5,930
Acquisition costs	178
Total purchase consideration	$ 48,720

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

Fair value of assets acquired:	
Cash	$ 3,418
Accounts receivable	5,121
Inventory	5,476
Prepaid expenses	508
Future income tax asset	69
Capital assets	52,695
Intangible assets	5,803
	73,090
Less fair value of liabilities assumed:	
Accounts payable and accrued liabilities	6,621
Deferred revenue	5,598
Overhaul accrual	2,193
Aircraft finance debt	10,350
Future income taxes	7,395
Fair value of identifiable net assets acquired	40,933
Goodwill	7,787
Total purchase consideration	$ 48,720

Of the $5,803 acquired intangible assets, $4,483 was assigned to brand names, $664 was assigned to operational certifications, $258 was assigned to existing contracts, $242 was assigned to customer relationships, and $156 was assigned to booked tickets. All the intangibles acquired are subject to amortization with the exception of the brand which is considered to have indefinite life.

None of the goodwill acquired is expected to be deductible for tax purposes.

The following acquisitions were closed during the 2008 year:

Stainless Fabrication, Inc.

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

The aggregate purchase consideration for Stainless was an amount equivalent to a multiple of the average EBITDA (see Note 14 for a definition of EBITDA) for Stainless during the three fiscal years ending December 31, 2006, December 31, 2007, and December 31, 2008. On closing of the transaction, a preliminary payment of US$22,000 was made by the Company consisting of US$19,800 cash and shares of the Company of US$2,200.

The first adjustment of the aggregate purchase consideration was determined during the second quarter of 2008 based on the two-year average EBITDA ending December 31, 2007 and the finalization of the working capital adjustment. A portion of this adjustment was paid in cash (US$820) and the remaining US$1,640 was setup as a vendor note payable. The note bore interest at a matching rate with the interest on the outstanding U.S. component of the Company's credit facility. As described in Note 12, the settlement of the vendor note payable occurred during 2009 in connection with an offering of shares of the Company. The interest charged on the vendor note payable during 2009 was $14 (2008—$46).

The purchase price was finalized in 2009 with no material adjustment to the purchase price. The settlement of working capital items was finalized during 2008 and resulted in net receipt of US$714.

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

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

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

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

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

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

Other Acquisitions

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

5. INVENTORY

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

	2009	2008
Parts and other consumables	$ 14,565	$ 8,734
Raw materials	2,206	3,857
Work in process	374	511
Finished goods	10,089	11,671
Total inventory	$ 27,234	$ 24,773

During 2009, inventory with a value of $38,907 was recorded as direct operating expenses (2008—$57,909).

6. CAPITAL ASSETS

			2009
	Cost	Accumulated Amortization	Net Book Value
Land	$ 617	$ —	$ 617
Buildings	32,976	4,439	28,537
Aircraft	85,752	9,499	76,253
Equipment	19,395	7,510	11,885
Other	1,731	1,120	611
Leasehold improvements	2,105	608	1,497
Balance, end of year	$ 142,576	$ 23,176	$ 119,400

			2008
	Cost	Accumulated Amortization	Net Book Value
Land	$ 617	$ —	$ 617
Buildings	20,529	3,034	17,495
Aircraft	38,437	5,792	32,645
Equipment	17,595	5,778	11,817
Other	1,303	915	388
Leasehold improvements	1,971	484	1,487
Balance, end of year	$ 80,452	$ 16,003	$ 64,449

Depreciation for the 2009 year was $7,913 (2008—$4,814). See Note 2 for the change in accounting policy that restated the 2008 amounts.

During the 2009 year, a write-down for impairment of $553 was recorded against a certain building of the Aviation segment. See Note 18 for additional information.

7. INTANGIBLE ASSETS

	2009		
	Cost	Accumulated Amortization	Net Book Value
Indefinite Life Assets			
Brand name	$ 9,678	$ —	$ 9,678
Finite Life Assets			
Customer contracts	628	310	318
Customer relationships	4,367	2,655	1,712
Non-compete agreements	253	75	178
Certifications	1,034	157	877
Information technology systems	984	411	573
Other	256	221	35
Balance, end of year	$ 17,200	$ 3,829	$ 13,371

	2008		
	Cost	Accumulated Amortization	Net Book Value
Indefinite Life Assets			
Brand name	$ 5,195	$ —	$ 5,195
Finite Life Assets			
Customer contracts	370	207	163
Customer relationships	4,524	1,981	2,543
Non-compete agreements	271	39	232
Certifications	378	17	361
Information technology systems	776	199	577
Other	99	45	54
Balance, end of year	$ 11,613	$ 2,488	$ 9,125

Amortization for the 2009 year was $1,417 (2008—$2,034). See Note 2 for the change in accounting policy that restated the 2008 amounts.

During the 2008 year, a write-down for impairment of $509 was recorded against certain intangible assets of the Manufacturing segment. See Note 18 for additional information.

8. GOODWILL

	2009		2008
Balance, beginning of year	$	35,284	$ 21,925
Goodwill from business acquisitions (Note 4)		7,787	15,029
Change in goodwill of self-sustaining foreign operations (Stainless)		(2,625)	3,489
Goodwill impairment		—	(5,159)
Balance, end of year	$	40,446	$ 35,284

As a result of the foreign currency accounting policy for the consolidation of Stainless as described in Note 2L), the goodwill recorded for Stainless (US$14,751) is valued at the period-end exchange rate. During 2009, the Canadian dollar strengthened and resulted in a decrease in the Canadian dollar equivalent of goodwill in the consolidated financial statements.

During the 2008 year, a write-down for impairment of $5,159 was recorded against certain goodwill of the Manufacturing segment. See Note 18 for additional information.

9. LONG-TERM DEBT

	2009	2008
Revolving term facility		
Canadian dollar amounts drawn	$ 18,500	$ 32,400
U.S. dollar amounts drawn (US$7,450 outstanding in 2009 and 2008)	7,797	9,123
Total credit facility debt outstanding, principal value	26,297	41,523
Less: unamortized transaction costs	(726)	(547)
Less: unamortized discount on outstanding BAs	(124)	(65)
Net credit facility debt	25,447	40,911
Aircraft finance debt (US$2,812)	2,943	—
Long-term debt balance	28,390	40,911
Less: current portion of Aircraft finance debt	(2,943)	—
Long-term debt balance	$ 25,447	$ 40,911

Credit Facility

The Company's senior debt consists of a revolving term facility with a syndicate of Canadian banks. The credit facility provides for an authorized three-year revolving debt facility and secured by a general security agreement over the assets of the Company, subject to customary terms, conditions, covenants, and other provisions for a corporation. The interest rate is determined by a pricing grid which is based on the Company's EBITDA to net senior debt ratio. The Company defines "EBITDA" as earnings before interest, income taxes, depreciation, amortization, other non-cash expenses such as unrealized foreign exchange gains or losses and asset impairment, and any unusual non-operating one-time items such as conversion costs. The Company has the ability to choose the base interest rate for the credit facility between Prime, Bankers' Acceptances ("BAs"), London Inter Bank Offer Rate ("LIBOR") or a combination of these. The weighted average interest rate of the credit facility debt outstanding as at December 31, 2009 is 3.75%.

At the time of the closing of the acquisition of Calm Air (Note 4), the Company increased its bank credit facility to $96 million, which included an amended pricing grid and added a fourth bank to the syndicate. The Alberta Treasury Branch was the fourth partner added to the existing syndicate of banks.

In relation to the funding of the Calm Air acquisition, the Company drew down $22,500 from the amended credit facility. In relation to funding the plan of arrangement when the Company converted to a publicly traded corporation (Notes 1 and 16), the Company drew down $11,000 from the credit facility. Throughout 2009, the Company made payments against the credit facility totaling $47,400.

Transaction costs incurred in the amendments to the credit facility during the 2009 year totalled $634 and will be amortized over the remaining term of the facility.

Also during the 2009 year, the Company replaced one of the syndicate partners, Royal Bank of Canada, with CIBC at the same syndication amount and terms, and the Alberta Treasury Branch increased its share of the syndicate by $10 million, which makes each of the syndicate partners contribute $26.5 million towards the total $106 million credit facility that is available to the Company as at December 31, 2009.

The total syndicate facility includes a revolving operating line of credit up to a maximum of $5,000. At December 31, 2009, the operating line of credit was not drawn upon by the Company (2008—nil).

Interest expense related to the credit facility recorded by the Company during the 2009 year was $2,728 (2008—$3,137). The principal payments in each of the next three years are: 2010—nil, 2011—nil, and 2012—$26,297.

On January 25, 2010, the Company drew $10,000 from its credit facility to pay for the redemption of the Series E debentures as described in Note 11.

Aircraft Finance Debt

Also, as part of the acquisition of Calm Air (Note 4), the Company assumed debt with Credit Lyonnais in association with the financing of two aircrafts that were purchased by Calm Air prior to the acquisition. The security provided includes two SAAB 340B Plus aircraft within the Calm Air fleet, a spare engine, certain spare parts and a guarantee by the aircraft manufacturer. The weighted average fixed interest rate is 7.22% based on the interest rates of the remaining principal outstanding. The maturity date is November 2010 with monthly principal and interest payments.

The terms of the debt require certain engine care maintenance plan contracts. The cost of these contracts is paid monthly and charged to current operations. The annual payments under such contracts are based on the number of hours flown in service and are estimated to be approximately $750. Additionally, an annual financing fee of approximately $140 is payable annually until maturity and recorded as interest expense.

Interest expense related to the aircraft finance debt recorded by the Company during the 2009 year was $432. The principal payments remaining for the aircraft debt of US$2,812 will be paid in 2010.

10. CONVERTIBLE DEBENTURES

Series—Year of Issuance	Maturity	Interest Rate	Conversion Price
Series A—2004	May 7, 2009	9.0%	$ 9.00
Series B—2005	July 8, 2010	8.0%	$ 11.50
Series C—2005	September 1, 2010	8.0%	$ 13.25
Series D—2006	August 12, 2011	8.0%	$ 13.25
Series F—2009	April 8, 2014	10.0%	$ 10.75
Series G—2009	September 30, 2014	7.5%	$ 14.50

Summary of the debt component of the convertible debentures:

	2009 Balance, Beginning of Year	Debentures Issued	Accretion Charges	Debentures Converted	Repaid on Maturity	2009 Balance, End of Year	2008 Balance, End of Year
Series A	$ 1,501	$ —	$ 10	$ (699)	$ (812)	$ —	$ 1,501
Series B	3,292	—	59	—	—	3,351	3,292
Series C	2,425	—	44	—	—	2,469	2,425
Series D	6,685	—	111	—	—	6,796	6,685
Series F	—	3,800	24	(7)	—	3,817	—
Series G	—	27,655	104	—	—	27,759	—
						44,192	13,903
Less: unamortized transaction costs						(2,281)	(488)
Convertible Debentures —Debt Component, end of year						41,911	13,415
Less: current portion						(5,761)	(1,488)
Convertible Debentures —Debt Component (long-term portion)						$ 36,150	$ 11,927

Series A—D Convertible Debentures

As scheduled, in May 2009, the Series A convertible debentures matured and the Company paid $812 in cash for the outstanding debentures principal at maturity. The remaining equity component for the Series A convertible debentures at maturity of $61 was transferred to contributed surplus.

The Series B, C and D convertible debentures that are outstanding are convertible, at the option of the holders, into shares of the Company at a predetermined conversion price per share. The Company has the option to settle all or a portion of these convertible debentures obligations at their maturities through the issuance of shares at a price based on the weighted average 20-day trading price of the shares prior to the debentures maturity.

Series F Convertible Debenture Offering

During 2009, the Company closed a public offering that included the issuance of $4,102 of Five Year 10% Series F Subordinate Secured Convertible Redeemable Debentures. These debentures bear interest at the rate of 10% per annum payable semi-annually in arrears, in cash, on the six-month and twelve-month anniversaries of the initial date of issuance. The maturity of the debentures is April 8, 2014. Each debenture is convertible, at the debenture-holders' option, into Shares of the Company at any time prior to the close of business on the day prior to the maturity date. At the Company's option, on the maturity date, the debentures (or any portion thereof) shall be convertible into Shares at the Company's forced conversion price equal to 95% of the weighted average trading price of the Shares for the 20 trading days prior to the maturity date. The Company also has the ability to redeem these Series F debentures, in whole or in part, on or after the third anniversary of the date of issuance of the debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time.

Transaction costs of $475 were incurred during the 2009 year in relation to the issuance of the Series F debentures.

Series G Convertible Debenture Offering

During 2009, the Company closed a public offering that included the issuance of $30,000 of Five Year 7.5% Series G Subordinate Secured Convertible Redeemable Debentures. These debentures bear interest at the rate of 7.5% per annum payable semi-annually in arrears, in cash, on the six-month and twelve-month anniversaries of the initial date of issuance. The maturity of the debentures is September 30, 2014. Each debenture is convertible, at the debenture-holders' option, into Shares of the Company at any time prior to the close of business on the day prior to the maturity date. At the Company's option, on the maturity date, the debentures (or any portion thereof) shall be convertible into Shares at the Company's forced conversion price equal to 95% of the weighted average trading price of the Shares for the 20 trading days prior to the maturity date. The Company also has the ability to convert these Series G debentures, in whole or in part, on or after the third anniversary of the date of issuance of the debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time.

Transaction costs of $1,654 were incurred during the 2009 year in relation to the issuance of the Series G debentures.

During the 2009 year, convertible debentures totaling with a face value of $706 were converted into 78,317 Shares of the Company (2008—$31 into 3,088 Shares). Interest expense recorded during the 2009 year for the convertible debentures was $2,736 (2008—$1,600).

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

Summary of the equity component of the convertible debentures:

	2009	2008
Series A—2004	$ —	$ 113
Series B—2005	261	261
Series C—2005	193	193
Series D—2006	541	541
Series F—2009	301	—
Series G—2009	2,345	—
Convertible Debentures—Equity Component, end of year	$ 3,641	$ 1,108

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

11. DEBENTURES

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

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

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

Interest expense recorded during the 2009 year for the debentures was $1,732 (2008—$372 from the dates of closing).

On December 21, 2009, the Company announced the redemption of all 9,691 Series E debentures. Subsequent to the 2009 year, effective January 25, 2010, the Company paid $10,179, consisting of a redemption price of 101% of the principal amount of each Series E debenture plus all accrued and unpaid interest up to but excluding that effective date. Interest on the debentures ceased to be payable from and after the effective date.

12. SHARE CAPITAL AND TRUST UNITS

As described above, the Units outstanding of the Fund at the time of the conversion to a corporation were exchanged for Shares of the Company on a one-to-one basis.

Changes in the Shares issued and outstanding during the 2009 year are as follows:

		2009
	Number of shares	Amount
Share capital, beginning of year	—	$ —
Issued to trust unitholders pursuant to Plan of Arrangement (Note 3)	9,878,277	95,183
Issued for purchase consideration in part with Plan of Arrangement (Note 3)	102,446	1,000
Issued from warrants exercised (Note 13)	725,551	7,521
Issued under the Employee Share Purchase Plan (Note 20)	59,564	714
Issued for First Nations Community Partnership Agreements	7,000	68
Issued under Dividend Reinvestment Plan (DRIP)	7,215	87
Issued upon conversion of convertible debentures	651	6
Issuance costs	—	(128)
Share capital, end of year	10,780,704	$ 104,451

Changes in the Units issued and outstanding during the 2009 and 2008 comparative years are as follows:

		2009
	Number of units	Amount
Trust units, beginning of year	5,872,464	$ 59,495
Issued for cash and vendor note settlement through public offering (net of issuance costs and taxes of $739)	2,398,554	21,088
Issued for cash through private placement (net of issuance costs and taxes of $423)	835,810	7,183
Issued for purchase consideration (Note 4)	624,211	5,930
Issued upon conversion of convertible debentures	77,666	741
Issued as payment to TCIG	66,072	710
Issued from warrants exercised (Note 13)	3,500	36
Decrease resulting from implementation of Plan of Arrangement (Note 3)	(9,878,277)	(95,183)
Trust units, end of year	—	$ —

	2008	
	Number of units	Amount
Trust units, beginning of year	5,607,688	$ 56,745
Issued for purchase consideration (Note 4)	230,737	2,455
Issued under the Employee Unit Purchase Plan (Note 20)	30,951	264
Issued upon conversion of convertible debentures	3,088	31
Trust units, end of year	5,872,464	$ 59,495

During 2009, the Company closed a public offering in April 2009 and a private placement in June 2009. Both included the issuance of Shares of the Company that totaled gross proceeds of $29,433 (overall, 3,234,364 Shares were issued with a per Share value of $9.10). Total issuance costs of $1,539 (before tax of $249) were incurred during the 2009 year in relation to the closing of both issuances of Shares. Within the April 2009 public offering, the Company issued 213,831 Shares of the Company as full settlement of the Stainless vendor note payable (US$1,640).

Associated with the acquisition of Calm Air during 2009, the Company issued 624,211 Shares as part of the consideration given to the vendor with a value of $5,930 (Note 4). Associated with the conversion to a corporation during the third quarter of 2009, the Company issued 102,446 Shares as part of the consideration given to the vendor of HMY Airways with a value of $1,000 (Note 3).

Also during 2009, amounts earned by the Tribal Council Investment Group ("TCIG"), a related party of the Company, were paid in Shares of the Company in accordance with the marketing agreement between the parties (Note 25).

13. WARRANTS

During the 2009 year, the Company closed a public offering in April 2009 and a private placement in June 2009. Both included the issuance of warrants. Each warrant entitles the holder thereof to purchase one Share of the Company at a price of $10.00 per Share for a period of two years from the date of issuance of the warrant. A warrant does not give its holder any voting right or other right attaching to the Shares of the Company until the warrants are properly exercised and Shares issued.

A total of 3,234,364 warrants were issued during the second quarter of 2009 with a per warrant value of $0.40, and total issuance costs of $64 were incurred in relation to the closing of both issuances of warrants. The fair value of the warrants issued was determined using the Black-Scholes Option Pricing Model.

The following summarizes the changes in the warrants outstanding of the Company during the 2009 year:

	Date issued	Number of warrants	Amount
Warrants outstanding, beginning of year		—	$ —
Issued for public offering	April 7, 2009	2,398,554	918
Issued for private placement	June 22, 2009	835,810	311
Warrants exercised	various	(729,051)	(277)
Warrants outstanding, end of year		2,505,313	$ 952

During 2009, since the issuance of the warrants, $7,557 was transferred to share capital for the warrants exercised.
The warrants outstanding as at December 31, 2009 expire in the second quarter of 2011.

14. CAPITAL MANAGEMENT

The Company manages its capital to utilize prudent levels of debt. The Company maintains its level of senior debt within a range of 1.5—2.5 times funded senior debt to pro forma earnings before interest, income taxes, depreciation, amortization and other non-cash items.

The Company's objective in managing capital is to:

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

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

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

	2009	2008
Total senior debt outstanding, principal value	$ 29,240	$ 41,523
Convertible debentures outstanding, face value	46,980	14,396
Debentures outstanding, face value	9,691	9,691
Shares	104,451	59,495
Warrants	952	—
Total capital, end of year	$ 191,314	$ 125,105

The Company considers the existing level of equity capital to be adequate in the context of current operations and the Company's strategic plan. The Company expects that its dividends to its shareholders during 2010 will be funded by earnings and operating cash flows generated by its operating subsidiaries.

There are certain capital requirements of the Company resulting from the Company's credit facility that includes financial covenants and ratios, including leverage ratios that assess the funded senior debt to adjusted earnings before interest, income tax expense, depreciation, amortization and other non-cash items ("EBITDA") ratio. Management uses these capital requirements in the decisions made in managing the level and make-up of the Company's capital structure. The Company has been in compliance with all of the financial covenants during the 2009 year.

Changes in the capital of the Company over the 2009 year are mainly attributed to the April 2009 offering of convertible debentures and Units that was done in relation to the acquisition of Calm Air, the June 2009 private placement of Units that was done in relation to the conversion described in Note 3, the September 2009 offering of convertible debentures that was done to reduce other debt amounts of the Company, and the exercise of warrants during the 2009 period.

15. DIVIDENDS AND DISTRIBUTIONS DECLARED

The Company's policy is to make dividends to shareholders 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 directors.

Cumulative dividends/distributions during the 2009 and comparative 2008 years are as follows:

	2009	2008
Balance, beginning of year	$ 21,541	$ 12,679
Distributions during the year	7,257	8,862
Dividends during the year	6,803	—
Balance, end of year	$ 35,601	$ 21,541

The amounts and record dates of the dividends/distributions during the 2009 and comparative 2008 years are as follows:

	2009 Distributions			2008 Distributions		
Month	Record date	Per unit	Amount	Record date	Per unit	Amount
January	January 30, 2009	$ 0.13	$ 776	January 31, 2008	$ 0.125	726
February	February 27, 2009	0.13	777	February 29, 2008	0.125	726
March	March 31, 2009	0.13	778	March 31, 2008	0.125	726
April	April 30, 2009	0.13	1,174	April 30, 2008	0.125	727
May	May 29, 2009	0.13	1,184	May 30, 2008	0.125	727
June	June 30, 2009	0.13	1,284	June 30, 2008	0.125	727
July	July 28, 2009	0.13	1,284	July 31, 2008	0.125	730
August		—	—	August 29, 2008	0.125	730
September		—	—	September 30, 2008	0.125	730
October		—	—	October 31, 2008	0.125	751
November		—	—	November 28, 2008	0.13	780
December		—	—	December 31, 2008	0.13	782
Total		$ 0.91	$ 7,257		$ 1.51	$ 8,862
	2009 Dividends			**2008 Dividends**		
Month	Record date	Per share	Amount	Record date	Per share	Amount
January		$ —	$ —		$ —	—
February		—	—		—	—
March		—	—		—	—
April		—	—		—	—
May		—	—		—	—
June		—	—		—	—
July		—	—		—	—
August	August 31, 2009	0.13	1,318		—	—
September	September 30, 2009	0.13	1,323		—	—
October	October 30, 2009	0.13	1,372		—	—
November	November 30, 2009	0.13	1,389		—	—
December	December 31, 2009	0.13	1,401		—	—
Total		$ 0.65	$ 6,803		$ —	$ —

16. INCOME TAXES

On July 28, 2009, the Company converted from a publicly traded income trust to a publicly traded corporation by way of a plan of arrangement with HMY Airways Inc. for cash and share consideration of $10,566. As a result of the arrangement, the Company recorded a deferred credit of $42,257 relating to the difference between the future income tax asset of $52,823 and the amount paid to the controlling shareholder of HMY Airways Inc. The accounting for the deferred credit is in accordance with the CICA's Emerging Issues Committee Abstract 110—"Accounting for Acquired Future Tax Benefits in Certain Purchase Transactions that are not Business Combinations," the credit is being amortized to income tax expense in proportion to the net reduction in the future income tax asset that gave rise to the deferred credit.

Prior to July 28, 2009, the Company was a grandfathered Specified Investment Flow Through and was not subject to tax during this time as its income was taxed at the unitholder level.

The future income tax of the Company relate to the following items:

	2009	2008
Future income tax assets—current		
Capital and non-capital loss carryforwards	$ 4,331	$ 496
Accruals—deductible when paid	229	273
Total future income tax asset—current	$ 4,560	$ 769
Future income tax assets—long-term		
Capital assets	$ (12,348)	$ —
Intangible assets	(740)	—
Financing costs	712	—
Accruals—deductible when paid	2,051	—
Deferred compensation plans	116	—
Capital and non-capital loss carryforwards	45,118	—
Other comprehensive income	(77)	—
Other	12	—
Future income tax asset—long-term	34,844	—
Valuation allowance	(226)	—
Total future income tax asset—long-term	$ 34,618	$ —
Future income tax liability—long-term		
Capital assets	(946)	(7,968)
Intangible assets	351	532
Financing costs	(5)	229
Accruals—deductible when paid	—	1,313
Capital and non-capital loss carryforwards	—	1,256
Other comprehensive income	—	(321)
Other	(38)	(39)
Total future income tax liability—long-term	$ (638)	$ (4,998)

A reconciliation of the deferred credit is as follows:

	2009	2008
Deferred credit, beginning of year	$ —	$ —
Deferred credit recorded upon corporate reorganization	42,257	—
Amortization during the year	(2,602)	—
Deferred credit, end of year	39,655	—
Less: current portion	(3,464)	—
Deferred credit	$ 36,191	$ —

As at December 31, 2009, the Company had non-capital loss carryforwards available to reduce future years' taxable income, which expire as follows:

	Non-capital Loss Carryforwards
Year of expiry	
2012	$ 29,458
2013	26,476
2023 and beyond	125,856
	$ 181,790

The effective income tax rate for the Company is determined as follows:

	2009	2008
Earnings before provision for income taxes	$ 13,593	$ 3,126
Combined Canadian federal and provincial tax rates	31.3%	33.0%
Income tax expense at statutory rates	4,250	1,032
Increase (decrease) in taxes resulting from:		
Trust income allocated to unitholders prior to conversion	(1,932)	(2,907)
Permanent differences	341	1,813
Impact of amortization of deferred tax credit	(2,602)	—
Impact of conversion from trust to corporation	(315)	—
Change in effective rate	781	—
Valuation allowance	226	—
Capital gains	(163)	—
Other	18	—
Provision (recovery) for income taxes	$ 604	$ (62)

17. EARNINGS PER SHARE

The computation for basic and diluted earnings per share for the 2009 and comparative 2008 years are as follows:

	2009	2008
Net earnings for the year	$ 12,989	$ 3,188
Dilutive effect of convertible debentures	2,644	1,601
Add back impact from anti-dilutive factors	—	(1,601)
Dilutive effect of warrants	—	—
Diluted earnings for the year	$ 15,633	$ 3,188
Basic weighted average number of shares	8,835,870	5,831,073
Dilutive effect of convertible debentures	1,985,462	1,181,569
Add back impact from anti-dilutive factors	—	(1,181,569)
Dilutive effect of warrants	385,790	—
Diluted basis average number of shares	11,207,122	5,831,073
Earnings per share:		
Basic	$ 1.47	$ 0.55
Diluted	$ 1.39	$ 0.55

As a result of the one-to-one conversion of Units of the Fund, to Shares of the Company (Note 3), there is no impact of the conversion on the earnings per share calculations as the Units of the Fund are directly comparable to the Shares of the Company. As a result, the calculations for the periods before the conversion are presented as earnings per share.

During the 2009 year, the Company recorded conversion costs of $2,655 ($2,254 after tax) associated with the conversion from an income trust to a corporation (Note 3) and impairments totaling $553 ($404 after tax) against certain capital assets within the Aviation segment (Note 18). The combined impact of these items on basic earnings per share for 2009 was $0.30 per share (after tax). During the 2008 year, the Company recorded impairments totaling $5,668 ($5,520 after tax) against goodwill and intangible assets (Note 18) that impacted basic earnings per share in 2008 by $0.95 per share (after tax).

18. SEGMENTED INFORMATION

The Company's reportable business segments are strategic business units that offer different products and services. The Company has two reportable business segments: Aviation and Manufacturing. The Aviation segment provides airline services to communities in Manitoba and Nunavut. The Manufacturing segment consists of niche specialty metal manufacturers in markets throughout Alberta, British Columbia and the United States. During the second quarter of 2009, the Company acquired Calm Air (Note 4) and results for Calm Air since the acquisition date are included in the Aviation segment.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates each segment's performance based on EBITDA. The Company's method of calculating EBITDA may differ from that of other corporations or of income funds and therefore may not be comparable to measures utilized by them. There are no inter-segment revenues, and segment revenues presented in the tables below are from external customers.

The Company used in the following segment tables is not a separate segment and is only presented to reconcile to enterprise revenues, EBITDA, total assets, capital asset additions and goodwill. It includes expenses incurred at head office.

	2009				2008			
	Aviation	Manufacturing	Company	Consolidated	Aviation	Manufacturing	Company	Consolidated
Revenue	$ 153,480	$ 57,771	$ —	$ 211,251	$ 84,678	$ 72,985	$ —	$ 157,663
EBITDA	31,075	6,894	(5,238)	32,731	13,910	10,169	(3,282)	20,797
Interest expense				7,652				5,155
Amortization of intangible assets				1,417				2,034
Depreciation				7,913				4,814
Conversion costs				2,655				—
Foreign exchange gains on debt				(1,052)				—
Impairment loss				553				5,668
Earnings before tax				$ 13,593				$ 3,126

During the 2009 year, the Company decided to construct a new terminal building for one of the entities in the Aviation segment as the existing building was not sufficient any longer and modifications to the existing building would not be adequate. As a result, the building is being demolished and the carrying value of the building of $553 ($404 after tax) was recorded by the Company as an impairment loss in the period.

During the 2008 year the annual review for impairment of goodwill and intangible assets for the Manufacturing segment was performed. Due to changes in the Alberta oil and gas industry and environment, revenues, EBITDA and cash flows were lower than expected, which impacted the results for Jasper which operates in that industry and market. As a result, the earnings forecast at that time was revised to incorporate these changes and resulted in the fair value of the Jasper business to be decreased to a point where the goodwill and certain intangible assets of Jasper became impaired. As a result, the Company recorded an impairment loss during the 2008 year of $5,668 ($5,520 after tax), consisting of $5,159 against goodwill and $509 against intangible assets.

	2009				2008			
	Aviation	Manufacturing	Company	Consolidated	Aviation	Manufacturing	Company	Consolidated
Total assets	$ 172,102	$ 60,307	$ 35,400	$ 267,809	$ 83,836	$ 78,255	$ (761)	$ 161,330
Net capital asset additions	10,738	655	159	11,552	7,703	1,653	24	9,380
Goodwill	13,435	27,011	—	40,446	5,648	29,636	—	35,284

The following is the geographic breakdown of revenues for the 2009 and 2008 comparative years, based on location of the customer, and the capital assets and goodwill as at the balance sheet dates:

	2009	2008
Canada	$ 182,058	$ 124,378
United States	29,193	33,285
Total revenue for year	$ 211,251	$ 157,663

	2009		2008	
	Capital Assets	Goodwill	Capital Assets	Goodwill
Canada	$ 116,167	$ 25,007	$ 60,273	$ 17,220
United States	3,233	15,439	4,176	18,064
	$ 119,400	$ 40,446	$ 64,449	$ 35,284

19. DEFERRED SHARE PLAN

The number of deferred shares granted under the Deferred Share Plan were as follows:

	2009	2008
Deferred shares outstanding, beginning of year	22,719	12,098
Granted during the year	17,421	7,746
Granted through dividends/distributions declared during the year	5,682	2,875
Deferred shares outstanding, end of year	45,822	22,719
Vested portion of deferred shares outstanding, end of year	14,014	4,633
Fair value of liability recorded on vested deferred shares, end of year	$ 430	$ 135

The fair value of the deferred shares granted during the 2009 year was $166 at the time of the grant (2008—$80). During the 2009 year, the Company recorded net compensation expense of $295 for the Deferred Share Plan within the general and administrative expenses of head office (2008—net compensation recovery of $12).

20. EMPLOYEE SHARE PURCHASE PLAN

Certain employees of the Company participate in an Employee Share Purchase Plan ("ESPP"). Under the ESPP, employees make contributions of up to 5% of their base salaries to purchase Company shares out of Treasury, and upon the employees remaining employed with the Company or its subsidiaries during an 18-month vesting period, they are entitled to receive an additional number of shares ("additional shares") equal to 33.3% of the number of shares they purchased and dividends declared on those additional shares over the vesting period.

At the decision of the employee, any dividends paid on the additional shares over the vesting period are either paid to the employee upon the shares vesting or shares are purchased using these dividend funds.

The plan is offered to employees annually and 59,564 shares were issued out of Treasury, effective November 13, 2009 (2008—30,951 shares). The fair value of the compensation associated with the additional shares that will be awarded upon the vesting conditions of the plan being attained is estimated at approximately $285 (2008—$107) and will be recognized in the head office expenses of the Company over the 18-month vesting period beginning in December 2009. As at December 31, 2009, the Company had a net receivable of $285 outstanding from certain employees in respect of this year's plan that will be repaid within 12 months.

21. CHANGES IN WORKING CAPITAL ITEMS

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

	2009	2008
Accounts receivable	$ 7,161	$ 275
Inventory	3,015	(3,910)
Prepaid expenses	(860)	(61)
Accounts payable and accrued charges	(87)	2,780
Deferred revenue	(3,179)	1,148
Foreign currency adjustments	(621)	230
Net change in working capital items	$ 5,429	$ 462

22. COMMITMENTS

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

	Commitments
2010	$ 4,776
2011	3,777
2012	2,061
2013	1,137
2014	718
Thereafter	6,880
	$ 19,349

Included in the table above are commitments obligated to related parties in association with leased property used in the operations of Water Blast for $1,958 and Stainless for $1,130 (US$1,080), both of which are described further in Note 25.

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Market Risk

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

Currency Risk

As part of the acquisition of Calm Air (Note 4) the Company assumed certain aircraft finance debt denominated in U.S. dollars ("USD"). As at December 31, 2009, there was US$2,812 of principal outstanding on the aircraft finance debt and the Company also has US$7,450 outstanding on its credit facility. The outstanding funds in USD results in currency risk that the future cash flows will fluctuate with the changes in market currency rates. The exposure for this and the USD portion of its credit facility outstanding is offset by the cash generated through the operations of its Manufacturing segment subsidiaries, in particular, the operations of Stainless throughout the United States. The Company does not use derivative instruments to reduce its exposure to the currency risk.

During the 2009 year, the Company recorded a net foreign exchange gain on debt of $1,052 relating to the revaluation of the U.S. denominated aircraft finance debt assumed by the Company with the acquisition of Calm Air. An unrealized portion was recorded of $541 relating to the revaluation of the USD aircraft finance debt outstanding and is based on the change in exchange rates between the end of period and the rate at the acquisition date. A realized portion was recorded of $511 relating to the aircraft finance debt paid during 2009 and is based on the change of the exchange rate between the time of the payments and the acquisition date.

The Company also recorded a currency translation loss of $2,787 in Other Comprehensive Income as described below in Note 26.

A $0.01 weakening in the value of the Canadian dollar in relation to the U.S. dollar applied to the Company's financial instruments outstanding at December 31, 2009 would have a negative impact of approximately $0.1 million on future net earnings and decrease the foreign currency translation adjustment in Other Comprehensive Income by approximately $0.1 million.

Interest Rates

The Company is subject to the risk that future cash flows associated with the credit facility outstanding (Note 9) will fluctuate due to fluctuations in interest rates and the degree of volatility of the rates. The Fund manages this risk and seeks financing terms in individual arrangements that are most advantageous. The Company has not used derivative instruments to mitigate this risk.

The terms of the credit facility allow for the Company to choose the base interest rate between Prime, Bankers' Acceptances or London Inter Bank Offer Rate ("LIBOR"). At December 31, 2009, $15,000 was outstanding under Bankers' Acceptances that expire in March 2010, $3,500 was outstanding under Canadian Prime and US$7,450 was outstanding under U.S. Prime.

Based on the outstanding credit facility at December 31, 2009, net of cash and cash equivalents, a 1% increase in interest rates for the Company would decrease net earnings for the next fiscal year by approximately $214 ($200 after tax).

The interest rates of the aircraft financing debt (Note 9), convertible debentures (Note 10) and debentures (Note 11) outstanding all have fixed interest rates.

Credit Risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. In addition, the Company is exposed to credit risk from its customers. While the operations serve markets in Western Canada and the United States, the Company has a large number of customers, which minimizes the concentration of credit risk. As at December 31, 2009, the Company's credit risk exposure consists mainly of the carrying amounts of accounts receivable.

As at December 31, 2009, $1.9 million of the outstanding receivables were greater than 90 days outstanding. Approximately $1.3 million of this relates to the Manufacturing segment and the remaining $0.6 million relates to the Aviation segment. Management at each of the Company's subsidiaries monitor accounts receivables overdue amounts on a daily basis and respond accordingly. The Company's subsidiaries maintain an adequate allowance for doubtful accounts and review the allowance on a monthly basis.

Liquidity Risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they become due or can do so only at excessive cost. The Company's growth is financed through a combination of the cash flows from operations, borrowing under existing credit facilities, the issuance of either or a combination of debentures and equity. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through adequate amount of committed credit facilities. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as cash flows. Due to the nature of the business, the Company aims to maintain flexibility in funding by keeping committed credit facilities available (Note 9).

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

	Payments due for the years ending December 31					
	Total	2010	2011	2012	2013	Thereafter
Accounts payable and accrued expenses	$ 26,031	$ 26,031	$ —	$ —	$ —	$ —
Long-term debt	29,240	2,943	—	26,297	—	—
Convertible debentures	46,980	5,885	7,000	—	—	34,095
Debentures	9,691	9,691	—	—	—	—
Total	$ 111,942	$ 44,550	$ 7,000	$ 26,297	$ —	$ 34,095

The Company is subject to risk that it will encounter difficulty in renegotiating a renewal of its existing senior debt facility (Note 9) or funds to meet the commitment associated with the debt facility that becomes due in 2012. The Company does not anticipate any significant problem in renegotiating a credit facility to renew or replace the credit facility at the end of its term. The Company has the ability to settle all the issued convertible debentures with Shares of the Company or cash, at the Company's option.

Fair Value

For the Company'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 Company's credit facility, the historical cost carrying values approximate the fair values, since the interest rate is derived from floating rates. For the Company's aircraft financing debt that matures in 2010, the interest rates are fixed but considered to approximate fair value given the conditions of the financing for an aircraft.

The fair value for the Company's debentures will change based on the movement in bond rates. The fair value of the cash flows associated with the debentures outstanding is $54,319 at December 31, 2009 (2008—$22,865).

24. CONTINGENCIES

During the ordinary course of business the Company 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 a portion of the Water Blast business in 2007, the purchase price contained a contingent payment that was 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 and the maximum contingent payment was $300. The purchase price allocation for the 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 was recorded on the balance sheet.

During 2009, the contingent payment was settled with the vendor that resulted in a cash payment of $60 to the vendor and in accordance with Section 1581 certain long-term assets acquired were written down by $87 on the balance sheet for the difference between the settled payment and the contingent liability recorded. The remaining difference of $20 is recorded as a recovery of expenses in general and administrative expenses during 2009.

25. RELATED PARTY TRANSACTIONS

The Company has a marketing agreement with Tribal Council Investment Group ("TCIG"), whose president is a director of the board of the Company. The agreement is in the normal course of operations, at market terms and conditions, except that the compensation is payable to TCIG in shares rather than cash, and are recognized in the consolidated financial statements at the exchange amounts. The compensation to TCIG is conditional on the annual increase in sales at Perimeter. The Company incurred commissions of $404 in 2009 (2008—$252). The amount payable to TCIG at December 31, 2009 is $411 (2008—$770).

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 Company. The terms of these leases are considered to be at market terms and recognized in the consolidated financial statements at the exchange amounts. The remaining length of term for the leases range between 2 to 3 years. The total costs incurred in 2009 under these leases are $723 (2008—$723) and recorded under general and administrative expenses, and, at December 31, 2009, there is no related party balance recorded on the balance sheet (2008—nil). The total future minimum lease payments under these leases are described further in Note 22.

With the acquisition of Stainless effective January 2, 2008, certain buildings are leased by Stainless from the vendors, one of whom is the current president of Stainless. The terms of the lease are considered to be at market terms and are recognized in these consolidated financial statements at their exchange amount. The length of term for the lease is five years commencing at the time of acquisition. The total costs incurred during 2009 are approximately $411 and recorded under general and administrative expenses (2008—$384). As at December 31, 2009, there is no related party balance recorded on the balance sheet (2008—nil). The future minimum lease payments under the lease are approximately US$360 annually for the remaining three years of the lease term.

The Company's legal counsel is Aikins, MacAulay & Thorvaldson LLP ("Aikins") in Winnipeg, Manitoba, whose Managing Partner is a director on the board of the Company. The transactions are at market terms and conditions. These transactions are in the normal course of operations associated with legal professional services and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Depending on the services provided, certain costs are expensed in the period incurred, some costs that are considered transaction costs associated with financial liabilities are recognized as interest expense over the life of the related financial instrument, while other costs associated with the raising of equity are recorded as issuance costs against the related equity item. The total costs of services provided during 2009 are $2,314 (2008—$331). As at December 31, 2009, a payable balance of $8 is recorded on the balance sheet (2008—nil).

The Company has had business relationships with Wellington West Capital Inc. ("Wellington West") in Winnipeg, Manitoba. The chairman of the board of directors for the Company is also a member of the board of Wellington West. The transactions are at market terms and conditions. These transactions are in the normal course of operations associated with the raising of funds for the Company through private and public offerings, and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Depending on the services provided, certain costs are expensed in the period incurred, some costs that are considered transaction costs associated with financial liabilities are recognized as interest expense over the life of the related financial instrument, while other costs associated with the raising of equity are recorded as issuance costs against the related equity item. The total costs of services provided during 2009 are $769 (2008—$264). The amount payable to Wellington West recorded as at December 31, 2009 is nil (2008—nil).

26. OTHER COMPREHENSIVE INCOME

During the 2009 year, the Company had other comprehensive losses of $2,787 (net of $244 tax) that relates to foreign currency translation adjustments of the operations of Stainless from U.S. dollars to the Canadian dollar reporting currency (2008—gains of $3,461, net of $321 tax). The resulting translation adjustments are included in other comprehensive income and are only included in the determination of net income when a reduction in the investment in these foreign operations is realized.

27. SUBSEQUENT EVENTS

Series E Debentures Early Settlement

As described in Note 11, subsequent to December 31, 2009, the Company made an early redemption payment of the $9,691 of Series E Subordinate Secured Debentures that were outstanding at the end of the year. The Company's payment fully settled the liability of principal and interest outstanding.

Board of Directors & Senior Management

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Chairman

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Executive Vice-Chairman

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Adam Terwin
Chief Financial Officer

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

Darwin Sparrow
Vice-President & Chief Operating Officer, Manufacturing

Gary Bell
Vice-President, Corporate Development

Corporate Information

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Michael Pyle
President & Chief Executive Officer

Adam Terwin
Chief Financial Officer

Darwin Sparrow
Vice-President & Chief Operating Officer, Manufacturing

Gary Bell
Vice-President, Corporate Development

Dianne Spencer
Corporate Secretary

Legal Counsel
Aikins, MacAulay & Thorvaldson LLP
Winnipeg, Manitoba

Auditors
Deloitte & Touche LLP
Winnipeg, Manitoba

Bankers
TD Canada Trust
Roynat Inc.
CIBC
Alberta Treasury Board

Transfer Agent
CIBC Mellon Trust Company
Calgary, Alberta

Stock Exchange Listing
Exchange Income Corporation
EIF.T TSX

Annual General Meeting
Thursday, May 13, 2010
10:30 a.m. at the hangar of Calm Air
50 Morberg Way, Winnipeg, Manitoba

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