

CONSOLIDATED BALANCE SHEETS

(As at December 31, 2009 and 2008)

(\$000)	2009	2008
ASSETS		
Current		
Cash	\$ 575	\$ 536
Marketable securities	1,770	1,083
Accounts receivable (note 16)	5,406	11,029
Inventories (note 4)	14,016	17,486
Prepaid expenses	148	237
Income taxes recoverable	94	-
Derivative contracts (note 16)	953	-
Future income taxes (note 9)	-	530
	22,962	30,901
Property, plant and equipment (note 5)	12,832	13,822
Deposit on equipment	-	326
Employee future benefits (note 6)	1,817	1,958
Goodwill	16,507	16,507
	\$ 54,118	\$ 63,514
LIABILITIES		
Current		
Operating loan (note 7)	\$ 520	\$ 640
Accounts payable and accrued liabilities	3,231	7,629
Current portion of long-term debt (note 7)	1,057	972
Customer deposits	6	-
Future income taxes (note 9)	276	-
Derivative contracts (note 16)	-	1,756
	5,090	10,997
Future income taxes (note 9)	238	1,285
Long-term debt (note 7)	2,676	3,733
Convertible debentures (note 8)	42,900	43,320
	50,904	59,335
Contingencies (Note 14)		
UNITHOLDERS' EQUITY		
Trust units (note 10)	49,477	51,332
Contributed surplus (notes 8, 10)	2,781	2,077
Conversion option (note 8)	2,284	2,339
Deficit	(51,328)	(51,569)
	3,214	4,179
	\$ 54,118	\$ 63,514

See accompanying notes

Approved by the Board

SIGNED

KENNETH CHALMERS

Trustee

SIGNED

BRIAN LUBORSKY

Trustee

CONSOLIDATED STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND DEFICIT

For the Years Ended December 31, 2009 and 2008

(\$000, except unit and per unit amounts)	2009	2008
Sales	\$ 41,665	\$ 53,699
Cost of sales	31,782	37,221
Gross profit	9,883	16,478
Expenses (income)		
Selling, general and administrative	3,237	3,726
Interest expense on operating loan	13	2
Interest expense on long-term debt	135	312
Interest expense on convertible debentures	3,774	4,061
Investment income	(63)	(868)
Net realized/unrealized (gain) loss on marketable securities	(243)	1,439
Foreign exchange (gain) loss (note 16)	(2,401)	1,655
Gain on repurchase of convertible debentures (note 8)	(213)	(640)
Gain on disposal of property, plant and equipment	(81)	(66)
	4,158	9,621
Income before income taxes	5,725	6,857
Provision for (recovery of) income taxes (note 9)		
Current	(94)	-
Future	(241)	83
	(335)	83
Net income and comprehensive income for the year	6,060	6,774
Deficit at beginning of year	(51,569)	(50,945)
Distributions paid to unitholders (note 12)	(5,819)	(7,398)
Deficit at end of year	\$ (51,328)	\$ (51,569)
Basic income per unit (note 11)	\$ 1.124	\$ 1.041
Diluted income per unit (note 11)	\$ 1.103	\$ 1.041
Weighted average number of units outstanding	5,392,335	6,507,840

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2009 and 2008

(\$000)	2009	2008
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Operating activities		
Net income for the year	\$ 6,060	\$ 6,774
Add (deduct) items not affecting cash		
Amortization of property, plant and equipment	1,795	1,837
Accretion of convertible debentures	552	561
Net realized/unrealized (gain) loss on marketable securities	(243)	1,439
Gain on disposal of property, plant and equipment	(81)	(66)
Gain on repurchase of convertible debentures	(213)	(640)
Unrealized loss (gain) on derivative contracts	(2,709)	2,365
Employee future benefits	141	(390)
Future income taxes	(241)	83
	5,061	11,963
Net change in non-cash working capital items related to operating activities (note 18)	4,696	(3,425)
	9,757	8,538
Investing activities		
Purchase of property, plant and equipment	(809)	(2,902)
Deposit on equipment	326	(326)
Proceeds from disposal of property, plant and equipment	85	397
Purchase of marketable securities	(1,132)	(3,388)
Proceeds from sale of marketable securities	688	4,275
	(842)	(1,944)
Financing activities		
Repurchase of convertible debentures	(759)	(1,909)
Repayment of operating loan	(120)	(3,360)
Advances of long-term debt	-	464
Repayment of long-term debt	(972)	(566)
Distributions paid (note 12)	(5,819)	(7,398)
Repurchase of trust units pursuant to issuer bids	(1,206)	(19,460)
	(8,876)	(32,229)
Change in cash	39	(25,635)
Cash at beginning of year	536	26,171
Cash at end of year	\$ 575	\$ 536

Supplemental cash flow information (note 18)

See accompanying notes



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF BUSINESS

General Donlee Income Fund (the "Fund") is a trust established under the laws of the Province of Ontario by Declaration of Trust made as of March 14, 2002. The Fund was created to invest in General Donlee Limited (the "Company"), a diversified manufacturer of precision-machined cylindrical shafts and gearing products.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The Fund prepares its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

The significant accounting policies are summarized as follows:

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Fund and the Company, a wholly-owned subsidiary. All material inter-company balances and transactions have been eliminated.

CASH

Cash consists of cash with financial institutions.

INVENTORIES

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a weighted average cost basis. Net realizable value for raw materials represents replacement cost.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	10 years
Production equipment	10 years
Office furniture and equipment	5 years
Computer equipment	3 years

Management reviews the carrying amount of property, plant and equipment if events or circumstances indicate that the carrying amount may not be recoverable. Recoverability is measured by comparing the carrying amounts of the assets to the future undiscounted net cash flows expected to be generated by those assets. If the carrying amount is not recoverable, the Fund would recognize an impairment loss equal to the amount that the carrying values of the assets exceeds their fair value.

EMPLOYEE FUTURE BENEFITS

The Fund maintains defined benefit pension plans for its salaried and hourly employees. The Fund accrues its obligations under both of these employee benefit plans and the related costs, net of plan assets. The plans were closed to new employees effective February 10, 2010.

The cost of pension benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees.

For the purposes of calculating the expected return on plan assets, those assets are valued at fair value.

Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

The excess of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of the plan assets is amortized over the average remaining service period of active employees.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008 (in thousands of dollars, except unit and per unit amounts)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

GOODWILL

Goodwill represents the excess of the cost of an acquired business over the estimated fair value of the identifiable net assets acquired. Goodwill is not amortized and is tested for impairment on an annual basis or when an event or circumstance occurs that more likely than not reduces the fair value of a reporting unit below its carrying amount. Goodwill impairment is assessed based on a comparison of the fair value of a reporting unit to its carrying amount, including goodwill. When the carrying amount of a reporting unit exceeds its fair value, the fair value of the reporting unit's goodwill is compared to its carrying amount to measure the amount of the impairment loss, if any. When the carrying amount of the reporting unit goodwill exceeds the fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

CONVERTIBLE DEBENTURES

The component parts of convertible debentures issued by the Fund are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability and equity components are measured separately, and to the extent necessary, are adjusted on a pro rata basis so that the sum of the components equals the amount of the instrument as a whole. The liability component is subsequently recognized on an amortized cost basis using the effective interest method until extinguished upon conversion or at the maturity date. The equity component is recognized and included in equity, and is not subsequently remeasured.

On the early redemption or repurchase of convertible debentures, the Fund allocates the consideration paid on extinguishment to the liability and equity elements of the convertible debentures based on their relative fair values at the date of the transaction. Any resulting gain or loss relating to the liability element is credited or charged to income and the difference between the carrying amount and the amount considered to be settled relating to the holder option elements is treated as a capital transaction.

INCOME TAXES

The Fund accounts for future income taxes under the asset and liability method, whereby future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment or substantive enactment date. Future income tax assets are recorded in the financial statements to the extent that realization of such benefits is more likely than not.

REVENUE RECOGNITION

Revenues are derived from the sale of goods. Such revenues are recognized when persuasive evidence of an arrangement exists, the goods have been delivered, there are no uncertainties surrounding product acceptance, the related revenue is fixed or determinable and collection is reasonably assured. Sales are reported net of discounts.

FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at rates of exchange at each transaction date. Revenue and expenses are translated at the average rate of exchange for the period. Gains or losses on translation are included in income.

FINANCIAL INSTRUMENTS

All financial assets are classified as either held for trading, held-to-maturity investments, loans and receivables or available-for-sale. All financial liabilities are classified as either held for trading or other financial liabilities. All financial instruments are initially recorded on the balance sheet at fair value. After initial recognition, financial instruments are measured at their fair values, except for held-to-maturity investments, loans and receivables and other liabilities, which are measured at amortized cost.

The Fund's financial assets and financial liabilities are classified and measured as follows:

Asset/Liability	Classification	Measurement
Cash	Held for trading	Fair value
Marketable securities	Held for trading	Fair value
Derivative contracts	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Customer deposits	Other financial liabilities	Amortized cost
Operating loan and long-term debt	Other financial liabilities	Amortized cost
Convertible debentures	Other financial liabilities	Amortized cost

Transaction costs incurred with issuing non-revolving debt are included in the carrying value of the debt to which they relate and are amortized to interest expense using the effective interest method.

Unrealized gains and losses on financial instruments classified as held for trading are recognized in net income based on the change in the fair value of the financial instrument in the period.

DERIVATIVE CONTRACTS

The Fund enters into foreign exchange forward contracts to minimize its exposure to fluctuations in foreign currency exchange rates. These derivative contracts do not qualify for hedge accounting and, therefore, the contracts are recorded on the balance sheet at fair value with a corresponding gain or loss recorded in income.

COMPREHENSIVE INCOME

The Fund is required to report comprehensive income and its components in the financial statements. The Fund has no other comprehensive income components and, accordingly, the Fund's net income equals comprehensive income.

INCOME PER UNIT

The income per unit is based on the weighted average number of units outstanding during the period. Diluted income per unit is computed using the "if-converted" method for convertible debentures.

USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from those estimates.

Significant areas requiring the use of management estimates relate to the determination of the valuation of work-in-process inventories, the determination of the allowance for doubtful accounts and provision for inventory losses, the useful lives of property, plant and equipment for amortization purposes, amounts recorded as accrued liabilities, the values of pension obligations and assets, the amount of pension costs charged to income and the impairment of goodwill.

3. ACCOUNTING CHANGES

NEW ACCOUNTING PRONOUNCEMENTS

On January 1, 2009, the Fund adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, Goodwill and Intangible Assets, which establishes revised standards for the recognition, measurement, presentation and disclosure of intangible assets. CICA Handbook Section 1000, Financial Statement Concepts, was also amended to provide consistency with this new standard. The adoption of these standards had no impact on the Fund's financial statements.

The Fund adopted the CICA Emerging Issues Committee Abstract 173 ("EIC -173"), Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. EIC -173 provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this EIC had no impact on the Fund's financial statements.

In June 2009, the CICA issued amendments to Handbook Section 3862, Financial Instruments — Disclosures, to include additional disclosure requirements with respect to fair value measurement for financial instruments and liquidity risk associated with financial instruments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008 (in thousands of dollars, except unit and per unit amounts)

3. ACCOUNTING CHANGES (CONT'D)

NEW ACCOUNTING PRONOUNCEMENTS (CONT'D)

These amendments resulted in enhanced disclosures regarding the fair value measurement of foreign exchange forward contracts and marketable securities. The adoption of these amendments had no effect on the Fund's financial position, operations or cash flows. The Fund has included these additional disclosures in Note 16.

FUTURE ACCOUNTING CHANGES

In January 2009, the CICA issued Section 1582, Business Combinations, which replaces former guidance on business combinations. This standard establishes principles and requirements of the acquisition method for business combinations and related disclosures and 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 2011 with earlier adoption permitted.

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests, which replace existing guidance. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period on or after January 2011 with earlier adoption permitted.

The Fund is assessing the impact of these standards on its financial reporting.

The Canadian Accounting Standards Board has confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP effective January 1, 2011, including comparatives for 2010, for Canadian publicly accountable enterprises. The Fund has established a preliminary timeline for the execution and completion of its IFRS conversion project. The impact of IFRS on the Fund's financial statements is not reasonably determinable at this time.

4. INVENTORIES

	2009		2008
Raw materials	\$	395	\$ 1,987
Work-in-process		11,230	13,896
Finished goods		2,391	1,603
	\$	14,016	\$ 17,486

At December 31, 2009, inventory of \$670 was carried net of reserve of \$460 (2008 - \$260). Cost of sales represents the amount of inventories expensed during the year.

5. PROPERTY, PLANT AND EQUIPMENT

	2009			
	Cost	Accumulated Amortization		Net Book Value
Land	\$ 1,740	\$ -	\$	1,740
Buildings	1,831	1,059		772
Production equipment	20,652	10,339		10,313
Office furniture and equipment	123	116		7
Computer equipment	44	44		-
	\$ 24,390	\$ 11,558	\$	12,832

	2008			
	Cost	Accumulated Amortization		Net Book Value
Land	\$ 1,740	\$ -	\$	1,740
Buildings	1,429	942		487
Production equipment	20,538	8,954		11,584
Office furniture and equipment	120	109		11
Computer equipment	44	44		-
	\$ 23,871	\$ 10,049	\$	13,822

6. EMPLOYEE FUTURE BENEFITS

The Fund maintains defined benefit pension plans for its salaried and hourly employees. The Fund accrues its obligations under both of these employee benefit plans and the related costs, net of plan assets. The plans were closed to new employees effective February 10, 2010. The plan assets are invested in a diversified fund. Plan assets and the accrued benefit obligation are measured at December 31. The most recent actuarial valuation for funding purposes was performed as at December 31, 2006. The next actuarial valuation for funding purposes is required as of December 31, 2009 and will be completed by mid-year 2010.

Information about the Fund's defined benefits pension plans is as follows:

	2009	2008
Plan assets		
Market value at beginning of year	\$ 9,178	\$ 10,012
Actual return on plan assets	1,241	(1,553)
Employer contributions	487	1,018
Benefits paid	(424)	(299)
Market value at end of year	\$ 10,482	\$ 9,178
Accrued benefit obligation		
Accrued benefit obligation at beginning of year	\$ 9,296	\$ 11,219
Current service cost	270	388
Interest cost	688	611
Actuarial loss (gain) on accrued benefit obligation	2,179	(2,623)
Benefits paid	(424)	(299)
Accrued benefit obligation at end of year	\$ 12,009	\$ 9,296
Plan deficit	\$ (1,527)	\$ (118)
Unamortized transition amount	196	232
Unamortized net actuarial loss	3,148	1,844
Accrued benefit asset	\$ 1,817	\$ 1,958
Defined benefit costs recognized in the year		
Current service cost	\$ 270	\$ 388
Interest cost	688	611
Actual return on plan assets	(1,241)	1,553
Actuarial loss (gain)	2,179	(2,623)
Elements of defined benefit costs before undernoted items	1,896	(71)
Adjustments to recognize the long-term nature of employee future benefit costs		
Difference between expected return and actual return on plan assets for the year	802	(2,046)
Difference between actual and recognized actuarial (gain)/loss for the year on accrued benefit obligation for the year	(2,106)	2,709
Amortization of transitional asset	36	36
	(1,268)	699
Defined benefit costs recognized as expense	\$ 628	\$ 628

The transitional asset is being amortized on a straight-line basis over the period to 2015.

Plan assets at December 31, 2009 and 2008 consist of:

	2009	2008
Equities	59%	48%
Fixed income	41%	52%
	100%	100%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008 (in thousands of dollars, except unit and per unit amounts)

6. EMPLOYEE FUTURE BENEFITS (CONT'D)

The assumed weighted average amounts used to determine the accrued benefit obligation were:

	2009	2008
Discount rate at the end of the year	5.85%	7.25%
Rate of compensation increase	2.00%	2.50%

The assumed weighted average amounts used to determine benefit costs for the year were:

	2009	2008
Discount rate at the end of the preceding year	7.25%	5.50%
Expected long-term rate of return on plan assets	4.75%	4.75%
Rate of compensation increase	2.00%	2.50%

7. CREDIT FACILITY

The Company has an available credit facility totaling \$11,233, which includes a \$7,500 revolving operating loan maturing April 28, 2010 and a \$3,733 non-revolving lease facility being amortized over five years maturing in June 2013. The operating loan is reviewed annually.

At December 31, 2009, the Company had drawn \$520 from its operating loan and \$3,733 from its lease facility for production equipment. Both the operating loan and the lease facility bear interest at prime plus ½%. Interest charges are payable monthly. The credit facility is supported by a guarantee by the Fund, and is collateralized by security interests over substantially all of the assets of the Company and the Fund.

At December 31, 2008, the Company's available credit facility totalled \$9,780, which included a \$5,000 revolving operating loan, a \$4,705 non-revolving lease facility and a \$75 corporate credit card facility, on which the Company had drawn \$640 from the operating loan and \$4,705 from the lease facility for production equipment.

Under the terms of the credit facility, the Company must maintain certain financial covenants and financial ratios. The Company was in compliance with these covenants at December 31, 2009 and December 31, 2008.

Minimum annual payments under the lease facility are as follows:

2010	\$	1,146
2011		1,146
2012		1,146
2013		477
		3,915
Less interest at 2.75%		182
		3,733
Less current portion		1,057
	\$	2,676

8. CONVERTIBLE DEBENTURES

In June 2007, \$50,000 of convertible unsecured subordinated debentures were issued with a term of seven years. These debentures bear interest at 7% per annum payable semi-annually in arrears on June 30 and December 31 in each year.

The debentures may not be redeemed by the Fund prior to June 30, 2010. On or after June 30, 2010, but prior to June 30, 2011, the debentures are redeemable, in whole at any time or in part from time to time, at the option of the Fund on at least 30 days prior notice at a price equal to the principal amount thereof, plus accrued and unpaid interest provided that the current market price preceding the date upon which notice of redemption is given is at least 125% of the conversion price of \$13.10 per unit. After June 30, 2011, but prior to the maturity date of June 30, 2014, the debentures are redeemable without stipulation. The term "current market price" is defined in the indenture to mean the weighted average trading price of the units on the Toronto Stock Exchange for the twenty (20) consecutive days ending on the fifth trading day preceding the date of notice of redemption or maturity.

On redemption or at maturity on June 30, 2014, the Fund has the option to repay the debentures in either cash or equivalent units of the Fund. The number of units to be issued will be determined by dividing the principal amount of the debentures by 95% of the current market price of the units.

Based on certain conditions, the debentures are convertible, at the holders' discretion, at \$13.10 per unit at any time from the date of issue to close of business on the day prior to the maturity date, June 30, 2014.

The Fund also has the right at any time to purchase debentures in the market, by tender or by private contract subject to regulatory requirements provided, however, that if an event of default has occurred and is continuing, the Fund or any of its affiliates will not have the right to purchase the debentures by private contract.

The principal amount of the debentures was allocated at date of issuance between its liability and equity elements in accordance with the substance of the contractual arrangement and classified separately on the balance sheet. Factoring in the value attributed to the conversion option and transaction costs, the convertible debentures bear interest at an effective rate of 8.9%.

During the year, the Fund repurchased \$1,060 principal amount of convertible debentures (\$972 net of related unamortized issuance costs and the portion allocated to the conversion option) at a cost of \$759, resulting in a gain of \$213, which has been included in income and the transfer within unitholders' equity of \$55 from conversion option to contributed surplus.

During 2008, the Fund repurchased \$2,778 principal amount of convertible debentures (\$2,549 net of related unamortized issuance costs and the portion allocated to the conversion option) at a cost of \$1,909, resulting in a gain of \$640, which has been included in income and the transfer within unitholders' equity of \$138 from conversion option to contributed surplus.

The balance of convertible debentures at December 31, 2009 and 2008 consisted of:

	2009	2008
Principal balance outstanding	\$ 46,162	\$ 47,222
Less: Unamortized issuance costs	(2,260)	(2,293)
Conversion option to Unitholders' equity on outstanding debentures	(2,284)	(2,339)
Accretion	1,282	730
Balance, end of year	\$ 42,900	\$ 43,320

9. INCOME TAXES

(I) FUTURE INCOME TAXES

The tax effects of temporary differences and loss carryforwards that give rise to the future income tax assets and liabilities are summarized below:

	2009	2008
Current future income tax assets (liabilities)		
Acquisition and finance costs deductible in future periods	\$ -	\$ 6
Derivative contracts	(276)	544
Other	-	(20)
Current net future income tax asset (liability)	\$ (276)	\$ 530
Long-term future income tax assets (liabilities)		
Property, plant and equipment	\$ (995)	\$ (756)
Acquisition finance costs deductible in future periods	126	-
Employee future benefits	(455)	(529)
Unutilized non-capital losses	1,086	-
Long-term net future income tax liability	\$ (238)	\$ (1,285)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008 (in thousands of dollars, except unit and per unit amounts)

9. INCOME TAXES (CONT'D)

(II) INCOME TAX EXPENSE

The following table reconciles income taxes calculated at combined Canadian federal/provincial tax rates with the income tax expense in the financial statements:

	2009	2008
Income before income taxes	\$ 5,725	\$ 6,857
Less: Earnings of Fund	6,720	6,821
Earnings (loss) of subsidiary company	(995)	36
Statutory rate	31.00%	33.50%
Expected income tax (recoverable) payable at statutory rate	(308)	12
Adjustment for the tax effect of:		
Manufacturing and processing credit	-	(1)
Non-deductible expenses	6	5
Other	(33)	67
Income tax expense (recovery)	\$ (335)	\$ 83

The Fund is taxed as a "mutual fund trust" for Canadian income tax purposes. Pursuant to the Declaration of Trust, the trustees are required, and intend, to distribute or designate all taxable income earned by the Fund to unitholders of the Fund and to deduct such distributions and designations for income tax purposes. The Fund claims the maximum amount of capital cost allowance, eligible capital expenditures and other deductions available in determining its income for tax purposes annually.

On October 31, 2006, the Department of Finance (Canada) announced tax proposals pertaining to the taxation of income distributed by publicly listed income trusts and the tax treatment of trust distributions to their unitholders. Currently, the Fund does not pay tax on income it distributes to its unitholders. The trust legislation was substantively enacted into law on June 12, 2007, and is applicable to the Fund commencing January 1, 2011.

The Fund has non-capital losses carried forward of \$3,550 at December 31, 2009 (2008 – nil) which will expire in 2029.

10. UNITHOLDERS' EQUITY

An unlimited number of units may be issued by the Fund pursuant to the Fund's declaration of trust. Each unit represents an equal, undivided beneficial interest in the Fund, in any distribution from the Fund, and in any net assets of the Fund in the event of the termination or winding-up of the Fund. Each unit confers the right to one vote at any meeting of unitholders. Units are freely transferable and have no pre-emptive rights.

Units can be redeemed at any time at the option of the unitholder at an amount equal to the lesser of: (a) 90% of the weighted average price per unit on the Toronto Stock Exchange during the ten trading day period commencing immediately following the date on which the units were surrendered for redemption; and (b) the closing market price at the date of redemption. The monthly redemption shall not exceed \$50 and, if needed, the excess will be paid by way of a distribution of securities of the Company held by the Fund.

The following units are outstanding at December 31, 2009 and 2008:

	Units	Amount
Balance, December 31, 2007	7,808,354	\$ 72,455
Units repurchased and cancelled - 2008	(2,276,137)	(21,123)
Balance, December 31, 2008	5,532,217	51,332
Units repurchased and cancelled - 2009	(199,900)	(1,855)
Balance, December 31, 2009	5,332,317	\$ 49,477

During 2009, under the course of a normal course issuer bid that expired in August 2009, the Fund repurchased and cancelled 199,900 units at a total cost of \$1,206, an average of \$6.03 per unit. The difference of \$649 between the stated capital and the cost of redemption was credited to contributed surplus.

In 2008, under the terms of substantial issuer and normal course issuer bids, the Fund repurchased and cancelled a total of 2,276,137 units at a total cost of \$19,460, an average cost of \$8.55 per unit. The difference of \$1,662 between the stated capital and the cost of redemption was credited to contributed surplus.

11. INCOME PER UNIT

The following table provides a reconciliation between basic and diluted income per unit:

	2009	2008
Net income - basic	\$ 6,060	\$ 6,774
Assumed conversion of convertible debentures	3,774	4,061
Net income - diluted	\$ 9,834	\$ 10,835
Units outstanding - basic	5,392,335	6,507,840
Assumed conversion of convertible debentures	3,523,817	3,604,733
Units outstanding - diluted	8,916,152	10,112,573
Income per unit - basic	\$ 1.124	\$ 1.041
Income per unit - diluted	\$ 1.103	\$ 1.041

12. DISTRIBUTIONS

The amount of cash to be distributed to unitholders is based on payments made by the Company to the Fund in respect of interest on notes payable, dividends and other distributions, less administrative expenses and other obligations of the Fund, amounts paid by the Fund in connection with any cash redemption of units, any other interest expense incurred by the Fund and any amount that the Trustees of the Fund consider necessary to provide for payment of costs that have been or are expected to be incurred by the Fund.

Monthly distributions are generally paid to unitholders on the last business day of the following month. Accordingly, these financial statements do not reflect distributions to be paid with respect to the last month of the year, as these distributions are expected to be declared and paid subsequent to the year-end.

The Fund is contractually committed to distribute to its unitholders all, or virtually all, of its taxable income and taxable capital gains that would otherwise be taxable to it.

	2009	2008
Distributions paid		
Per trust unit	\$ 1.080	\$ 1,160
Aggregate amount	\$ 5,819	\$ 7,398
Return of capital for income tax purposes		
Aggregate amount	\$ -	\$ -

13. RELATED PARTY TRANSACTIONS

A loan in the amount of \$105 that was previously extended by the Fund to an employee was repaid in full during 2009. This loan was non-interest bearing, unsecured and repayable upon demand and was recorded at the exchange amount.

14. CONTINGENCIES

During the ordinary course of business activities, the Fund may be made a party to claims and be contingently liable for various matters. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the extent of potential costs and losses, if any, management believes that the ultimate resolution of such contingencies will not have a material adverse effect on the financial position of the Fund.

15. MANAGEMENT OF CAPITAL

The Fund maintains a capital (defined as unitholders' equity and long-term debt) level that enables it to meet the following objectives, namely:

- Striving for a low percentage of long-term debt to total combined long-term debt and unitholders' equity (long-term debt/total capital ratio); and
- Giving unitholders sustained growth of unitholder value by providing a return on unitholders' equity by paying annual distributions representing approximately 80% to 90% of distributable cash for the previous fiscal year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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15. MANAGEMENT OF CAPITAL (CONT'D)

During the current year, based on the Fund's established historical payout ratio, the Trustees decided to maintain the current distribution level even though the payout ratio was in excess of the distributable cash calculation. The Trustees will continually monitor the Fund's results and their potential impact on future distributions to unitholders.

In its capital structure, the Fund considers its normal course issuer bid and substantial issuer bid as tools the Fund has used to achieve its objectives.

The Fund is subject to capital requirements imposed by its bank. Under the terms of the credit facility with its bank, the Company must maintain certain financial covenants and ratios including a senior debt ratio and a fixed charge ratio.

As at and for the year ended December 31, 2009, the following provides information related to the Fund's capital management performance:

- A long-term debt/total capital equity ratio of 0.94:1.00 (0.91:1.00 at December 31, 2008).
- A return on unitholders' equity of 16.1% when annualized based on the unit distribution paid in 2009 (\$1.08 annualized) and the December 31, 2009 unit close price of \$6.70.
- The Fund was compliant with its bank covenants at December 31, 2009.

There were no changes in the Fund's approach to capital management during the year.

16. FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of cash, marketable securities, derivative contracts, accounts receivable, accounts payable and accrued liabilities, customer deposits, operating loan, long-term debt and convertible debentures.

FAIR VALUE

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities and customer deposits approximate fair values due to the relatively short-term maturities of these instruments. Marketable securities are carried at their quoted market values. The unrealized gain of \$953 (December 31, 2008 - unrealized loss of \$1,756) on the outstanding foreign exchange forward contract is estimated from quotes obtained from the Fund's counterparty for the same or similar financial instruments. The fair value of the convertible debentures, based on quoted market value at December 31, 2009, was \$42,007 (2008 - \$30,694).

The fair values of the Fund's operating loan and long-term debt approximate their fair values, as they bear interest at current market rates.

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities

Level 2 – valuation techniques based on inputs that are quoted prices of similar instruments in active markets, inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3 – valuation techniques with significant unobservable market inputs

For the derivative contracts (foreign exchange forward contracts), the Fund categorizes the fair value measurements in Level 2, as they are primarily derived from observable market inputs, that is, foreign exchange rates.

The Fund does not have any Level 3 fair value measurements and thus no continuity schedule has been presented. In addition, there have been no significant transfers between levels.

As at December 31, 2009	Level 1	Level 2	Level 3	Total financial assets at fair value
Financial assets				
Cash	\$ 575	\$ -	\$ -	\$ 575
Derivative contracts	-	953	-	953
Marketable securities	1,770	-	-	1,770
Total financial assets	\$ 2,345	\$ 953	\$ -	\$ 3,298

INTEREST RATE RISK

The Fund's exposure to interest rate fluctuations is with respect to the use of its bank credit facilities (note 7), which bear interest at floating rates. The interest rate on the convertible debentures is fixed at 7% until December 31, 2014.

CURRENCY RISK

The Fund is exposed to foreign exchange risk as a portion of its revenues and expenditures are denominated in U.S. dollars ("USD"), and it has assets and liabilities that will be settled in U.S. dollars. Foreign exchange risk arises due to fluctuations in foreign currency rates, which could affect the Fund's financial results. The Fund has entered into foreign exchange forward contracts to seek to manage exposure to currency rate fluctuations. As at December 31, 2009, the Fund has foreign exchange forward contracts outstanding to sell \$6,300 USD (2008 - \$10,800 USD) and buy Canadian dollars ("CAD") at an average exchange rate of CAD \$1.2028 (2008 - \$1.0520) per USD. Included in foreign exchange gain/loss in the statement of income for the year ended December 31, 2009 are gains of \$2,709 (2008 - losses of \$2,365) representing the change in fair value of the outstanding foreign exchange forward contracts during the period.

At December 31, 2009, approximately 35% (2008 - 42%) of cash, 54% (2008 - 40%) of trade accounts receivable, and 43% (2008 - 58%) of trade accounts payable are denominated in U.S. dollars.

MARKET RISK

The Fund is exposed to market risk with respect to its marketable securities and derivative contracts. The fair value of these financial instruments will fluctuate due to changes in market prices.

CREDIT RISK

The Fund is exposed to credit risk associated with its cash, marketable securities, derivative contracts and accounts receivable. Credit risk is minimized substantially by ensuring that investments are invested in governments, well-capitalized financial institutions and other credit-worthy entities. An ongoing review is performed to evaluate the credit status of investments. Credit risk associated with accounts receivable is minimized by the fact that the Fund deals with a limited number of mostly blue chip customers, with 83% (2008 - 82%) of the Fund's revenue in the year ended December 31, 2009 coming from its top ten customers. The balance of the revenue is derived mostly from smaller regular customers who are monitored regularly and limited to the amount of credit extended when deemed necessary. At December 31, 2009, 80% (2008 - 81%) of the trade accounts receivable are outstanding for 60 days or less. The Fund accounts for a specific bad debt provision when management considers that the expected recovery could be less than the actual accounts receivable. The Fund increased the allowance for estimated uncollectible receivables from \$49 as at December 31, 2008 to \$126 as at December 31, 2009 through a charge to bad debt expense. No write-offs of accounts receivable were charged to bad debt expense in the year. The bad debt provision is charged to general and administrative expenses.

At December 31, 2009, two customers represented 30% (2008 - 16%) of the year-end accounts receivable balance and 38% (2008 - 33%) of the Fund's sales during the year.

LIQUIDITY RISK

The Fund actively maintains credit facilities to ensure it has sufficient funds to meet current and foreseeable financial requirements at a reasonable cost.

Management believes the future cash flows from operations and availability under its existing banking arrangements will be adequate to support ongoing financial liabilities.

The existing banking arrangements consist of an operating line of credit and an equipment lease facility.

Based on historic movements and volatilities in market variables, and Management's current assessment of the financial markets, the Fund believes that the following variations are reasonably possible over a 12 month period:

- Proportional foreign exchange rate variation of -10% (decrease in CAD) and +10% (increase in CAD) against the USD, from a year end rate of \$1.0510.
- Proportional valuation of +1%/-1% in the prime interest rates applicable to the Company's bank borrowings.

If these variations were to occur, the impact on consolidated net earnings and equity at the balance sheet date would be as follows:

- The foreign exchange rate variation on financial instruments would impact earnings and equity by + or - \$230.
- The interest rate variation on financial instruments would impact earnings and equity by + or - \$43.

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LIQUIDITY RISK (CONT'D)

The Fund has financial liabilities with varying financial contractual maturity dates. Total financial liabilities at December 31, 2009 based on contractual undiscounted payments are as follows:

	Less than 1 Year	Between 1 & 2 Years	Between 2 & 5 years	Over 5 years	Total
Operating loan	\$ 527	\$ -	\$ -	\$ -	\$ 527
Accounts payable and accrued liabilities	3,231	-	-	-	3,231
Long-term debt	1,146	1,146	1,623	-	3,915
Customer deposits	6	-	-	-	6
Convertible debentures	3,231	3,231	54,240	-	60,702
	\$ 8,141	\$ 4,377	\$ 55,863	\$ -	\$ 68,381

17. OBLIGATIONS UNDER OPERATING LEASES

	2010	2011	2012	2013	2014	Total
Total lease obligations	\$ 25	\$ 22	\$ 15	\$ 4	\$ -	\$ 66

18. CONSOLIDATED STATEMENTS OF CASH FLOWS**NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES**

	2009	2008
Accounts receivable	\$ 5,623	\$ (3,271)
Inventories	3,470	(2,420)
Prepaid expenses	89	(85)
Income taxes recoverable	(94)	-
Accounts payable and accrued liabilities	(4,398)	2,549
Customer deposits	6	(198)
Net change in non-cash working capital balances related to operating activities	\$ 4,696	\$ (3,425)

CASH INTEREST AND INCOME TAXES

	2009	2008
Interest paid	\$ 3,370	\$ 3,814
Interest received	\$ 63	\$ 868
Income taxes paid	\$ -	\$ -

19. SEGMENTED INFORMATION

INDUSTRY SEGMENTS

The Fund operates in two business segments. The aerospace and power generation products division manufactures precision-cylindrical components used mainly by customers in the military and commercial aerospace industries, as well as power generation, and the industrial products division manufactures gears, splines and assemblies for use by other manufacturers. The accounting policies of the segments are the same as those described in note 2. Inter-segment sales are made at amounts similar to those with external customers related to the markets served.

	2009	2008
Sales		
Aerospace and power generation products		
Sales to customers	\$ 27,944	\$ 32,465
Inter-segment sales	57	137
Industrial products		
Sales to customers	13,721	21,234
Inter-segment sales	381	806
Elimination of inter-segment sales	(438)	(943)
	\$ 41,665	\$ 53,699
Interest expense		
Aerospace and power generation products	\$ 145	\$ 289
Industrial products	3	25
Fund	3,774	4,061
	\$ 3,922	\$ 4,375
Income tax expense (recovery)		
Aerospace and power generation products	\$ 749	\$ (2,200)
Industrial products	(936)	2,283
Fund	(148)	-
	\$ (335)	\$ 83
Net income		
Aerospace and power generation products	\$ 9,816	\$ 10,482
Industrial products	(442)	533
Fund	(3,314)	(4,241)
	\$ 6,060	\$ 6,774
Identifiable assets		
Aerospace and power generation products	\$ 34,442	\$ 40,043
Industrial products	17,765	21,850
Fund assets	1,911	1,621
	\$ 54,118	\$ 63,514

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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19. SEGMENTED INFORMATION (CONT'D)**INDUSTRY SEGMENTS (CONT'D)**

	2009		2008	
Goodwill				
Aerospace and power generation products	\$	11,410	\$	11,410
Industrial products		5,097		5,097
	\$	16,507	\$	16,507
Capital expenditures				
Aerospace and power generation products	\$	419	\$	335
Industrial products		390		2,567
	\$	809	\$	2,902
Amortization				
Aerospace and power generation products	\$	900	\$	1,032
Industrial products		895		805
	\$	1,795	\$	1,837

GEOGRAPHIC INFORMATION

	2009		2008	
Sales				
Canada	\$	18,503	\$	25,957
U.S.		20,070		23,808
Europe		3,092		3,934
	\$	41,665	\$	53,699

All of the Fund's assets are located in Canada.

The Fund had two (2008 - three) major customers whose sales each comprised 10% or more of total sales. The aerospace and power generation products segment had one customer that accounted for 26% of segment sales (2008 - two customers that accounted for 18% and 13%, respectively, of segment sales). The industrial products segment had one customer that accounted for 12% of segment sales (2008 - one customer that accounted for 16% of segment sales).