# DIVERSIFICATION WORKS

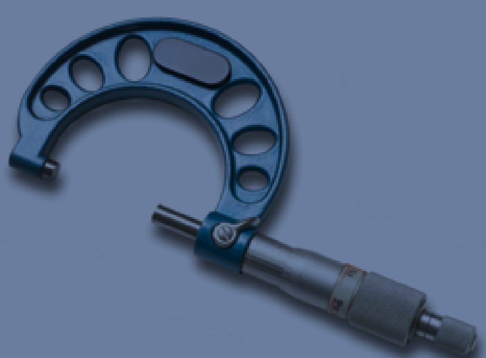
Exchange Income Corporation

**EXCHANGE INCOME CORPORATION**

**2012 ANNUAL REPORT**

THE ECONOMY CAN BE UNPREDICTABLE.

**SOME SECTORS GO UP. OTHERS GO DOWN. HAVING MULTIPLE COMPANIES ACROSS TWO MAIN BUSINESS SEGMENTS LIMITS OUR EXPOSURE AND INCREASES OUR OPPORTUNITIES FOR GROWTH.**



# DIVERSIFICATION **WORKS**

# IT'S WHY WE'RE DIVERSIFIED

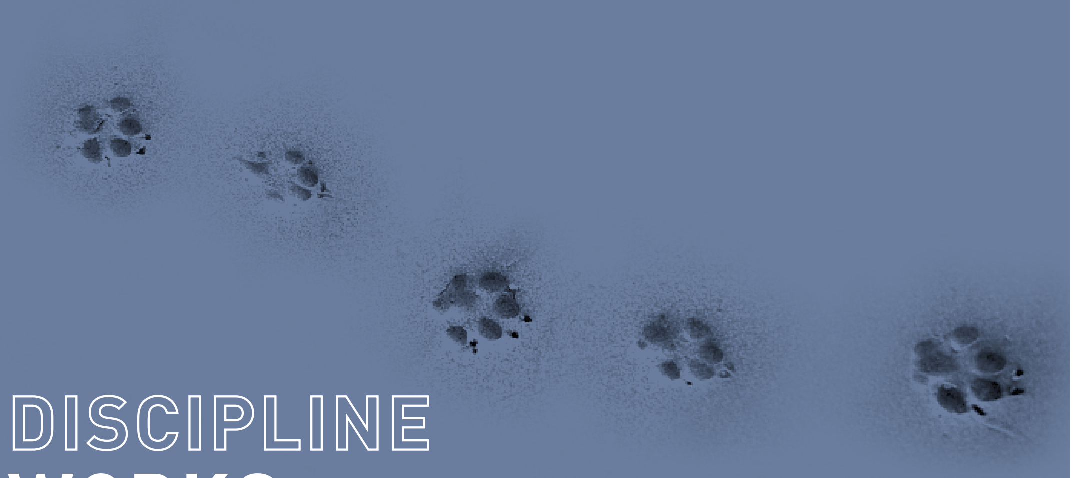
# ACQUISITIONS— IT'S HOW WE GET DIVERSIFIED

## OUR APPROACH TO ACQUISITIONS IS STRAIGHTFORWARD— BUT NOT EASY.

**WE LOOK FOR THE RIGHT COMPANY IN THE RIGHT MARKET AT THE RIGHT PRICE WITH THE RIGHT MANAGEMENT TEAM.**

**THAT TAKES PATIENCE. IT TAKES EFFORT. IT TAKES TIME. EVERYTHING HAS TO ADD UP JUST RIGHT.**

**IT'S WHY WE SOMETIMES WALK AWAY FROM DEALS. BUT IT'S ALSO WHY WE'VE GROWN TO BECOME A COMPANY WITH $800 MILLION IN ANNUAL REVENUE.**



## DISCIPLINE **WORKS**

# OUR OPERATIONS

Since our beginning, we have worked towards building a portfolio of operations in a variety of industries and geographic regions with different customer types and services. This limits our exposure. It's that simple.

## AVIATION

| | PERIMETER | KEEWATIN | CALM AIR | BEARSKIN | CUSTOM HELICOPTERS | REGIONAL ONE |
|---|---|---|---|---|---|---|
| **Year Acquired** | **May 2004** | **July 2005** | **April 2009** | **January 2011** | **February 2012** | **April 2013 (PENDING)** |
| Assets | 27 turbo-prop aircraft (up to 50 seats) | 13 turbo-prop aircraft (up to 19 seats), 2 jets | 2 jet; 10 turbo-prop aircraft (up to 42 seats for passengers and up to 68 seats for freighters) | 16 turbo-prop aircraft (up to 19 seats) | 23 helicopters | 60,000 sq. ft. facility for inventory and distribution of aircraft components and parts |
| 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 and chartered transportation service for passengers & cargo | Scheduled & chartered air transportation service for passengers & cargo | Scheduled & chartered air transportation service for passengers & cargo | Charter and ad hoc services for passengers and cargo lifting. | Direct sales or leasing of after-market aircraft, engines and parts for regional airlines operating jets and turbo-prop aircraft |
| Markets | Remote communities in northern Manitoba and northwestern Ontario | Remote communities in northern Manitoba & Nunavut | Remote communities in Manitoba and Nunavut | Remote communities in Ontario and Manitoba | Manitoba & Nunavut | Worldwide |
| Competitive Advantage | Adjustable aircraft for quick reconfiguration to accommodate varying numbers of passengers vs. cargo | Staffed with highly experienced medical professionals & flight crew; exclusive ownership of hangar facility at the Rankin Inlet and Iqaluit airports; specially equipped aircraft for medical transport | Strong reputational franchise; fleet specially adapted for passenger & freight configuration in the Arctic; state of the art hangar facility in Winnipeg, Thompson, & Churchill | Multiple flights per day into under-serviced communities | Dominant player in geographic regions; internal maintenance and repair capabilities | Highly experienced team offering regional airlines a variety of options for leasing or purchasing from its large inventory |

Having two segments and eleven businesses with multiple areas of focus has contributed to our success over the years. It's allowed us to grow even as some of our subsidiaries have experienced downturns in their markets.

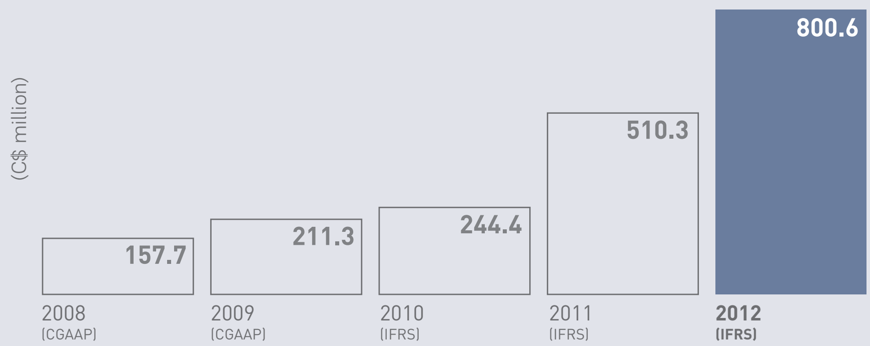
After all, not all sectors of the economy can perform well consistently. It's why diversification works.

## MANUFACTURING

| JASPER | OVERLANDERS | WATERBLAST | STAINLESS | WESTOWER |
|---|---|---|---|---|
| **September 2005** | **October 2006** | **March 2007** | **January 2008** | **May 2011** |
| 40,000 sq. ft. manufacturing facility in Acheson, AB | 38,000 sq. ft. manufacturing facility in Abbotsford, BC | 57,000 sq. ft. manufacturing facility in Edmonton, AB; 8 retail locations in Alberta, British Columbia, Saskatchewan and North Dakota | 85,000 sq. ft. manufacturing facility in Springfield, Mo | 53,000 sq. ft. Manufacturing facilities with 74 regional offices strategically located throughout North America |
| 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) | Design, manufacture, reinforce, install, maintain & service wireless communication towers & sites throughout North America |
| 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 | All Telcos, Tower Holding Companies, Government & Independent Communication Companies |
| 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, southeastern portion of Saskatchewan and North Dakota 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; electro-polishing to increase resistance to corrosion & bacteria | National presence; turnkey service provider; long-term relationships with Telcos and Tower Holding Companies |

# 2012 FINANCIAL & PERFORMANCE HIGHLIGHTS*

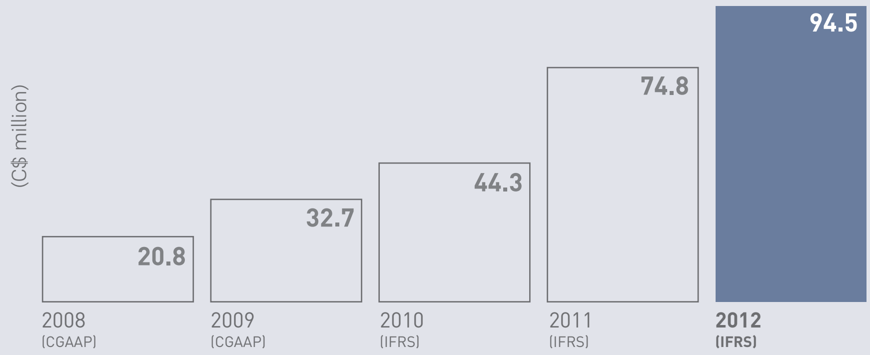
## REVENUE*




38.4%
5 YEAR CAGR

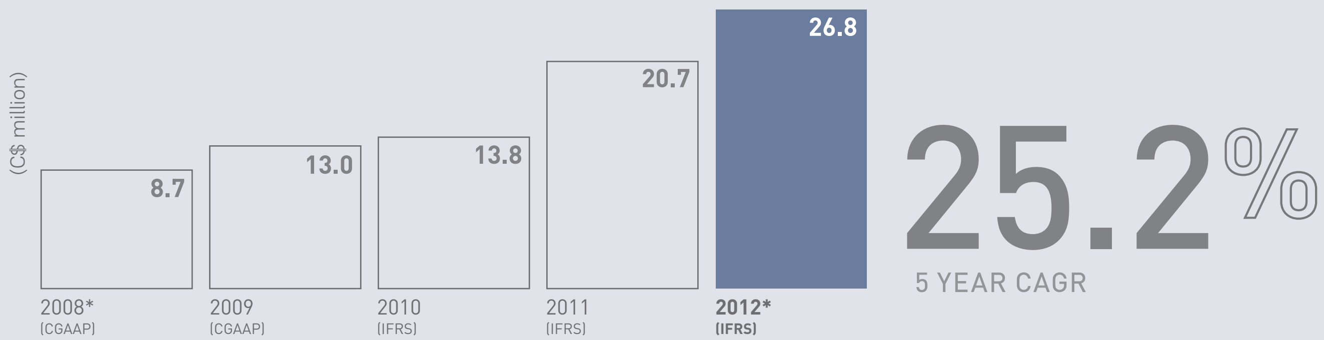
* The Company adopted International Financial Reporting Standards (IFRS) in 2010. Previously, the Company used Canadian Generally Accepted Accounting Principles (CGAAP). As a result, comparison of historical results may include financial treatments that are not identical.

## EBITDA



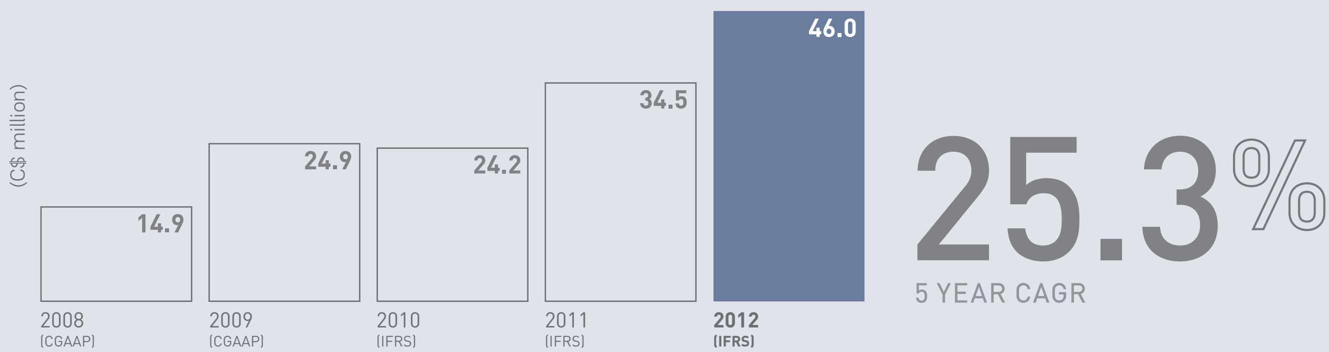

35.4%
5 YEAR CAGR

## NET EARNINGS*




* 2008 and 2012 net earnings were impacted by assets and one-time impairment charges, including these adjustments, net earnings in 2008 were $3.2 million and in 2012 were $25.4 million.

## FREE CASHFLOW LESS MAINTENANCE CAPEX*




* The company converted to IFRS commencing in 2010 and the Free Cash Flow less maintenance capital expenditures metric replaced Distributable Cash used under Canadian GAAP standards before the adoption of IFRS.

# SPOTLIGHT ON: WESTOWER

**WESTOWER COMMUNICATIONS DESIGNS, BUILDS, MAINTAINS AND SERVICES TOWERS FOR THE TELECOM INDUSTRY.** Demand for its products and services continues to grow in response to the need that wireless companies have to expand their markets and upgrade their infrastructure as a result of the introduction of new technology and communications capabilities.

**$427M**

WESTOWER'S REVENUE CONTRIBUTIONS FOR 2012
156% INCREASE OVER 2011

WesTower was targeted because it provided the opportunity to enter a new market with significant upside potential. WesTower's market leadership position combined with our ability to access capital provided new opportunities for growth that previously were unavailable.

Since being acquired, WesTower has entered into a three-year agreement with one of North America's largest wireless service providers for a number of regions in the United States, and has extended the terms of the original contract for one additional year. The contract was the main factor in WesTower's growth in 2012, its first full year of operations as an Exchange subsidiary since being acquired in April 2011. WesTower continues to ramp its activity levels in the awarded regions of the contract and grow into other new territories.

WesTower's business involves services provided to all of the major wireless companies throughout North America, and a large portion of its business is outside of the contract. The potential for growth into other regions and with other wireless companies is a focus of management, and could lead to further expansion in the future.

# SPOTLIGHT ON: REGIONAL ONE

**AT THE END OF FEBRUARY, WE ANNOUNCED THE PENDING ACQUISITION OF REGIONAL ONE.** Based out of Miami, Florida, Regional One has a 60,000 square foot facility providing aircraft, engines and related aftermarket parts to regional airline operators around the world.

## $80M

PURCHASE PRICE ($US)

At an estimated $80 million*, the acquisition is our largest to date and is important on a number of levels.

At its core, the acquisition allows us to further diversify our revenue streams and cash flow by entering new product and geographical markets. Just as important, the transaction provides a proxy for vertical integration into one of the major expense categories of our aviation segment. In essence, adding Regional One to our roster of companies acts as a hedge against price increases in aircraft and parts.

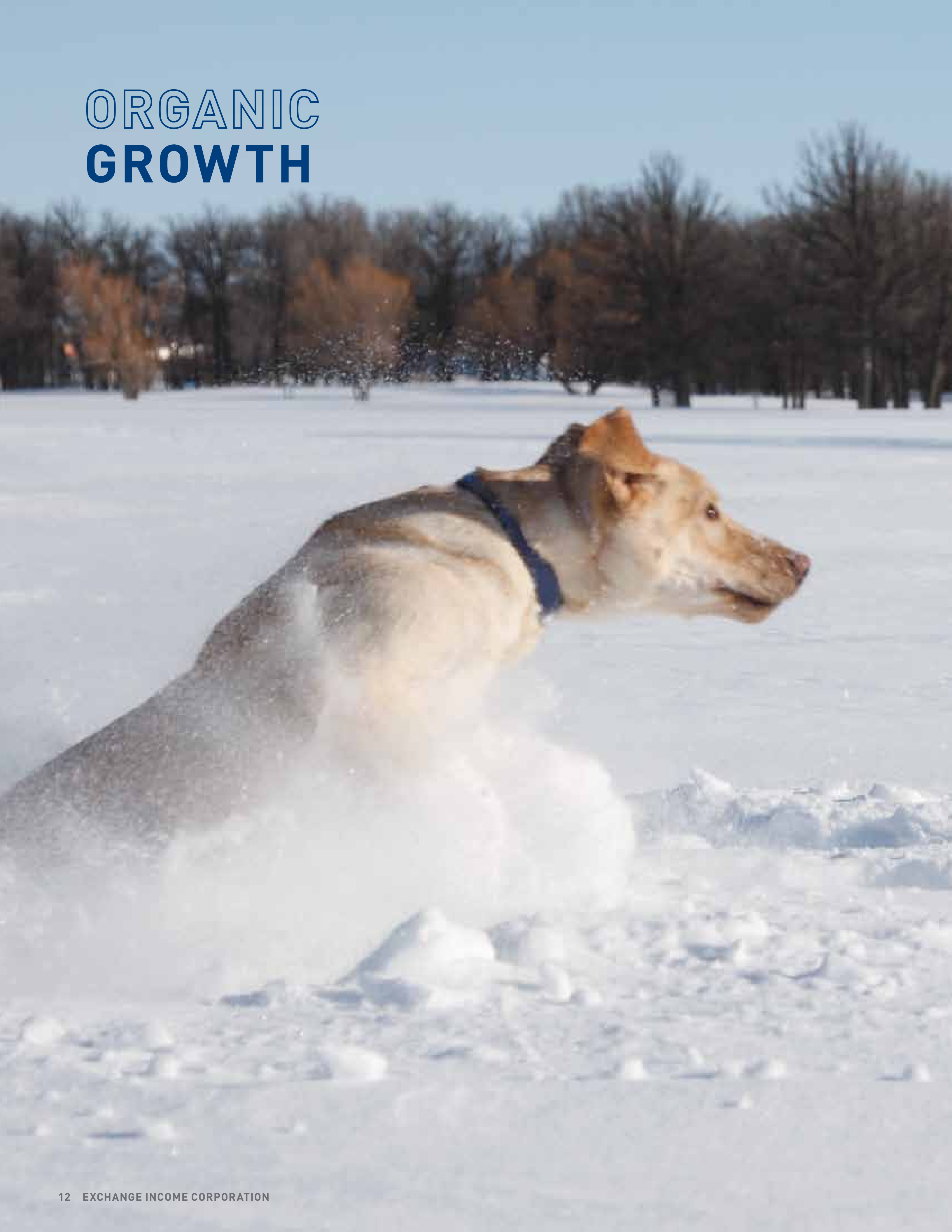
Regional One has been in operation since 2004 and has three revenue streams:

1) Direct sales of parts, aircraft, engines and other related equipment to regional airlines;
2) Consignment sales of customers' surplus parts inventory; and
3) Leasing of aircraft, engines and equipment to regional airlines.

Over the past five years, Regional One has had an annual average revenue growth rate of 25%.

* Subject to adjustments for certain taxes

# ORGANIC GROWTH



## IN 2012, WE SET NEW BENCHMARKS FOR EACH OF OUR KEY FINANCIAL METRICS.

As significant as our record results were, our performance was even more impressive given the amount of organic growth we achieved through our pre-existing companies. In other words, excluding the contributions from the acquisitions of Custom Helicopters and a distributor of Water Blast products in North Dakota that we completed in the year, we were able to add to the strategically significant momentum we developed in recent years. This was achieved by investing capital into our pre-existing companies to help them grow into new regions, industries and customers. Although our capital investments won't always deliver such high returns, 2012 will be remembered by the amount of organic growth that we generated and the efforts we made to strengthen our foundation.

**53.9%**

ORGANIC REVENUE GROWTH

**17.7%**

ORGANIC EBITDA GROWTH

## HARD WORK AND FOCUS DELIVER ORGANIC GROWTH OPPORTUNITIES.

# DIVERSIFICATION DELIVERS

# BEING DIVERSIFIED RESULTS IN STEADY, DEPENDABLE RETURNS.

It's what our shareholders want. It's what we deliver. In 2012, we grew our key financial metrics—significantly. This led us to increase our dividend distribution for the eighth time since 2004—showing, yet again, our loyalty and commitment to shareholders.

## RETURNS **WORK**

**$1.68**

DIVIDEND DISTRIBUTIONS PER SHARE

**6.5%**

YIELD*

* As at December 31, 2012.

**2.3%**

SHARE PRICE RETURN**

** As at December 31, 2012. As at March 1, 2013 Exchange Income Corporation shares traded at $28.84, representing a year to date share price return of 11.9%.

**8.75%**

TOTAL INVESTMENT RETURN IN 2012

# CHAIRMAN'S MESSAGE

**Gary Filmon, P.C., O.C., O.M.**
Chairman, Board of Directors

Exchange had another strong year in 2012 and we are proud of what it has done for employees, customers, suppliers and shareholders. Our results reflect the sound execution of our business model. It was another very busy year for us and shows that our model of diversification under a disciplined approach leads to a benefit for our shareholders. We increased our dividend again in 2012, which is the 8th time since we began in 2004. Some of the highlights from the year were two successful securities offerings which generated gross proceeds of $115 million, continued acquisitions, and significant organic growth especially within our manufacturing segment. This positive momentum has continued into 2013 as we announced the pending acquisition of Regional One and successfully raised another $65 million of gross proceeds from a debenture offering.

Exchange is focused on delivering growth and over our history that growth has been realized as a result of the disciplined acquisition of businesses that meet our specific criteria. This didn't change in 2012 as we closed the acquisition of Custom Helicopters in February, which brought the Company into the rotary wing business of the aviation industry. During the past year we were able to show significant organic growth generated within our subsidiaries. The ability for Exchange to provide oversight and access to expansion capital has always been viewed as a benefit we bring to investee companies. This was exemplified in 2012 as significant investments and returns were made as a result of expanding the operations of WesTower Communications, an industry leader, to enable it to partner with a well-known North American telecom provider. Without the available capital and support of Exchange this opportunity would have been unavailable to WesTower. As announced in 2011, WesTower's turfing contract in the US ramped up throughout 2012 and helped their revenues grow by 156% over the prior year. Organic growth opportunities of this magnitude are not always available, but the culture of Exchange is about disciplined growth and so these opportunities are acted upon when they provide the required return.

During 2012 the results for Exchange proved once again that the diversification model we use works. Some of the aviation segment's operations saw some markets soften as a result of increased competition and other operational conditions, but the manufacturing segment's operations more than offset this. The fundamentals of the aviation segment's fixed wing operations are still strong with providing essential services to a large number of First Nation communities in the North. The diversification model is designed to spread the cash flows being generated over multiple industries, regions and customers, which helps ensure that Exchange can deliver growth and results to its shareholders even when certain businesses experience more competitive situations. When looking back at the history of Exchange, there are multiple times where the segments have offset each other in this way.

The pending acquisition of Regional One further expands our company but it also brings further diversification within the aviation segment. Regional One is an example of vertical integration as some of our other aviation businesses are presently Regional One's customers. This estimated US $80 million transaction (before certain tax adjustments) which is expected to close in the beginning of the second quarter of 2013 will make it the largest acquisition to date for our Company.

The foundation of Exchange remains strong with its stable balance sheet which includes $165M of credit available under our existing credit facility as at December 31, 2012. Subsequent to 2012 and in preparation for the Regional One transaction, the Company closed a prospectus offering of $65M of gross proceeds on 7-year 5.35% debentures. This enables us to have funds available for future acquisitions and organic growth opportunities. Our team is prepared and equipped to take on more growth and continue to deliver steady, dependable returns to our shareholders. We are excited about both the opportunities in the acquisition pipeline and our organic growth opportunities. We believe Regional One will be another example of a business that will be able to grow as a result of being part of our Company. They will have access to capital and resources to grow their business all over the world.

On behalf of our Board of Directors, management and all of our employees across our operations throughout North America, I would like to thank our shareholders for their continued support. We look forward to continuing our commitment to you by delivering results and returns that make you proud to be shareholders of our Company.

# PRESIDENT'S MESSAGE

**Mike Pyle**
President and Chief Executive Officer

Over the past several years, we have charted a course aimed at developing Exchange into a major company with tremendous prospects for sustainable growth. Our performance in 2012—especially as measured by our record financial results—and the foundation we have built, clearly demonstrate the progress we have made towards our goal.

Among the notable achievements we made in 2012:

- Consolidated revenue increased 57% to $800.6 million
- EBITDA grew 26% to $94.5 million
- Net earnings climbed 23% to $25.4 million
- Free cash flow increased 20% to $76.8 million
- Dividend distributions increased by 4% to $0.14 per month.

As impressive as our financial results were, it is worth noting that the growth was mostly organic in nature. By this we mean that the gains were achieved by our pre-existing subsidiaries, most notably by the contributions of WesTower Communications, a designer and builder of cell towers—and not directly via acquisitions.

Equally noteworthy, our strong performance demonstrated the value of our diversification model. Since our beginning, we have maintained that having a diversified portfolio of operating subsidiaries best positions us to respond to the cyclical, up and down nature of the economy and still maintain our commitment towards delivering dependable dividend distributions to shareholders.

In effect, diversification paved the way for a remarkable year. In Q4 in particular, the strong performance of our Manufacturing segment significantly offset the declines that some of our Aviation segment subsidiaries experienced as a result of softer customer demand and increased competitive pressures. In fact, we saw revenue grow by 57% in Q4 to $231.4 million and EBITDA increase by 24% to $25.6 million largely due to the strong performance of WesTower and Stainless.

The strength of our diversification model, which enabled us to generate strong results, led us to increase our dividend distributions in November. This represented the eighth time since 2004 that we increased our distributions.

I should point out that on a per share basis, our performance in Q4 as well as our year-end results were impacted by an increase in number of shares of almost 20%. The increase was due to the issuance of shares in support of financing and acquisition activities as well as to conversion of debentures by investors.

As many know, the other cornerstone of our business model is disciplined acquisitions. In 2012, we completed the acquisition of Custom Helicopters, a provider of aviation services in Manitoba and Nunavut, for $29 million. While relatively small in value, the acquisition was strategic for a number of reasons. First, it allowed us to enter a new segment of the transportation market. Second, it provided us the opportunity to apply our medevac skills and experience to Custom and expand its portfolio of services.

Although the purchase of Custom was the only transaction we closed in 2012, we were very active on the acquisition front. In fact, a number of strong target companies were identified. But because every criteria of our disciplined approach was not fully satisfied, we decided to pass on the opportunities under review.

Subsequent to year-end, we announced our intention to acquire Regional One, a privately-owned US company that is a leading provider of aircraft and engine aftermarket parts to regional airline operators around the world. The acquisition is valued at $80 million and is our largest to date.

Looking ahead, we are very encouraged by prospects. We ended 2012 with a very strong balance sheet and opportunities for organic growth in each of our segments. We expect continued demand for our Manufacturing segment products and services. This is particularly so for WesTower, which is taking advantage of infrastructure upgrades that telecom carriers are making throughout North America in response to technology advances in the industry.

# TABLE OF CONTENTS


Management's Discussion & Analysis........................................19

Management's Responsibility for Financial Reporting...............52

Independent Auditor's Report ....................................................53

Consolidated Statements of Financial Position ..........................54

Consolidated Statements of Income ...........................................55

Consolidated Statements of Changes in Equity..........................56

Consolidated Statements of Cash Flows....................................58

Notes to the Consolidated Financial Statements........................59

Board of Directors & Senior Management..................................98

Corporate Information..................................... Inside Back Cover

# MANAGEMENT'S DISCUSSION AND ANALYSIS

February 27, 2013

## Introduction

This Management's Discussion and Analysis ("MD&A") supplements the audited consolidated financial statements and related notes for the year ended December 31, 2012 ("Consolidated Financial Statements") of Exchange Income Corporation ("EIC" or "the Company"). All amounts are stated in thousands of Canadian dollars, except per share data, unless otherwise stated.

These consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of financial statements. This MD&A should be read in conjunction with the Consolidated Financial Statements of the Company for the year ended December 31, 2012.

## Forward-Looking Statements

This annual report contains forward-looking statements. All statements other than statements of historical fact contained in this MD&A 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 MD&A 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 12 – 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 are made as of the date of this report or such other date specified in such statement.

## Non-GAAP Financial Measures

EBITDA, Adjusted Net Earnings and Free Cash Flow are not recognized measures under the CICA Handbook ("GAAP") and are, therefore, defined below.

**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 acquisition 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.

**Adjusted Net Earnings:** is defined as net earnings adjusted for acquisition costs expensed, asset impairment and amortization of intangible assets that are purchased at the time of acquisitions.

**Free Cash Flow:** for the period is equal to cash flow from operating activities as defined by GAAP, adjusted for changes in non-cash working capital and any unusual non-operating one-time items. Free Cash Flow 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.

**Maintenance Capital Expenditures:** are the capital expenditures made by the Company to maintain the operations of the Company at its current level and includes the principal payments made by the Company on any of its finance leases. 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.

Investors are cautioned that EBITDA, Adjusted Net Earnings, Free Cash Flow and Maintenance Capital Expenditures should not be viewed as an alternative to measures that are recognized under GAAP such as net earnings or cash from operating activities. The Company's method of calculating EBITDA, Adjusted Net Earnings, Free Cash Flow and Maintenance Capital Expenditures may differ from that of other entities and therefore may not be comparable to measures utilized by them.

## Additional Information

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

## 1. Financial Highlights

The financial highlights for the Company for the periods indicated are as follows.

| FINANCIAL PERFORMANCE | 2012 | per share basic | per share fully diluted | 2011 | per share basic | per share fully diluted |
|---|---|---|---|---|---|---|
| For the year ended December 31 | | | | | | |
| Revenue | $ 800,573 | | | $ 510,303 | | |
| EBITDA | 94,498 | | | 74,839 | | |
| Net earnings | 25,351 | $ 1.26 | $ 1.25 | 20,745 | $ 1.24 | $ 1.21 |
| Adjusted net earnings | 29,330 | 1.46 | 1.43 | 23,770 | 1.42 | 1.37 |
| Free cash flow | 76,776 | 3.83 | 3.02 | 64,109 | 3.82 | 3.18 |
| Free cash flow less maintenance capital expenditures | 46,005 | 2.30 | 2.05 | 34,469 | 2.05 | 1.82 |
| Dividends declared | 32,717 | 1.63 | | 27,100 | 1.605 | |
| FINANCIAL POSITION | December 31, 2012 | | | December 31, 2011 | | |
| Working capital | $ 156,561 | | | $ 67,277 | | |
| Capital assets | 269,036 | | | 220,190 | | |
| Total assets | 709,370 | | | 478,401 | | |
| Senior debt | 69,809 | | | 49,234 | | |
| Equity | 294,542 | | | 225,637 | | |
| SHARE INFORMATION | December 31, 2012 | | | December 31, 2011 | | |
| Common shares outstanding | 20,636,593 | | | 17,399,182 | | |

## 2. Overview

### EXCHANGE INCOME CORPORATION

The Company is a diversified, acquisition-oriented corporation focused on opportunities in the Manufacturing and Aviation segments. 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 and charter service and emergency medical services to communities located in Manitoba, Ontario, and Nunavut, including certain First Nations communities, operated by **Calm Air**, **Keewatin**, **Perimeter**, **Bearskin, Custom Helicopters** and other aviation supporting businesses; and

(b) Manufacturing – providing a variety of metal manufacturing goods and related services in a variety of industries and geographic markets throughout North America. **WesTower** is a manufacturer, installer, and maintenance service provider of communication towers and sites in both Canada and the United States. **Stainless** manufactures specialized stainless steel tanks, vessels and processing equipment. **Water Blast** and **Jasper Tank** together make up the Alberta Operations. Water Blast specializes in the manufacturing of specialized heavy duty pressure washing and steam systems and Jasper Tank manufactures custom tanks for the transportation of various products, but primarily oil, gasoline and water. Water Blast is also the exclusive distributor in Alberta, British Columbia, south-eastern Saskatchewan, and North Dakota for Hotsy pressure washing cleaning equipment, which is used for a variety of light commercial and industrial applications. **Overlanders** manufactures precision sheet metal and tubular products.

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.

### Acquisition – Custom Helicopters

On February 1, 2012, the Company closed the acquisition of the shares of Custom Helicopters Ltd. ("Custom"), a privately-owned provider of helicopter-based aviation services in Manitoba and Nunavut. The acquisition price of $28.4 million has been funded through a combination of $24.2 million of cash through debt financing from the Company's credit facility and the issuance of the Company's common shares ("Shares") worth $4.2 million to the vendors of Custom (170,121 Shares).

The acquisition has been immediately accretive to the Company's 2012 key financial metrics, including EBITDA, cash flows, earnings per share and Free Cash Flows. The Company's results for year ended December 31, 2012 include Custom's financial results since the closing date of the acquisition.

The acquisition of Custom expands the Company's existing Aviation segment to include helicopter operations. Custom has operated for over 30 years and has a fleet of 24 helicopters operating out of five bases: Winnipeg, Thompson, Gillam, and Garden Hill in Manitoba and Rankin Inlet in Nunavut. Custom has contributed total assets of $36.7 million. Custom operates light, intermediate and medium category helicopters on long- and short-term contracts to government agencies, utilities, First Nations groups, mining companies and other customers.

Acquisition costs of $0.4 million were incurred by the Company during the year associated with the acquisition.

### Acquisition – Water Blast Dakota

On December 5, 2012, the Company acquired the shares of Dallas Sailer Enterprises Inc, a privately-owned retail distributor of Hotsy product in North Dakota. This is a tuck-in operation ("Water Blast Dakota") of EIC's Water Blast operations that gives EIC the Hotsy distribution rights for the State of North Dakota. The aggregate consideration of US$1.6 million ($1.6 million) consisted of US$1.4 million of cash and 8,487 Shares with a value of US$0.2 million.

The Company was interested in the potential growth of the North Dakota market for the Hotsy product and custom manufactured units available through Water Blast production facility and experience. The State of North Dakota is transforming from an agricultural based economy with supporting elements from coal mining and national defense facilities into an oil and gas centered economy with support from the agricultural, coal and defense industries. The oil and gas industry there has similarities with the existing customer and industry base for the Water Blast operations servicing the Alberta oil and gas industry.

The advent of horizontal fracking technology has allowed the development of the massive Bakken oil deposit and is the driving force of this economic transformation. The Bakken deposit is an area centered in western North Dakota reaching north into south eastern Saskatchewan and west into eastern Montana. Also in the fourth quarter of 2012, EIC's existing Water Blast operations obtained the Hotsy distribution rights in the south eastern corner of Saskatchewan and has opened up a retail facility in Estevan, Saskatchewan. Based on these transactions Water Blast and Water Blast Dakota have the distribution rights for the majority of the geographic area for the Bakken oil deposit.

### Prior Year's Acquisitions

The following acquisitions were made by the Company during the year ended December 31, 2011:

#### Bearskin

On January 1, 2011, the Company closed the acquisition of the airline operations and assets of Bearskin Airlines, a privately-owned commuter airline providing passenger service in Ontario and Manitoba. The acquisition price of $33.0 million was funded through a combination of $27.5 million of debt financing from the Company's credit facility and the issuance of Shares worth $5.5 million to the vendors of Bearskin (314,047 Shares).

The Company's results for 2011 include Bearskin's financial results for the full period since Bearskin was acquired on the first day of that fiscal year.

#### WesTower

The Company closed the acquisition of the shares of WesTower on April 1, 2011. WesTower is a manufacturing and service entity that operates throughout Canada and the United States in the wireless tower industry, mainly in the design, erection, reinforcing, maintenance and servicing of towers. The acquisition price of $73.9 million was funded through a combination of $60.9 million of cash primarily from debt financing, the issuance of Shares worth $11.2 million to the vendors of WesTower (520,341 Shares) and $1.8 million of reserved shares of the Company that will be issued evenly over the next three anniversaries of the closing date (86,238 Shares).

The Company's results for 2011 include WesTower's financial results since WesTower was acquired on the first day of the second quarter.

## 3. Key Performance Indicators

The following section will quantify and analyze the key performance indicators of the Company. The Company continually monitors and evaluates its metrics and updates these metrics as required to ensure they provide information considered most useful in any decision-making based on the Company's performance.

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 the Company. The EBITDA, Free Cash Flow, and Free Cash Flow less maintenance capital expenditures generated from operations are important performance measures that are used by management to evaluate the performance of the Company.

## EBITDA

The following reconciles net earnings before income tax to EBITDA from operations. Further discussion and analysis on the EBITDA results for the periods can be found in Section 4 – Analysis of Operations below.

| Year Ended December 31, | | 2012 | | 2011 |
|---|---|---|---|---|
| Earnings before income tax | $ | 38,604 | $ | 30,028 |
| Depreciation and amortization | | 38,355 | | 30,591 |
| Finance costs – interest | | 14,149 | | 12,390 |
| Acquisition costs | | 1,358 | | 1,830 |
| Impairment loss | | 2,032 | | - |
| Total EBITDA | $ | 94,498 | $ | 74,839 |

## FREE CASH FLOW

| Year Ended December 31, | | 2012 | | 2011 |
|---|---|---|---|---|
| Cash flows from operations | $ | (20,943) | | 55,775 |
| Change in non-cash working capital items | | 96,361 | | 6,504 |
| Acquisition costs | | 1,358 | | 1,830 |
| | $ | 76,776 | $ | 64,109 |
| per share – Basic | $ | 3.83 | $ | 3.82 |
| per share – Fully Diluted | $ | 3.02 | $ | 3.18 |

The Company generated Free Cash Flow of $76.8 million for 2012, which is $12.7 million higher than the $64.1 million generated in the comparative 2011 period. The 20% increase in Free Cash Flow is mainly the result of the 26% increase in EBITDA, which is an increase of $19.7 million over the comparative period. The improved EBITDA in 2012 is analyzed in more detail in Section 4 – Analysis of Operations but can be attributed to a few main factors. WesTower EBITDA increased as a result of the growth of its US operations and also from having a full year of results in 2012 in comparison to 2011 when it was acquired in April 2011. Custom was acquired in February 2012 and generated EBITDA for 11 months with no comparative in 2011. As well, each entity within the Manufacturing segment contributed higher EBITDA in 2012. Outside of Custom, the combined pre-existing entities within the Aviation segment generated a lower level of EBITDA in 2012 and this was noticed particularly at Calm Air and Bearskin.

The increased EBITDA was offset in part by the increase of $6.3 million in cash taxes for the year and the increase of $1.2 million of cash interest paid, particularly on the higher convertible debenture principal outstanding during 2012. Other various non-cash related items within EBITDA contributed an additional $0.5 million to Free Cash Flow.

On a basic per share basis, the increase in absolute Free Cash Flow was offset by the higher share base. This resulted in a net increase to $3.83 for 2012, which is relatively consistent with the prior year of $3.82. On a fully diluted basis, the additional convertible debentures outstanding in 2012 resulted in a decrease of $0.16 to $3.02 for 2012 in comparison to $3.18 for 2011. The amount of Shares outstanding at December 31, 2012 was 20.6 million, which is 19% higher than the 17.4 million Shares outstanding at December 31, 2011. There were several factors affecting the number of Shares outstanding but the main reason is attributable to the March 2012 prospectus offering that issued 2.3 million Shares. Further explanations around the increase in Shares outstanding can be found in Section 6 – Liquidity and Capital Resources.

The increase in Shares outstanding significantly decreases the per share results, and as discussed above the use by the Company of $50 million of the proceeds from the March 2012 prospectus Share offering to repay debt outstanding in the Company's credit facility contributed to the decrease in per share results. Similarly, the Company used the net proceeds from the September 2012 unsecured debenture offering to repay more of the Company's debt outstanding. These decisions will continue to impact the per share results of the Company until these funds are deployed even though some of it was used for funding the organic growth in the US operations of WesTower. As at December 31, 2012, the deleveraged balance sheet puts the Company in a position to finance approximately a $165 million acquisition without the need for additional equity financing.

## FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENDITURES

| Year Ended December 31, | | 2012 | | 2011 |
|---|---|---|---|---|
| Free Cash Flow | $ | 76,776 | $ | 64,109 |
| Maintenance Capital Expenditures | | 30,771 | | 29,640 |
| | $ | 46,005 | $ | 34,469 |
| per share – Basic | $ | 2.30 | $ | 2.05 |
| per share – Fully Diluted | $ | 2.05 | $ | 1.82 |

The Company generated Free Cash Flow less maintenance capital expenditures of $46.0 million for 2012, which is an increase of $11.5 million or 33% over the $34.5 million generated in the comparative period in 2011. The improvement in 2012 is mainly due to the 20% increase in Free Cash Flow described above but is also due to a smaller increase in the maintenance capital expenditures for 2012. The maintenance capital expenditures increased by 4% to $30.8 million for 2012 and are described in detail in the Capital Expenditures Section.

It is important to understand that as a result of reporting under IFRS, maintenance capital expenditures fluctuate from period to period with variability as described further in the Capital Expenditures Section. As a result of the variability in the maintenance capital expenditures under IFRS, Free Cash Flow is a better metric than Free Cash Flow less maintenance capital expenditures as a measure of ongoing operating performance. This metric will not have the variability of the lumpy capital expenditures and therefore will give a better indication of the performance of the underlying operations and the trend in performance. Maintenance capital expenditures are variable under IFRS because overhaul maintenance for aircraft engines and airframe heavy checks that were previously accrued in advance are treated as capital expenditures when the event takes place under IFRS. Free Cash Flow less maintenance capital expenditures is still an important operating metric; however, it will be subject to lumpy quarterly and annual changes as a result of the maintenance capital expenditures and therefore needs to be evaluated over longer operating periods.

On a basic per share basis, Free Cash Flow less maintenance capital expenditures for 2012 increased to $2.30 ($2.05 fully diluted) in comparison to $2.05 ($1.82 fully diluted) in the 2011 comparative period. The increase of 12% (13% fully diluted) is due to the additional Free Cash Flow less maintenance capital expenditures generated by the Company, offset by an increased base of Shares outstanding for the Company during the 2012 period. The maintenance capital expenditure component of this metric is described further below and accounted for the $1.54 decrease from Free Cash Flow. The maintenance capital expenditures impact for the 2011 comparative was $1.77 per share.

## CAPITAL EXPENDITURES

| Year Ended December 31, | | 2012 | | 2011 |
|---|---|---|---|---|
| Cash maintenance capital expenditures | $ | 29,457 | $ | 28,649 |
| add: finance lease principal payments | | 1,314 | | 991 |
| Maintenance capital expenditures | | 30,771 | | 29,640 |
| Growth capital expenditures | | 36,293 | | 13,442 |
| | $ | 67,064 | $ | 43,082 |
| Maintenance capital expenditures per share – Basic | $ | 1.54 | $ | 1.77 |
| Growth capital expenditures per share – Basic | | 1.81 | | 0.80 |
| Total capital expenditures per share – Basic | $ | 3.35 | $ | 2.57 |

Management characterizes capital expenditures as either maintenance capital expenditures or growth capital expenditures. 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. The accounting for capital expenditures has changed significantly under IFRS as compared to Canadian generally accepted accounting principles before the adoption of International Financial Reporting Standards ("CGAAP").

The most significant change is that aircraft engine overhauls and airframe heavy checks were previously accrued as an expense and then removed from the accrued liability when the event occurred. Under IFRS, these events are treated as maintenance capital expenditures when the event occurs and there is no expense accrued in advance of the event. The result is that maintenance capital expenditures can now be very lumpy from period to period, both within the year and when analyzing to the comparative period in the prior year. It is important to note that the change from CGAAP to IFRS does not change the cash outflows to maintain the fleet. It does, however, make the period to period results less comparable.

### Maintenance Capital Expenditures

Total maintenance capital expenditures for 2012 totalled $30.8 million compared to $29.6 million in 2011, an increase of $1.2 million. The Aviation segment continues to make up the majority, as it spent $27.4 million versus $3.3 million in the Manufacturing segment and $0.1 million at head office.

Custom, which is not in the comparative 2011 period, accounted for the entire increase over 2011 as maintenance capital expenditures at Custom were $2.0 million. The maintenance capital expenditures in the Aviation segment will vary from period to period based on the timing of significant maintenance events, such as engine overhauls and heavy checks. The total maintenance capital expenditures of $30.8 million are at a level that is indicative of a normal year given our current level of operations. As well the quarters have been fairly consistent though out 2012 ranging from a low of $7.3 million to a high of $8.3 million. It is not expected that maintenance capital expenditures will normally be this consistent over the year or multiple years based on the expected variability within the Aviation segment.

The majority of the Aviation segment's maintenance capital expenditures relate to engine overhauls, heavy checks and rotable additions. The expenditures at EIC's various airlines are generally proportionate to the size and number of aircraft they operate. As discussed above the maintenance capital expenditures can fluctuate from quarter to quarter and from year to year.

The Manufacturing segment's capital expenditures were mainly from WesTower which spent $2.2 million during the period and includes $1.3 million of finance lease payments. The Manufacturing segment's capital expenditures are largely equipment and vehicles. As a result of the acquisition of WesTower, the Company now has finance leases for vehicles. These finance lease principal payments do not show up as part of the Free Cash Flow or the capital expenditures that tie into the statement of cash flows. In order to fully reflect the Free Cash Flow after maintenance capital expenditures as the cash flow generated, the Company has disclosed the finance lease principal payments and deducted this from the Free Cash Flow less maintenance capital expenditures calculation.

### Growth Capital Expenditures

The Company invested a net total of $36.3 million in growth capital expenditures during 2012, which consisted of $47.9 million in expenditures less $11.6 million in disposals. The majority of the growth capital expenditures were in the Aviation segment which accounted for net $32.1 million of the growth capital expenditures. The major growth capital expenditures were for additional aircraft and infrastructure for Calm Air's fleet type rationalization. These $32.1 million of aviation growth expenditures are net of the disposal of seven aircraft largely driven by Calm's fleet type rationalization. Calm Air will continue this fleet rationalization into 2013, which will include the addition of one more ATR 42 and the completion of their ground infrastructure. Total aircraft growth capital expenditures were $18.3 million, net of the $11.6 million in disposals. The majority of these aircraft growth capital expenditures were for Calm and Perimeter, which spent $17.2 million and $9.5 million on aircraft additions, respectively. Calm's aircraft additions included a second Dornier jet, an ATR 42, an ATR 72 and final upgrades to the first Dornier jet. All these aircraft will be utilized to support Calm Air's fleet rationalization. Perimeter added a Dash 8-300 to service the growth of its major markets.

In addition to these aircraft expenditures, the Aviation segment spent $13.8 million on ground infrastructure. This includes infrastructure at the James Armstrong Richardson International Airport to support Calm Air's new heavy maintenance facility and infrastructure in the far north required to support Calm Air's fleet rationalization.

The Manufacturing segment spent $4.2 million on growth capital expenditures in 2012. Virtually all of these growth capital expenditures were spent at WesTower to support the expansion of its US operations. The majority of these expenditures are on equipment to support their growth and new technology to enable them to successfully build Long-Term Evolution ("LTE") sites.

## DIVIDENDS & PAYOUT RATIO

The amounts and record dates of the dividends declared during the year ended December 31, 2012 and the comparative period in 2011 were as follows:

| Month | Record date | Per Share | 2012 Dividends Amount | Record date | Per Share | 2011 Dividends Amount |
|---|---|---|---|---|---|---|
| January | January 31, 2012 | $ 0.135 | $ 2,390 | January 31, 2011 | $ 0.13 | $ 2,006 |
| February | February 29, 2012 | 0.135 | 2,423 | February 28, 2011 | 0.13 | 2,049 |
| March | March 30, 2012 | 0.135 | 2,740 | March 31, 2011 | 0.13 | 2,064 |
| April | April 30, 2012 | 0.135 | 2,749 | April 29, 2011 | 0.135 | 2,266 |
| May | May 31, 2012 | 0.135 | 2,753 | May 31, 2011 | 0.135 | 2,307 |
| June | June 29, 2012 | 0.135 | 2,756 | June 30, 2011 | 0.135 | 2,313 |
| July | July 31, 2012 | 0.135 | 2,781 | July 29, 2011 | 0.135 | 2,321 |
| August | August 31, 2012 | 0.135 | 2,783 | August 31, 2011 | 0.135 | 2,325 |
| September | September 29, 2012 | 0.135 | 2,787 | September 30, 2011 | 0.135 | 2,329 |
| October | October 31, 2012 | 0.135 | 2,790 | October 31, 2011 | 0.135 | 2,366 |
| November | November 30, 2012 | 0.14 | 2,868 | November 30, 2011 | 0.135 | 2,370 |
| December | December 31, 2012 | 0.14 | 2,897 | December 31, 2011 | 0.135 | 2,384 |
| Total | | $ 1.63 | $ 32,717 | | $ 1.605 | $ 27,100 |

Actual dividends for the 2012 year totaled $32.7 million, which was an increase of $5.6 million or 21% from the 2011 comparative when the actual payouts were $27.1 million. Per share dividends for the 2012 year totaled $1.63, which was an increase of 2% over the dividends paid per share of $1.605 in the 2011 comparative.

The increase in total dividends declared by the Company is therefore mainly a result of the increase in the Shares outstanding. As can be seen in the above table though, the per share dividend increased by 4% (or $0.005) starting with the November 2012 declared dividend. The previous dividend increase to that was on the April 2011 declared dividend which was also an increase of 4% (or $0.005).

The Company's Board of Directors regularly examines the dividends paid to shareholders. Management expects that the Company will generate sufficient cash going forward into 2013 to meet or exceed the $0.14 per month per share dividend level.

The following are the Company's payout ratios using Free Cash Flow and Free Cash Flow less maintenance capital expenditures as a percentage of the dividends declared by the Company during the periods:

| Payout Ratios Year Ended December 31, | 2012 | Per share basic | Per share fully diluted | 2011 | Per share basic | Per share fully diluted |
|---|---|---|---|---|---|---|
| Free Cash Flows | | 43% | 54% | | 42% | 50% |
| Free Cash Flows less maintenance capital expenditures | | 71% | 80% | | 78% | 88% |

The 2012 payout ratios for Free Cash Flow deteriorated to 43% (54% fully diluted) as a result of the increased dividends declared per share. The comparable 2011 Free Cash Flow payout ratio was 42% (50% fully diluted).

The Free Cash Flow less maintenance capital expenditures 2012 payout ratio improved to 71% (80% fully diluted) in comparison to 78% (88% fully diluted) in 2011. The per share increase in Free Cash Flow less maintenance capital expenditures was higher than the increased dividends declared per share.

Overall, the payout ratios for the Company in 2012, while strong, were negatively impacted by the deleveraged balance sheet that resulted from its recent March 2012 prospectus offering of Shares and the September 2012 debenture offering. As these funds are deployed into an accretive acquisition and/or organic growth opportunities the payout ratios will continue to improve at the current dividend level. The payout ratio is considered to be prudent and is reviewed by the Company's Board of Directors on a quarterly basis.

FOURTH QUARTER KEY PERFORMANCE INDICATORS

| Three months ended December 31, | 2012 | Per share basic | Per share fully diluted | 2011 | Per share basic | Per share fully diluted |
|---|---|---|---|---|---|---|
| EBITDA | 25,642 | | | 20,734 | | |
| Free Cash Flows | 20,729 | 1.00 | 0.76 | 17,470 | 1.00 | 0.83 |
| Free Cash Flows less maintenance capital expenditures | 13,432 | 0.65 | 0.57 | 9,845 | 0.57 | 0.50 |
| Dividends Declared | 8,555 | 0.415 | | 7,120 | 0.405 | |

The EBITDA generated for the fourth quarter of 2012 increased to $25.6 million from $20.7 million in the comparable period in 2011, which was an increase of $4.9 million or 24%. The items impacting the EBITDA generated in the fourth quarter of 2012 are described in Section 6 – Review of Fourth Quarter Results but overall can be attributed to the growth in the US operations of WesTower and the 2012 acquisition of Custom, which has no comparable in 2011. The Aviation segment's pre-existing entities had an overall net decrease in EBITDA generated for the period, in particular at Calm Air and Bearskin.

Free Cash Flow for the fourth quarter of 2012 increased mainly as a result of the increase in EBITDA for the period over 2011. The 2012 period's Free Cash Flow increased to $20.7 million from $17.5 million in 2012, an increase of $3.2 million or 19%. Consistent with the discussion for the full year, the increase in EBITDA generated by the Company was offset by increased cash taxes of $1.6 million and cash interest of $0.4 million, and other various non-cash related items within EBITDA contributed an additional $0.3 million to Free Cash Flow.

The Company's Free Cash Flow basic per share was $1.00 for the fourth quarter of 2012, which is consistent with the comparative 2011 period. On a fully diluted basis, the Company's Free Cash Flow per share was $0.76, which is a decrease of $0.07 or 8% from $0.83 generated in the comparative 2011 period. The decrease is attributed to the higher share base outstanding during the fourth quarter of 2012, which was 19% higher.

The Free Cash Flow less maintenance capital expenditures for the fourth quarter of 2012 increased to $13.4 million or by $3.6 million from the $9.8 million in the comparative 2011 period. The increase of 36% for 2012 is a result of the increase in Free Cash Flow in the 2012 period and a relative stable amount of maintenance capital expenditures which decreased 4% to $7.3 million.

On a basic per share basis, the Company's Free Cash Flow less maintenance capital expenditures for the fourth quarter of 2012 was $0.65 ($0.57 fully diluted), an increase of $0.08 ($0.07 fully diluted) from the comparable period in 2011 with $0.57 ($0.50 fully diluted). This is an increase of 14% (14% fully diluted) in 2012 and consistent with the information above, the increase on a per share basis is impacted by the additional share based for the Company during the 2012 period which impacted the increase in the absolute Free Cash Flow less maintenance capital expenditures.

The Company invested $13.6 million in capital expenditures in the fourth quarter of 2012 (2011 – $13.9 million). Approximately $7.3 million was classed as maintenance capital expenditures (2011 – $7.6 million) with the balance of $6.3 million classified as growth capital expenditures (2011 – $6.3 million). Maintenance capital expenditures were relatively stable despite that addition of Custom in 2012. This was the result of a small decline in the pre-existing Aviation segment's maintenance capital expenditures compared to the prior year period. As discussed in the Capital Expenditure section, the timing of the Aviation segment's maintenance capital expenditures can vary from one period to the next given the timing of maintenance events. Included in the growth expenditures for the fourth quarter of 2012 are $5.2 million for Aviation growth capital expenditures, which is net of $7.9 million in disposals. Consistent with the discussion in the Capital Expenditure section, the major growth capital expenditures were for the aircraft and ground infrastructure for the Calm fleet rationalization plan. The manufacturing growth capital expenditures were $1.0 million and related solely to capital expenditures at WesTower to support their growth.

The dividends declared for the fourth quarter of 2012 totaled $8.6 million, which is an increase of $1.4 million or 20% over the $7.1 million declared in the 2011 comparative. This is mainly a result of the increased number of Shares outstanding which received dividends but it is also a result of the Company increasing the monthly dividend declared for November and December of 2012 at $0.14 per share in comparison to $0.135 per share. The dividends paid per share for the fourth quarter of 2012 were $0.415 in comparison to $0.405 in the same period of 2011, which is an increase of 2% or $0.01 per share.

## 4. ANALYSIS OF OPERATIONS

The following section analyzes the financial results of the Company's operations for the year ended December 31, 2012 and the comparative 2011 period.

| | Year Ended December 31, 2012 | | | | Year Ended December 31, 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | Aviation | Manufacturing | Head-office[2] | Consolidated | Aviation | Manufacturing | Head-office[2] | Consolidated |
| Revenue | $ 280,407 | $ 520,166 | $ — | $ 800,573 | $ 274,337 | $ 235,966 | $ — | $ 510,303 |
| Expenses[1] | 228,342 | 469,123 | 8,610 | 706,075 | 217,177 | 210,972 | 7,315 | 435,464 |
| **EBITDA** | 52,065 | 51,043 | (8,610) | 94,498 | 57,160 | 24,994 | (7,315) | 74,839 |
| Depreciation and amortization | | | | 38,355 | | | | 30,591 |
| Finance costs – interest | | | | 14,149 | | | | 12,390 |
| Acquisition costs | | | | 1,358 | | | | 1,830 |
| Impairment loss | | | | 2,032 | | | | - |
| **Earnings before taxes** | | | | 38,604 | | | | 30,028 |
| Current income tax expense | | | | 6,904 | | | | 653 |
| Deferred income tax expense | | | | 6,349 | | | | 8,630 |
| **Net earnings for the year** | | | | $ 25,351 | | | | $ 20,745 |

Note 1): Expenses include direct operating expenses (excluding depreciation and amortization), cost of goods sold (excluding depreciation and amortization) and general and administrative expenses, but it excludes any unusual non-operating one-time items.

Note 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, total revenue recognized by the Company for 2012 increased by 57% or $290.3 million to $800.6 million when compared to 2011. The main driver of the increase in consolidated revenue is due to the organic growth in the Manufacturing segment, in particular at WesTower. In addition, the acquisition of Custom in the Aviation segment with no comparable in 2011 brought the net change for its segment's revenue to an overall increase. The revenues for the Aviation segment increased by 2% to $280.4 million and the revenues for the Manufacturing segment increased by 120% to $520.2 million.

On a consolidated basis, EBITDA generated by the Company for 2012 was $94.5 million, an increase of 26% or $19.7 million when compared to 2011. Consistent with the change in revenues, the organic growth in the Manufacturing segment and the addition of Custom increased EBITDA and that was offset by the net decrease in the EBITDA generated by the pre-existing entities in the Aviation segment. The EBITDA for the Aviation segment decreased by 9% to $52.1 million and the EBITDA for the Manufacturing segment increased by 104% to $51.0 million. Costs incurred at the head-office of the Company increased by 18% to $8.6 million.

### AVIATION SEGMENT

| Year Ended December 31, | 2012 | 2011 | Variance | Variance % |
|---|---|---|---|---|
| Revenue | $ 280,407 | $ 274,337 | $ 6,070 | 2% |
| Expenses | 228,342 | 217,177 | 11,165 | 5% |
| **EBITDA** | $ 52,065 | $ 57,160 | $ (5,095) | (9%) |

The Aviation segment generated revenues of $280.4 million and EBITDA of $52.1 million for the year ending December 31, 2012. Revenue generated by the Aviation segment increased by $6.1 million, or 2%, from $274.3 million in 2011 to $280.4 million in 2012 including $14.9 million generated from Custom, which was acquired February 1, 2012. The operational results of the pre-existing Aviation segment subsidiaries experienced a decline in revenues from $274.3 million in 2011 to $265.5 million in 2012, a decline of $8.8 million, or 3%. Revenues generated from passenger services decreased by $8.4 million, or 5%. The decrease in passenger revenue is the result of the removal of Keewatin Air's scheduled services effective September 1, 2011, inclement weather conditions experienced in the northern regions in the first four months of 2012, and lastly, increased competition by two competitors in the eastern region operated by Bearskin. These decreases were offset by growth in charter and medevac operations of $2.7 million. The increase in charter operations was primarily driven by growth in the mining and exploration industry, as well as increases related to evacuation services, while the increase in medevac operations was driven by growth related to Keewatin's medical contract. Lastly, revenues for the aviation support group declined $2.9 million compared to 2011; however, the aviation support companies yield lower margins and were primarily established to support the Aviation segment, rather than grow revenues.

Operational expenses for the Aviation segment increased by $11.2 million, or 5%, from $217.2 million in 2011 to $228.4 million in 2012 including $8.5 million generated from Custom. The operational expenses for the pre-existing Aviation subsidiaries increased by $2.7 million, or 1%, from $217.2 million in 2011 to $219.9 million in 2012. The increase is primarily due to labour and fuel costs. Labour and training costs increased in a few different areas of the segment but overall by $2.5 million compared to 2011. Contributing factors to the increased labour costs included amounts associated with moving to a provincially administered Central Dispatch System, costs associated with the segment's fleet renewal plan, costs related to developing infrastructure to support Calm Air's contract with the Government of Nunavut, and increases related to labour contracts. As discussed in the outlook and in previous reports, the Company is reviewing the labour complement in order to appropriately realign labour costs to address changes in market conditions across the aviation subsidiaries, as well as address changes in the fleet resulting from Calm Air's fleet rationalization plan. Average fuel prices increased by approximately 3%, putting significant upward pressure on fuel costs however the increase in fuel resulting from these rate increases were entirely offset by a decline in fuel consumption driven by lower flying hours. Costs related to aircraft movement fees, parts and infrastructure expenses associated with the medical contracts increased in 2012; however, these costs were largely offset by cost reductions in other areas.

EBITDA declined by $5.1M, or 9%, from $57.2 million in 2011 to $52.1 million in 2012. The EBITDA margin declined from 21% in 2011 to 19% in 2012 and is the direct result of margin reductions in the pre-existing entities. The reduction in revenues in the pre-existing aviation segment as described above, was not matched by a corresponding decrease in operating expenses with revenues decreasing by $8.8 million, or 3%, and operational expenses increasing by $2.7 million, or 1%, consequently placing downward pressure on the EBITDA margin.

## MANUFACTURING SEGMENT

| Year Ended December 31, | 2012 | 2011 | Variance | Variance % |
|---|---|---|---|---|
| Revenue | $ 520,166 | $ 235,966 | $ 284,200 | 120% |
| Expenses | 469,123 | 210,972 | 258,151 | 122% |
| **EBITDA** | $ 51,043 | $ 24,994 | $ 26,049 | 104% |

The Manufacturing segment earned revenues of $520.2 million and EBITDA of $51.0 million for the 2012 year. This represents a $284.2 million increase in revenue and a $26.0 million increase in EBITDA in comparison to the 2011 year. The year over year comparables are consistent except for WesTower which was acquired on April 1, 2011, and is only in the 2011 comparable period for nine months.

Revenues were up $284.2 million or 120% over the prior year. Every entity in the Manufacturing segment had significant year over year revenue growth ranging from 9% to 156% over the prior year. WesTower led this increase as its revenue was bolstered by the strong demand in both the US and Canada. The demand is largely driven by Long-Term Evolution ("LTE") network builds for the major telecom companies, including the AT&T turf contract that started late in 2011. The work from the turf contract continued to increase each month as WesTower transitioned into construction work in its new territories and has taken on additional markets. The other manufacturing companies generated additional revenues of $23.5 million over 2011, representing a 34% increase. The increases in revenues were driven by both strong shop and field operations, which was supported by multiple large projects in the spirits, food processing and wine industries.

EBITDA was $51.0 million, up $26.0 million or 104% over the prior year. Consistent with the change in revenues, the EBITDA increase in 2012 was driven by the continued strength of all the manufacturing entities. WesTower led this growth with a 156% increase in EBITDA over the prior year, while the other manufacturing companies increased EBITDA by a solid 44% over the prior year. The EBITDA growth was driven by both increased revenue and higher entity EBITDA margins.

The EBITDA margins of the Manufacturing segment, excluding WesTower, increased to 17.8% from 16.6% in the comparable period. The increase in margins was largely the result of the increase in revenues while keeping consistent overheads. EBITDA margins at WesTower were 8.1%, consistent with the 8.1% realized in 2011. As disclosed in previous quarterly reports, WesTower operates in a lower margin business than the other companies in the Manufacturing segment and the expected margin is in the high single digits. The margins in 2012 were in line with expectations despite being lowered by high start-up costs for the AT&T turf contract in the first half of the year. It should also be noted that the comparable 2011 period for WesTower excluded the seasonally slow first quarter, which would have lowered the comparable 2011 EBITDA margin. The combined margins for the Manufacturing segment were 9.8% in 2012 compared to 10.6% in the prior year because of the higher proportion of revenues contributed by WesTower. In 2012, 82% of the Manufacturing segments revenues and 68% of its EBITDA were generated by WesTower compared to 71% of revenues and 54% of EBITDA in 2011.

The significant growth of WesTower and the continued strength of the remainder of the Manufacturing segment resulted in the segment contributing 65% of the Company's 2012 consolidated revenues compared to 46% in 2011. At the EBITDA level, the Manufacturing segment contributed 54% of the consolidated EBITDA of the Company's segments after deducting head-office costs in comparison to 33% for the comparative in 2011.

## HEAD OFFICE COSTS

| Year Ended December 31, | 2012 | 2011 | Variance | Variance % |
|---|---|---|---|---|
| Expenses | $ 8,610 | $ 7,315 | $ 1,295 | 18% |

The head-office costs for the Company increased by $1.3 million or 18% to total $8.6 million for 2012. The increase is mainly attributable to an increase in personnel costs, including share-based compensation costs, for management and the Board of Directors. The head-office team has grown throughout 2012 in size and is reflective of the growth in the size of the consolidated group of companies within EIC. Other general and administrative costs have been incurred at head-office as a result of the growth in head-office personnel, such as travel and other ancillary costs as the head-office personnel work and monitor the existing subsidiaries and work on acquisition opportunities. Other professional fees and public company costs have increased based on certain events associated with the growth of the Company and administration of the Company's various securities outstanding.

## OTHER NON-EBITDA ITEMS

The following analyzes the changes in the other non-EBITDA income statement items that impacted net earnings for the year ended December 31, 2012 in comparison to the same period in 2011. Consolidated net earnings for the year ended December 31, 2012 were $25.4 million, an increase of $4.6 million over the comparative period in 2011.

| Year Ended December 31, | 2012 | 2011 | Variance | Variance % |
|---|---|---|---|---|
| Depreciation and amortization | $ 38,355 | $ 30,591 | $ 7,764 | 25% |

The Company's depreciation and amortization for the year ended December 31, 2012 increased by $7.8 million or 25% over the comparative period in 2011. The depreciation recorded by the Company increased by $8.1 million for 2012 and this increase can be attributed to the acquisition of Custom with no comparable in 2011 and had $2.7 million of depreciation and also to the net increase of the pre-existing entities that increased depreciation by $5.4 million over 2011. The Aviation segment pre-existing entities were mainly responsible for the change given the higher capital requirements of those operations in aircraft and aircraft related items. The acquisitions of Bearskin and WesTower in 2011 and only Custom in 2012 resulted in the amortization of intangibles to decrease by $0.3 million and as intangibles are amortized they are not considered to be replaceable assets since they are generated as part of an acquisition's allocation of the purchase consideration. There was also a tuck-in acquisition at the end of 2012 (Water Blast Dakota) but the intangibles recognized in that transaction are indefinite-lived and therefore are not amortized.

| Year Ended December 31, | 2012 | 2011 | Variance | Variance % |
|---|---|---|---|---|
| Finance costs – interest | $ 14,149 | $ 12,390 | $ 1,759 | 14% |

The Company incurred additional interest costs for the year ended December 31, 2012 of $1.8 million or 14% over the comparative period in 2011. The majority of the reason for the increase in 2012 is a result of additional interest costs on the Company's outstanding convertible debentures and resulted in an additional $1.9 million of costs. During the 2011 comparative period the Company closed the offerings for its Series I (January 2011) and Series J (May 2011) convertible debentures and therefore those series' principal were outstanding for only a portion of the comparative period but were outstanding for all of the 2012 period. Additionally, the Company closed the offering of its September 2012 unsecured convertible debentures of $57.5 million with a 5.5% fixed interest rate near the end of the nine month period. These additional convertible debenture interest items were offset by a decrease in the other principals outstanding on the other series of debentures as a result of conversion to common shares.

The Company's interest on long-term debt and finance leases decreased overall by $0.1 million based on the overall principal amount outstanding in its credit facility over each period and also due to negotiated pricing that reduced the rate charged for the Company's credit facility.

| Year Ended December 31, | | 2012 | | 2011 | | Variance | Variance % |
|---|---|---|---|---|---|---|---|
| Acquisition Costs | $ | 1,358 | $ | 1,830 | $ | (472) | -26% |

The acquisition costs incurred by the Company during the year ended December 31, 2012 decreased in comparison 2011. The costs incurred in 2012 pertain to the closing of the Custom acquisition, which closed in February 2012, along with external costs incurred on some other potential acquisitions and due diligence activities. The costs incurred in 2011 include costs associated with the acquisition of WesTower, which closed in April 2011, plus certain other external costs related to a significant transaction that the Company not to pursue given that it was determined that it didn't meet the Company's acquisition criteria. Bearskin was acquired on the first day of 2011 but the costs pertaining to that acquisition were accrued and expensed in the 2010 period.

| Year Ended December 31, | | 2012 | | 2011 | | Variance | Variance % |
|---|---|---|---|---|---|---|---|
| Impairment Loss | $ | 2,032 | $ | — | $ | 2,032 | — |

The Company recorded an impairment write-down during 2012 in association with several aircraft within the Aviation segment. Calm Air entered into an arrangement to sell its SAAB aircraft as part of its fleet renewal plan. A total of six aircraft were structured to be sold for combined gross proceeds of US$10,575. As a result of entering into the agreement, the Company recorded an impairment write-down of $1,807 on these aircraft to bring the net book value of these aircraft down to the expected net proceeds of the disposals after selling costs. By December 31, 2012 all of the aircraft were delivered and the Company ceased depreciating those aircraft from when the impairment was recorded in the third quarter of 2012.

Also during 2012 the Company recorded an impairment write-down on a Beech 99 aircraft within Perimeter's fleet as a result of the decision to cease using the aircraft in its operations. As a result, the Company recorded an impairment write-down of $225 to bring the net book value down to the expected market value for the remaining major components of the aircraft.

| Year Ended December 31, | | 2012 | | 2011 | | Variance | Variance % |
|---|---|---|---|---|---|---|---|
| Current income tax expense | $ | 6,904 | $ | 653 | $ | 6,251 | 957% |
| Deferred income tax expense | | 6,349 | | 8,630 | $ | (2,281) | -26% |
| Income Tax Expense | $ | 13,253 | $ | 9,283 | $ | 3,970 | 43% |

The Company's income tax expense for 2012 was $13.3 million, an increase of $4.0 million or 43% over the comparative period in 2011. There are two main reasons for the increase in tax expense. The first is due to the $8.6 million, or 29%, increase of earnings before tax. Secondly, a larger proportion of consolidated net income is being generated in jurisdictions that have a higher statutory tax rate.

The Company's current tax expense is generated by certain subsidiaries that do not have access to the Company's non-capital losses. During the 2012 period, income of these subsidiaries increased and they used up their own unrestricted non-capital losses, resulting in higher current tax expense.

The Company has the ability to offset some of the taxable income it generates with non-capital losses. During the 2012 period the Company used $22.9 million of non-capital losses ($26.8 million – 2011) and it has approximately $125.5 million of non-capital losses available to offset future taxable income.

## 5. Summary of Quarterly Results

| | Q4 | Q3 | Q2 | 2012 Q1 | Q4 | Q3 | Q2 | 2011 Q1 |
|---|---|---|---|---|---|---|---|---|
| Total revenue | $ 231,447 | $ 220,807 | $ 201,636 | $ 146,683 | $ 147,780 | $ 145,993 | $ 138,008 | $ 78,522 |
| EBITDA | 25,642 | 30,332 | 24,463 | 14,061 | 20,734 | 22,153 | 19,738 | 12,214 |
| Net earnings/(loss) | 6,710 | 9,972 | 7,759 | 910 | 6,914 | 7,285 | 4,506 | 2,040 |
| Basic | 0.32 | 0.49 | 0.38 | 0.05 | 0.40 | 0.42 | 0.27 | 0.13 |
| Diluted | 0.32 | 0.46 | 0.37 | 0.05 | 0.38 | 0.41 | 0.27 | 0.13 |
| Free cash flow (FCF) | 20,729 | 24,059 | 20,821 | 11,167 | 17,470 | 19,234 | 16,890 | 10,515 |
| Basic | 1.00 | 1.17 | 1.02 | 0.61 | 1.00 | 1.11 | 1.00 | 0.68 |
| Diluted | 0.76 | 0.94 | 0.82 | 0.54 | 0.83 | 0.92 | 0.83 | 0.59 |
| FCF less maintenance capital expenditures | 13,432 | 16,199 | 12,508 | 3,866 | 9,845 | 12,721 | 8,059 | 3,844 |
| Basic | 0.65 | 0.79 | 0.61 | 0.21 | 0.57 | 0.74 | 0.48 | 0.25 |
| Diluted | 0.57 | 0.69 | 0.55 | 0.21 | 0.50 | 0.63 | 0.43 | 0.25 |

## 6. Review of Fourth Quarter Results

| | Three months ended December 31, 2012 | | | | Three months ended December 31, 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | Aviation | Manufacturing | Head-office[2] | Consolidated | Aviation | Manufacturing | Head-office[2] | Consolidated |
| Revenue | $ 68,782 | $ 162,665 | $ — | $ 231,447 | $ 68,774 | $ 79,006 | $ — | $ 147,780 |
| Expenses[1] | 56,737 | 147,011 | 2,057 | 205,805 | 55,043 | 70,328 | 1,675 | 127,046 |
| **EBITDA** | 12,045 | 15,654 | (2,057) | 25,642 | 13,731 | 8,678 | (1,675) | 20,734 |

Note 1): Expenses include direct operating expenses (excluding depreciation and amortization), cost of goods sold (excluding depreciation and amortization) and general and administrative expenses, but it excludes any unusual non-operating one-time items.

Note 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.

Consistent with the annual results, the Company experienced strong fourth quarter growth in consolidated revenue and EBITDA, which increased by $83.7 million and $4.9 million, respectively, over the 2011 comparative period.

The $83.7 million increase in the Company's fourth quarter 2012 revenues is coming from the Manufacturing segment's organic growth and, in particular, within the operations of WesTower as a result of its turfing revenues. The Aviation segment's revenues were consistent in both the 2012 and comparative 2011 period at $68.8 million. The Aviation segment included the addition of Custom with no comparable in 2011 and therefore the revenues generated at Custom of $2.6 million was offset by a decrease in the pre-existing entities of this segment by the same amount.

The Manufacturing segment generated an additional $7.0 million of EBITDA and totaled $15.7 million for the fourth quarter of 2012. Consistent with revenues, the majority of this was generated within WesTower's operations. Offsetting this was the decrease of EBITDA generated in the Aviation segment and increased head-office costs. The pre-existing operations of the Aviation segment more than offset the EBITDA generated by Custom with no comparable in 2011. Overall the segment decreased EBITDA for the fourth quarter by $1.7 million and can be attributed mainly to the Calm Air operations. There were higher operational expenses incurred without increased revenues in the same areas as described for the annual results discussion. The costs incurred at head-office increased from higher staff levels at head-office and increased costs associated with the Company's share-based compensation plans for management and the Board of Directors.

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 but the seasonality does impact the Manufacturing segment in a similar trend but to a lesser degree. The growth in WesTower's US operations mitigates some of the Manufacturing's fourth quarter seasonality but it makes the first quarter seasonality even more pronounced. The first quarter is the seasonally slowest quarter for the Aviation segment, as a result of the bad weather in Nunavut and presence of winter roads in the Manitoba market. It will also continue to be the seasonally slowest quarter for the Manufacturing segment as WesTower generates its lowest sales and EBITDA in this quarter but during the first quarter of 2012 WesTower was still ramping up for the US turfing workload and for the first quarter of 2013 are expected to be at the expected normal level for that period. The telecom industry generally has a very slow start to the year as the large telecos roll out their capital expenditure budgets to their regional offices that then contract the work out to companies such as WesTower. This is consistently a slow process resulting in a seasonal slow first quarter for WesTower. WesTower's business begins to strengthen in the second quarter with its two strongest quarters being the third and fourth quarters.

## 7. Liquidity And Capital Resources

As at December 31, 2012, the Company had a net cash position of $4.2 million (December 31, 2011 of $11.5 million) and net working capital of $156.6 million (December 31, 2011 of $67.3 million), which represents a current ratio of 1.90 to 1 (December 31, 2011 of 1.80 to 1).

| | December 31, 2012 | December 31, 2011 | Change |
|---|---|---|---|
| Cash and cash equivalents | $ 4,166 | $ 11,475 | $ (7,309) |
| Accounts receivable | 134,508 | 69,172 | 65,336 |
| Costs incurred plus recognized profits in excess of billings | 120,968 | 25,913 | 95,055 |
| Inventory | 63,865 | 39,853 | 24,012 |
| Prepaid expenses | 6,219 | 4,879 | 1,340 |
| Accounts payable and accrued expenses | (125,614) | (57,726) | (67,888) |
| Income taxes payable | (7,218) | (2,654) | (4,564) |
| Deferred revenue | (8,582) | (8,909) | 327 |
| Billings in excess of costs incurred plus recognized profits | (30,346) | (13,489) | (16,857) |
| Current portion of long-term debt and finance leases | (1,405) | (1,237) | (168) |
| Net working capital | $ 156,561 | $ 67,277 | $ 89,284 |

The Company's working capital at year-end 2012 included the addition of Custom and Water Blast Dakota, which were not part of the 2011 comparative. As at December 31, 2012 Custom added working capital of $3.4 million, consisting mainly of accounts receivable and inventory, and Water Blast Dakota added working capital of $0.5 million. The Company's pre-existing entities had a net increase of $85.4 million in working capital over 2011 which is primarily attributed to the growth in WesTower. Throughout 2012 the Company utilized its credit facility to facilitate the working capital needs with the growth at WesTower as its US operations ramped up for the turfing work associated with AT&T. During 2012 a total of US $78.5 million was drawn and this explains the majority of the net increase in working capital. Due to a higher volume of jobs being performed around year-end 2012, Stainless also realized a significant increase in its working capital through its costs incurred plus recognized profits in excess of billings.

With the acquisition of Custom on February 1, 2012, the Company drew $25.0 million from the Company's credit facility which included $24.6 million of the cash consideration of the purchase price and $0.4 million of closing costs. With the acquisition of Custom the Company also assumed $0.8 million of debt. Available cash within Custom was used to repay the outstanding debt principal after the closing.

The Company closed a bought deal offering of its Shares in March 2012 totaling gross proceeds of $57.5 million, including $7.5 million of an over-allotment option. A total of 2,324,150 Shares were issued and the Company collected net proceeds of $55.1 million after transaction costs. Upon collecting the net proceeds the Company used $50 million of the proceeds to make a payment against the Company's credit facility, which at the time repaid all the outstanding Canadian portion of the credit facility.

The Company closed the offering of its September 2012 Unsecured Series 5.50% seven year convertible debentures with a par value of $57.5 million and generated net proceeds of $54.6 million. The funds generated were used by the Company in making payments against its outstanding credit facility balance. The debentures have a seven year term with a 5.5% fixed interest rate paid semi-annually. The conversion price for these debentures is $36.80.

The Company's employee share purchase program resulted in the issuance of 54,309 Shares to its consolidated employee base that chose to participate in the current year's program. This generated proceeds from the employees' contributions and the value of that contribution is over $1.4 million.

Near the end of fiscal 2012, the Company closed the tuck-in acquisition of Water Blast Dakota which included cash of US $1.4 million and the vendor received 8,487 Shares of the Company. The US cash used in the consideration was drawn from the Company's credit facility.

The Company's credit facility has a total of $235 million of credit available, consisting of $160 million in Canadian funds and US $75 million. As at December 31, 2012, the Company had $0.75 million outstanding under the Canadian portion of the facility and had US $67.15 million outstanding under its US portion (or $66.8 million). This results in $167 million of credit available to the Company.

Going into 2013, the Company expects that the existing amount of working capital invested into the growth at WesTower is sufficient for its existing level of operations. If workloads change in WesTower then additional funds for working capital may be required.

The finance leases of WesTower's operations continue and as a result the Company made principal payments of US $0.6 million and $0.7 million Canadian during 2012. Also during this period, WesTower entered into new finance leases with a capital asset value and principal of $1.0 million. The Company's cash flow statement does not show the non-cash transaction when a new finance lease is recognized on the balance sheet. Instead, the principal portion of the lease payments are shown as a cash outflow within financing activities and the interest portion is recorded through net income and operating activities.

The Company's dividend reinvestment plan ("DRIP") continued through 2012 and the Company received $3.8 million for 155,777 Shares being issued in accordance with the DRIP.

The Company obtained additional cash through the means described above and also generated $76.8 million of Free Cash Flow during 2012. The Company used these funds for significant capital expenditures. See Section 3 – Key Performance Indicators for more information on the capital expenditures made during the 2012 year. The Company's cash flow from operations for 2012 was a cash usage of $20.9 million and is being driven by the change in non-cash working capital items of $96.4 million. As mentioned above, the Company used significant amounts of its credit facility during 2012 to fund the working capital requirements of WesTower's organic growth and this has impacted the overall cash flow from operations for the Company and can be seen in the funding of the non-cash working capital items.

The Company's dividends are dependent on its ability to generate cash flow from operations and Free Cash Flow. During 2012 the Company declared dividends totaling $32.7 million in comparison to $27.1 million during comparative 2011. This was a result of an increased number of Shares outstanding and an increase in the monthly dividend rate between the two periods. For the first three months of 2011 the monthly dividend declared per share was $0.13 and then was increased for the April 2011 dividend to increase by $0.005 per share. That dividend rate continued until the Board of Directors decided to increase the monthly dividend per share 4% to $0.14 effective for the November 2012 dividend declared. This increase in 2012 is an increase of $0.06 per share on an annual basis and based on the Shares outstanding at December 31, 2012 that would be an additional $1.2 million of dividends for the next year. The monthly dividend declared in any given month is paid to shareholders at the middle of the following month.

The following summarizes the changes in the Shares outstanding of the Company during the year ended December 31, 2012:

| | Date issued | Number of shares |
|---|---|---|
| Shares outstanding, beginning of year | | 17,399,182 |
| Issued for Custom vendors | February 1, 2012 | 170,121 |
| Prospectus offering, March 2012 | March 6, 2012 | 2,324,150 |
| Issued under vesting of Reserved Shares | May 15, 2012 | 28,746 |
| Issued under employee share purchase plan (ESPP) | November 20, 2012 | 54,309 |
| Issued for Water Blast Dakota vendors | December 5, 2012 | 8,487 |
| Issued under deferred share plan redemptions | various | 31,517 |
| Issued upon conversion of convertible debentures | various | 437,304 |
| Issued under dividend reinvestment plan (DRIP) | various | 155,777 |
| Issued under First Nations community partnership agreements | various | 27,000 |
| Shares outstanding, end of year | | 20,636,593 |

The following summarizes the convertible debentures outstanding as at December 31, 2012 and the changes in the amount of convertible debentures outstanding during the year ended December 31, 2012:

| Series - Year of Issuance | Maturity | Interest Rate | Conversion Price |
|---|---|---|---|
| Series F - 2009 | April 8, 2014 | 10.0% | $ 10.75 |
| Series G - 2009 | September 30, 2014 | 7.5% | $ 14.50 |
| Series H - 2010 | May 31, 2017 | 6.5% | $ 20.00 |
| Series I - 2011 | January 31, 2016 | 5.75% | $ 26.00 |
| Series J - 2011 | May 31, 2018 | 6.25% | $ 30.60 |
| Unsecured Debentures - 2012 | September 30, 2019 | 5.50% | $ 36.80 |

| Par value | Balance, beginning of year | Issued | Converted | Matured | Balance, end of year |
|---|---|---|---|---|---|
| Series F | $ 1,229 | $ — | $ (40) | $ — | $ 1,189 |
| Series G | 7,894 | — | (3,077) | — | 4,817 |
| Series H | 27,441 | — | (4,388) | — | 23,053 |
| Series I | 35,000 | — | (35) | — | 34,965 |
| Series J | 57,500 | — | (20) | — | 57,480 |
| Unsecured Debentures - September 2012 | — | 57,500 | — | — | 57,500 |
| Total | $ 129,064 | $ 57,500 | $ (7,560) | $ — | $ 179,004 |

The following are the contractual obligations of the Company and its subsidiaries at December 31, 2012:

| | Total | Less than 1 year | Between 1 year and 5 years | More than 5 years |
|---|---|---|---|---|
| Long-term debt | $ 67,558 | $ — | $ 67,558 | $ — |
| Convertible debentures | 179,004 | — | 64,024 | 114,980 |
| Operating leases | 37,057 | 9,169 | 15,676 | 12,212 |
| Finance leases | 2,867 | 1,405 | 1,462 | — |
| | $ 286,486 | $ 10,574 | $ 148,720 | $ 127,192 |

## 8. Related Party Transactions

The following transactions were carried out by the Company with related parties.

### PROPERTY LEASES

Various entities within the Manufacturing segment lease several buildings from related parties who were vendors of the manufacturing entity that the Company purchased the business from originally. These vendors are considered related parties because of their continued involvement in the management of those businesses. These leases are considered to be at market terms and recognized in the consolidated financial statements at the exchange amounts. The total costs incurred in 2012 under these leases was $1.6 million (2011 – $1.3 million) and the lease term maturities range from 2012 to 2016. The expense is recorded within general and administrative expenses and is paid monthly, therefore no balance exists on the Company's statement of financial position (2011 – nil).

### PROFESSIONAL SERVICES

The Company's legal counsel is Aikins, MacAulay & Thorvaldson LLP ("Aikins") in Winnipeg, Manitoba, whose former 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 2012 are $0.9 million (2011 – $1.5 million). As at December 31, 2012, a payable balance of $0.2 million is recorded on the balance sheet (2011 – less than $0.1 million).

### KEY MANAGEMENT COMPENSATION

The Company identifies its key management personnel being those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of the Company's board (whether executive or otherwise).

Compensation awarded to key management for the 2012 year and the comparative 2011 year is as follows:

| | 2012 | 2011 |
|---|---|---|
| Salaries and short-term benefits | $ 3,974 | $ 2,649 |
| Share-based payments | 600 | 282 |
| | $ 4,574 | $ 2,931 |

## 9. Critical Accounting Estimates

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of these consolidated financial statements. These underlying assumptions are reviewed on an ongoing basis. Actual results could differ materially from those estimates.

### 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 statement of financial position 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.

In certain circumstances the Company also has to consider the differences between the acquisition of a business and the purchase of assets depending on the terms of an acquisition contract. Certain judgments can be made in this determination which impacts the valuation and recognition of assets acquired and liabilities assumed. When an asset acquisition occurs the identifiable assets acquired and liabilities assumed are allocated the cost of the acquisition and no goodwill or gain on a bargain purchase would be recognized.

See Note 5 of the Company's 2012 consolidated financial statements for the acquisitions made by the Company in 2012 and 2011, including Bearskin on January 1, 2011, WesTower on April 1, 2011, Custom on February 1, 2012 and Water Blast Dakota on December 5, 2012. These acquisitions have been determined to be business combinations because the operations of those businesses all meet the definition of a business under IFRS.

### LONG-TERM CONTRACT REVENUE RECOGNITION

Stainless and WesTower operate 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.

### AVIATION SEGMENT REVENUE RECOGNITION

The Company performs regular evaluations on the deferred revenue liability for passenger tickets purchased in advance within the Aviation segment's operating entities. The deferred revenue liability also includes the value of Perimeter's customer loyalty program. These evaluations may result in adjustments being recognized as revenue. Due to the complexity of the pricing and systems, historical experience, and other factors including refunds, exchanges and unused tickets, certain amounts are recognized as revenue based on estimates. Events and circumstances may produce actual results that are different from estimates.

The Company also evaluates the Aviation segment's fuel sales transactions which includes certain transactions being recognized as agency sales as described in Note 3c) of the Company's 2012 consolidated financial statements. Certain judgments are made by the Company in determining which fuel sales within the Aviation segment are treated as agency sales and shown on a net basis. The criterion used in the Company's assessment is based on the terms, conditions and other characteristics of the transactions. There is no gross profit impact based on the decision made by the Company and only impacts the presentation between gross and net of costs within the Aviation segment's revenues and direct operating expenses.

### COMPONENTIZATION

Certain tangible assets of the Company have significant components that are allocated into separate categories that are amortized over each category's estimated useful economic life. This is particularly prevalent for the Aviation segment's aircraft. Included in the significant components are major inspection and overhaul costs that are capitalized. The Company makes estimates regarding the categorization of these components, their economic useful lives and their residual values. Changes to these estimates are recognized through depreciation expense and are adjusted in the period when the change is made. These assumptions are reviewed regularly by the Company and in particular when aircraft maintenance events take place.

### DEPRECIATION & AMORTIZATION PERIOD FOR LONG-LIVED ASSETS

The Company makes estimates about the expected useful lives of long-lived assets and the expected residual values of the assets based on the estimated current fair value of the assets, the Company's aircraft fleet plans and the cash flows expected to be generated from them. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in utilization of the aircraft, changing market prices for aircraft of the same or similar types, and changes in the utilization of other major manufacturing equipment and buildings. Estimates and assumptions are evaluated at least annually. Generally, these adjustments are accounted for on a prospective basis, through depreciation and amortization expense. For the purposes of sensitivity analysis on these estimates, a 50% reduction to residual values on the Company's aircraft with remaining useful lives greater than five years as at December 31, 2012 would result in an increase of approximately $4.1 million to annual depreciation expense. For the Company's aircraft with shorter remaining useful lives and other major manufacturing equipment and buildings, the residual values are not expected to change significantly.

## IMPAIRMENT CONSIDERATIONS ON LONG-LIVED ASSETS

Goodwill and certain intangible assets are not amortized. Goodwill and all intangibles are assessed for impairment at least annually. Impairment testing is performed on long-lived assets by comparing the carrying amount of the asset or cash generating unit to their recoverable amount, which is calculated as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Value in use is calculated based upon a discounted cash flow analysis, which requires management to make a number of significant assumptions including assumptions relating to future operating plans, discount rates and future growth rates. The assumptions include using the Company's weighted average cost of capital at the assessment date which incorporates the Company's existing capital items that are in Note 22 of the Company's 2012 consolidated financial statements. Growth factors are based on industry related standards but range between 2.5 – 3.0%.

## DEFERRED INCOME TAXES

The Company recognizes deferred tax assets, related tax-loss carryforwards and other deductible temporary differences where it is probable that sufficient future taxable income can be generated in order to fully utilize such losses and deductions. This requires significant estimates and assumptions regarding future earnings, and the ability to implement certain tax planning opportunities in order to assess the likelihood of utilizing such losses and deductions. These estimates and assumptions are subject to uncertainty and if changed could materially affect the assessment of the ability to fully realize the benefit of the deferred tax assets.

The Company is subject to income taxes in both Canada and the United States. Significant judgment is required in determining the provision for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company maintains provisions for uncertain tax positions that are believed to appropriately reflect our risk with respect to tax positions under discussion, audit, dispute, or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company regularly assesses the adequacy of these provisions at the end of the reporting period. However it is possible that at some future date an additional liability could result from audits by the relevant taxing authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

As at December 31, 2012 the Company has recognized uncertain tax positions in the amount of $2.1 million (including accrued interest of $0.1 million). The uncertain tax positions have been recognized as part of a business combinations described in Note 5. The Company is indemnified for these uncertain tax positions, and therefore, the uncertain tax position is offset by a receivable from the vendors of the applicable subsidiary in the amount of $2.1 million.

## FUNCTIONAL CURRENCY

The Company makes judgments around its reporting currency and the functional currency of its operating subsidiaries. The structure of the Company includes certain U.S. subsidiaries with foreign operations in that functional currency and the assessment of those entities' functional currency impacts the accounting impact within the Company's consolidated results. There are several indicators that are assessed in determining functional currency, including the currency influencing sales prices for goods and services, the currency impacting competitive forces and regulations, and the currency impacting operational costs incurred. The U.S. operating subsidiaries of the Company have been determined to have a U.S. functional currency which is different from the Company's Canadian dollar reporting currency. As a result of this assessment by the Company and as described further in Note 20 of the Company's 2012 consolidated financial statements, the foreign currency translation adjustments are recorded through Other Comprehensive Income.

## LEGAL PROVISION

Subsequent to December 31, 2012, a subsidiary of the Company received notice that a law firm has been retained in connection with an incident that occurred within the operations of the subsidiary during the 2012 year. The incident is insurable but the potential outcome of this matter is not yet determinable. The Company considers itself to be adequately covered by its insurance policy. Given the uncertainty of the situation, the Company has not accrued either a liability or related insurance receivable pertaining to this matter.

## 10. Accounting Policies

The accounting policies of the Company used in the determination of the results for years ended December 31, 2012 and 2011 that are discussed and analyzed in this report are described in detail in Note 3 of the Company's 2012 consolidated financial statements.

### FUTURE ACCOUNTING STANDARDS

Accounting standards issued but not yet effective

#### IFRS 9 – Financial Instruments

IFRS 9 – Financial Instruments was issued in October 2010. This Standard is the first step in the process to replace IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and financial liabilities, and is likely to affect the Corporation's accounting for its financial assets. The Standard is not applicable until annual periods beginning on or after January 1, 2015, but is available for early adoption. The Company has not fully assessed the impact of adopting IFRS 9; however, it anticipates that its impact will be limited.

#### IFRS 10, Consolidated Financial Statements

IFRS 10, Consolidated Financial Statements, issued by the IASB in May 2011, provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27 Consolidated and Separate Financial Statements and Standing Interpretations Committee ("SIC") 12 Consolidation - Special Purpose Entities. IFRS 10 is to be applied retrospectively and is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company has evaluated the impact of the above standard on its financial statements and noted that IFRS 10 will have no impact on the Company's financial statements. The Company will adopt IFRS 10 for its 2013 reporting.

#### IFRS 11, Joint Arrangements

IFRS 11, Joint Arrangements, issued by the IASB in May 2011, establishes principles for financial reporting for entities than have an interest in arrangements that are controlled jointly. IFRS 11 replaces IAS 31 Interests in Joint Ventures and Standing Interpretations Committee ("SIC") 13 Jointly Controlled Entities – Non Monetary Contributions by Venturers. IFRS 11 is to be applied retrospectively and is effective for annual reporting periods beginning on or after January 1, 2013, with earlier application permitted. The Company has evaluated the impact of the above standard on its financial statements and noted that IFRS 11 will have no impact on the Company's financial statements. The Company will adopt IFRS 11 for its 2013 reporting.

#### IFRS 12, Disclosure of Interests in Other Entities

IFRS 12, Disclosure of Interests in Other Entities, issued by the IASB in May 2011, is a new standard that addresses the disclosure requirements for all interests in other entities, including subsidiaries, joint arrangements, associates, and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company has evaluated the impact of the above standard on its financial statements and noted that IFRS 12 will have no impact on the Company's financial statements. The Company will adopt IFRS 12 for its 2013 reporting.

#### IFRS 13, Fair Value Measurement

IFRS 13, Fair Value Measurement, issued by the IASB in May 2011, replaces the fair value measurement guidance currently dispersed across different IFRS standards with a single definition of fair value and a comprehensive framework for measuring fair value when such measurement is required under other IFRSs. It also establishes disclosure requirements about fair value measurements. IFRS 13 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently evaluating the impact of the above standard on its financial statements. The Company will adopt IFRS 13 for its 2013 reporting.

#### Amendments to IAS 1, Presentation of Financial Statements

The amendments to IAS 1, Presentation of Financial Statements, issued by the IASB in June 2011, requires companies preparing financial statements to group together items within other comprehensive income ("OCI") on the basis of whether they may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The amendments are effective for annual periods beginning on or after July 1, 2012, with earlier application permitted. The Company has evaluated the impact of the above standard on its financial statements and noted that the changes within IAS had no impact on the Company's financial statements. The Company has adopted the amendments to IAS 1 for the period ended December 31, 2012.

## 11. 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 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, 2012, 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 computer controls, including controls around change management, security, and access controls. This weakness in information technology general computer controls has the potential to result in material misstatements in the financial statements as well as inappropriate authorizations of transactions. The Company continues to work on the design, evaluation and implementation of information technology controls.

Due to ongoing process and system changes in response to WesTower's increased growth, a weakness exists in the design of internal controls over financial reporting since it was not reasonably practical to complete an assessment of the design due to the timing of the implementation of the changes. Management is actively working with WesTower to enhance their control processes to respond to the increased level of business. Management will continue to take the necessary steps to assess and advance the integration of these changes in a monitored environment by continuing to work closely with WesTower to ensure appropriate controls are being designed and implemented. Entity level controls are employed to compensate, where possible, to reduce the exposure for a material misstatement as processes continue to be developed. To further mitigate the impact of this weakness and ensure quality financial reporting, management engaged an independent accounting firm during the preparation for, and execution of, the Company's financial reporting for the year-end December 31, 2012 to perform a review of select financial processes. Furthermore, management has engaged an external business consulting firm to perform an overall independent assessment of the business which will entail advancing key processes and controls within WesTower.

### 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. Due to the substantial overlap between internal controls over financial reporting and disclosure controls and procedures, management has concluded that disclosure controls and procedures as at December 31, 2012 were not effective.

## 12. Risk Factors

An investment in the securities of the Company involves a number of risks. In addition to the other information contained in this annual information form and also in the Company's management discussion and analysis filed on SEDAR, investors should give careful consideration to the following factors, which are qualified in their entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this annual information form.

### ECONOMIC CONDITIONS

The Canadian and US economies continued to recover from the recession that ended in 2009. The economies that the Company operates in have improved but not yet recovered to the prerecession levels. The Company is also cognizant that the Canadian and US economies are susceptible to the global economy, the continued weakness in the Eurozone, and the sensitivity of the US economy to its current deficit and debt levels. Negative events could lead to reduced global demand, considerable weakness in commodity prices, and tight global credit conditions. A weaker economy will impact the Company's ability to sustain its operating results or create any growth.

The Manufacturing segment is more susceptible to weakness in demand and commodity prices than the Aviation segment. The Manufacturing segment is geographically dispersed and therefore some risks exist that a downturn will impact some regions, like Alberta whose economy is driven by oil and gas more than others. As well, the US economy downturn impacts the operations of Stainless more than our other operations. WesTower is more specifically impacted by the telecommunication industry which is driven by the large teleco's capital expenditure programs which are often on a different cycle then the general economy. The telecommunications industry within North America consists of both highly innovative items and basic infrastructure. WesTower is primarily focused on the metal construction and services for communication towers within this industry. In the event of reduced demand for their products, the Manufacturing segment will focus on 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 weakening and the reduced demand for their products as the Manufacturing segment generally has a reasonable order backlog, as well some of the Manufacturing segments' projects are longer in nature, which gives them a buffer to prepare for the reduction in demand.

In addition to the sensitivity of operations to cycles driven by the economy and cycles within the telecommunication industry, the operating results of the Aviation segment is also subject to seasonal fluctuations due to a variety of factors including changes in purchasing patterns, pricing policies and weather conditions.

### COMPETITION

The Company believes that it is an industry leader in its Aviation segment and in pockets within the 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, Ontario 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. In the past, management's approach on new competition, which is consistent with all competitors, has been to continue to deliver exceptional services at a competitive price which has historically been successful given the operational cost structure and fleet of these Aviation segment entities. The acquisition of Bearskin in 2011 expands the geographic market area that the Aviation segment operates in Ontario. As a result the Aviation segment's exposure to downside earnings risk grows with the addition of Bearskin and the new market area with additional competitors. The operations of Custom, which was acquired in 2012, use rotary wing aircraft and the competitive barriers for helicopter operations are different from the fixed wing entities of the Company. By nature a helicopter doesn't require an airport landing strip and a competitor can more easily enter a market and relocate if it has fleet capacity. This limitation in the competitive barrier for Custom is offset by its fleet of rotary wing aircraft that suits the customers in its market along with its history of reliable, safe aircraft. The limitation increases the risk of downside pressure on the rotary wing revenues that the Aviation segment earns.

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 has 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 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 has competition in all its markets. WesTower is the dominant tower and service provider in Canada, while it has a smaller percentage of the market in the more fragmented US market. WesTower has been able to secure a large amount of their base work through contracts with major teleco's in the US and Canada, which mitigates the risk of competition in the short-term. The Alberta operations are working to provide high levels of service and maintain customer relationships which will benefit them in customer retention and repeat business. As commodity prices increase, the opportunity for increased revenues and profitability rises. Stainless has continued to expand its product offering and large scale field projects that it was previously not able to produce in order to expand their market presence.

### GOVERNMENT OF NUNAVUT CONTRACTS

Keewatin has medical evacuation contracts with the Government of Nunavut, which provide Keewatin with the exclusive rights to provide medical evacuations ("medevacs") in the Kivalliq and Baffin Island regions of Nunavut. Both contracts provide Keewatin with a fixed base fee to cover the costs of operating in Nunavut plus a variable fee per hour flown. Keewatin was successful as the incumbent in being awarded the Kivalliq contract and signed a five year contract in the second quarter of 2011. The Baffin Island region contract is a five year contract and commenced in December 2010. There is a risk that Keewatin will not retain or extend one or both of the contracts at the end of the term, which would have a significant negative effect on the business of Keewatin 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.

Calm Air provides services to the Government of Nunavut for a certain share of medical travel market through a sub-contract with Canadian North, where they provide medical-related travel on scheduled services to communities in the Kivalliq region of the Nunavut territory. They were successful as the incumbent in this market and signed a five year contract in the third quarter of 2011. There is a risk that they 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.

### CONTRACTS

Both the Aviation and the Manufacturing segments have many key contracts. The Aviation contracts, outside of the Government of Nunavut contracts discussed above, are largely for cargo and charter services, while the most significant manufacturing contract is the AT&T turfing contracts. The loss of any one of these contracts will have a negative impact on the operations and cash flow of the Company, however none will be as impactful as the loss of the contract with AT&T. The AT&T contract was signed in November 2011 and is a four year contract, including a one year extension. There is a risk that this contract is not renewed at the end of the term, which would have a significant negative impact on the business of WesTower given the magnitude of the contract. During 2012 WesTower recorded total revenues of US$233.5 million to AT&T, which included turfing contract work. WesTower has many other customers and they would right size their business back to the 2011 levels, if required.

### EXPOSURE TO ALBERTA ECONOMY AND ENERGY SECTOR

The Alberta operations are exposed to the economy of that province. The economy of Alberta is highly affected by the prices of energy resources such as oil and natural gas and, accordingly, the downturn in energy markets has had a significant material adverse effect on the business. This is mitigated by providing services to industries outside of the oil and gas market. This is further mitigated by expansion into other territories in British Columbia, Saskatchewan, and North Dakota.

## SHORTAGE OF RAW MATERIALS

Some of the products manufactured by the operating subsidiaries require specialized raw materials. If such raw materials are not available or not available under satisfactory terms and the applicable operating Subsidiary cannot manufacture and provide its customers with the requested product, sales levels and relationships with customers could be negatively affected.

## GOVERNMENT FUNDING FOR FIRST NATIONS HEALTH CARE

Many of the communities which Perimeter, Keewatin, Calm Air and to a lesser degree Bearskin and Custom Helicopters provide services to very limited medical resources and as a result, trips to southern medical facilities are required to seek adequate medical care. First Nations people with a medical condition which cannot be adequately dealt with on site are provided travel warrants by the local medical authorities. These warrants are then exchanged by the person for an airline ticket. Perimeter, Keewatin, Calm Air and to a lesser degree Bearskin and Custom Helicopters receive a travel warrant from the traveler then bill the federal government of Canada for the cost of the ticket. Perimeter and Keewatin also provide Medevac services for medical emergencies. Medevac flights are utilized when a patient requires urgent care at a larger facility and cannot wait for a scheduled flight, or is in such a condition that would make travel on a regular flight impossible. If any or all of the government agencies that are serviced by Perimeter, Keewatin, Calm Air or to a lesser degree Bearskin and Custom Helicopters decide to reduce or eliminate funding for medical-related transportation services, this would have a significant negative impact on Perimeter, Keewatin, Calm Air and to a lesser degree Bearskin and Custom Helicopters, as applicable.

## MARKET TRENDS

The success of the operating subsidiaries engaged in the Manufacturing segment is dependent on their ability to anticipate and respond in a timely manner to changing consumer preferences, tastes and demands. Accordingly, any sustained failure to identify and respond to emerging trends could adversely affect consumer acceptance of products, which could in turn adversely affect the business, financial conditions and results of operations of each such operating subsidiary.

In addition to anticipating market trends, the operating subsidiaries are dependent on the performance of their internal and external sales and marketing organizations to obtain orders for their products. There can be no assurance that these organizations will continue to successfully obtain orders on a consistent basis.

## 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. There are several union groups and associations who have labour agreements that become due in 2013 within Calm Air and Bearskin. Some negotiations have already commenced with some of these union groups and associations.

## 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 $0.5 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 Alberta operations in the Manufacturing segment as the lower oil prices hurt the Alberta oil and gas market. As oil prices increase, fuel costs increase for the Aviation segment but this will increase demand for products manufactured by the Alberta operations in the Manufacturing segment.

### MAINTENANCE COSTS

The Company's aviation companies rely on aircraft tailored to operate in extreme and remote environments. Many aircraft types are no longer in production, so by nature, the aviation companies are working with aging aircraft and have specific aging aircraft protocols to ensure the safety and longevity of the aircraft. A comprehensive, in-house maintenance division within each company continually oversees the airframe, engines and components of each aircraft in the fleet. Perimeter, Bearskin and Keewatin are exploring a conversion for their Metro and Beechcraft aircraft to upgrade the flight instruments which will allow for greater precision when flying in inclement conditions and thereby allow for lower takeoff and landing minimums. Fleet Renewal programs at each operating subsidiary will ensure costs remain in check.

### SUPPLY DEPENDENCY

The production of products of the operating subsidiaries engaged in the manufacturing sector is dependent on the continued efficient supply of component parts from suppliers. Any shortage of supply of these required parts would seriously jeopardize the ability of the operating subsidiaries engaged in the manufacturing sector to bring their products to market. Major suppliers of the Manufacturing segment include some of the technological telecommunication electronics for the WesTower operations and also Hotsy for the Water Blast operations.

### 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 US dollars and is affected by fluctuations in the Canada/US 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 US dollar would result in increased costs and adversely affect the profitability of the Company.

A portion of the Company's revenues are generated in US dollars through its operations, primarily WesTower's US operations and Stainless, which acts as a natural hedge and mitigates the foreign exchange risk of the Company. Our short exposure to the US dollar will be lessened in 2012 as a result of the anticipated growth of WesTower's US operations driven by the recently signed AT&T contract. No derivative instruments are used by the Company to mitigate this risk beyond this level.

### INTEREST RATES

As at December 31, 2012, the Company's syndicated credit facility has a variable interest rate on the Canadian and US portions of the amount outstanding under the facility. A one-percentage point increase in average interest rates would cost the Company approximately $0.8 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. The Company considers derivative instruments to manage the variable interest rate risk and has entered into interest rate swaps in order to manage this risk in the past. The Company's outstanding debentures have fixed interest rates which are not affected by changes in rates.

### 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 including the Arrangement 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.

In that regard, the Company receives from time to time correspondence from taxing authorities concerning its tax filing positions including, a request for information for a time period which includes the Arrangement. If any challenge to the Company's tax filing positions were to succeed, it could result in a reassessment of taxes or otherwise have a material adverse effect on the Company's tax position.

Furthermore, Canadian and federal or provincial tax legislation may be amended, or its interpretation changed (whether by legislative or judicial action or decision), retroactively or for the future, so as to alter fundamentally the availability of the tax pools of the Company, which could materially adversely affect the Company's tax position.

## 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.

In pursuing a strategy of acquiring other businesses or entities, the Company will face risks commonly encountered with growth through acquisitions. These risks include, but are not limited to, incurring significantly higher capital expenditures and operating expenses, failing to integrate the operations and personnel of the acquired businesses, entering new unfamiliar markets, incurring undiscovered liabilities at acquired businesses, disrupting ongoing business, diverting management resources, failing to maintain uniform standards, controls and policies, impairing relationships with employees, suppliers and customers as a result of changes in management, causing increased expenses for accounting and computer systems and incorrectly valuing acquired entities.

The Company may not adequately anticipate all the demands that its growth will impose on its personnel, procedures and structures, including its financial and reporting control systems, data processing systems and management structure. Moreover, the Company's failure to retain qualified management personnel at any acquired businesses may increase the risk associated with integrating the businesses. If the Company cannot adequately anticipate and respond to these demands, it may fail to realize acquisition synergies and its resources will be focused on incorporating new operations into its structure rather than on areas that may be more profitable. In addition, although the Company conducts what it believes to be a prudent level of investigation regarding the operating condition of the businesses it purchases, in light of the circumstances of each transaction, an unavoidable level of risk remains regarding the actual operating condition of these businesses.

## AVAILABILITY OF FUTURE FINANCING

The Company's principal source of funds is cash generated from its operating subsidiaries. It is expected that funds from these sources will provide it with sufficient liquidity and capital resources to meet its current and future financial obligations at existing business levels. Despite such expectations, however, the Company may require additional equity or debt financing to meet its financing requirements. There can be no assurance that this financing will be available when required or available on commercially favourable terms or on terms that are otherwise satisfactory to the Company, in which event the financial condition of the Company may be materially adversely affected and the amount of cash available for dividends to shareholders may be reduced.

## 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. For example, the economic downturn in the credit markets in North America that occurred in 2009 put constraints on the Company and added costs associated with obtaining financing at that time. The Company's current level of leverage is at a historically low level and the Company has more than $165 million available under our current senior debt facility, which gives the Company the ability to do acquisitions, up to a given size, in the short-term without being dependent on the capital markets.

### THE COMPANY'S CREDIT FACILITY AND THE TRUST INDENTURES

The Company has significant debt service obligations pursuant to the financing agreements relating to the Credit Facility and pursuant to the Trust Indentures. The degree to which the Company and its subsidiaries are leveraged could have important consequences to shareholders, including:

- the ability of the Company and/or its subsidiaries to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited;
- a substantial portion of cash flow from operations of the subsidiaries of the Company will be dedicated to servicing its indebtedness, thereby reducing funds available for future operations;
- certain borrowings of the Company and/or its subsidiaries will be at variable rates of interest, which will expose the Company and its subsidiaries to future fluctuations of interest rates; and
- the Company and/or its subsidiaries may be more vulnerable to economic downturns and may be limited in their ability to withstand competitive pressure.

The ability of the Company and/or its subsidiaries to make scheduled payments of the principal of or interest on, or to refinance, their respective indebtedness will depend on future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

The financing agreements relating to the Credit Facility contain restrictive covenants that limit the discretion of management with respect to certain business matters. These covenants may place significant restrictions on, among other things, the ability of the subsidiaries and other restricted parties under such financing agreements to incur additional indebtedness, to create liens or other encumbrances, to pay dividends, to redeem equity or debt or make certain other payments, investments, capital expenditures, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the financing agreements relating to the Credit Facility contain a number of financial covenants that require the subsidiaries of the Company to meet certain financial ratios and financial condition tests. A failure to comply with the obligations and covenants under the financing agreements relating to the Credit Facility or the Trust Indentures could result in an event of default under such agreements or indentures, as the case may be, which, if not cured or waived, could permit acceleration of indebtedness. If the indebtedness under such financing agreements or indentures were to be accelerated, there can be no assurance that the assets of the Company and its subsidiaries under such financing agreements would be sufficient to repay that indebtedness in full.

To manage the risk, the Company maintains a balance sheet that is not subject to high levels of leverage. The Company's focus is to operate at a leverage level materially below its maximum leverage covenant under its credit facility. This provides the Company with a greater ability to react to negative changes in operations without being subject to exceeding its leverage covenant. Furthermore the company consciously spreads out the maturity dates of its convertible debentures to limit settlement risk. In addition to spacing out maturities, the Company has a forced conversion option available at maturity of the convertible debentures.

### RESTRICTIONS ON POTENTIAL GROWTH OF OPERATING SUBSIDIARIES

Management of the Company requires each Subsidiary to provide an annual capital budget and justify its capital expenditures. In the event that additional capital and operating expenditures dependent on increased cash flow or additional financing arise in the future, a lack of those funds could limit the future growth of the subsidiaries and their cash flow.

### MANAGEMENT AND OPERATIONS

The board of Directors has the following sub-committees that relate to the operating subsidiaries: the Manufacturing Sector Committee and the Aviation Sector Committee. Each sub-committee oversees the management and operation of the particular operating subsidiaries in their segment on behalf of the board of Directors. As a result, shareholders have limited say in matters affecting the operation of the operating subsidiaries and, if such shareholders are in disagreement with the decisions of the board of Directors, they will have limited recourse. The control exercised by the board of Directors may make it more difficult for others to attempt to gain control or influence the activities of a Subsidiary.

## 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. The Company performed a detailed succession plan in 2011, which addressed both the Company's head-office level and subsidiary level succession. This plan is maintained and updated at least annually. It formally outlines how the second level of managers is being developed and has identified any positions where the appropriate candidate needs to be hired, developed, or mentored.

## LABOUR SUPPLY

The success of the subsidiaries is dependent in large part upon their ability to attract and retain key management and employees. Recruiting and maintaining personnel in the industries in which the subsidiaries are involved is highly competitive and it cannot be guaranteed that these entities will be able to attract and retain the qualified personnel needed for their businesses. In particular, skilled labour for the WesTower operations of tower maintenance and erection, and the metal fabricators in the Alberta operations are specialized and can be difficult to find qualified personnel and retain them given the competitive environments that these businesses operate in. As well, the pilots, nurses and maintenance personnel within the Aviation segment's operations are in high demand within the aviation industry. A failure to attract or retain qualified personnel could have a material adverse effect on each of the subsidiaries.

## 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.

## GENERAL UNINSURED LOSS

Each of the subsidiaries carries comprehensive general liability, fire, flood and extended coverage insurance with policy specifications, limits and deductibles customarily carried for similar assets. There are, however, certain types of risks, generally of a catastrophic nature, such as wars or environmental contamination, which are either uninsurable or not insurable on an economically viable basis. Should an uninsured or underinsured loss occur, anticipated profits and cash flows could be negatively impacted, however, the affected Subsidiary or subsidiaries would continue to be obliged to pay any such indebtedness.

## ENVIRONMENTAL MATTERS

As an owner of real property, and in particular fuel farms, fuel storage containers and other fuel transportation equipment owned by 4873999 Manitoba Ltd. or 7328010 Canada Ltd., the subsidiaries are subject to various federal, provincial, state and municipal laws relating to environmental matters. Such laws provide that the subsidiaries could be liable for the costs of removal of certain hazardous substances and remediation of certain hazardous locations. The failure to remove or remedy such substances or locations, if any, could potentially result in claims against the subsidiaries.

As at the date of this annual information form, the Company is not aware of any material non-compliance of any of its subsidiaries with environmental laws at any of its properties. As at the date of this annual information form, the Company is also not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of its subsidiaries' properties or any pending or threatened claims relating to environmental conditions at its properties. The subsidiaries either have implemented, or intend to implement, policies and procedures to review and monitor environmental exposure.

## POTENTIAL CONFLICTS OF INTEREST

The Company may be subject to various conflicts of interest because of the fact that its Directors and management are or may be engaged in a wide range of other business activities. The Company may become involved in transactions that conflict with the interests of the foregoing. The Directors and management of the Company and associates or affiliates of the foregoing may from time to time deal with persons, firms, institutions or corporations with which the Company may be dealing, or which may be seeking investments similar to those desired by the Company. The interests of these persons could conflict with those of the Company. In addition, from time to time, these persons may be competing with the Company for available investment opportunities. Any such conflicts will be resolved in accordance with the provisions of the CBCA relating to conflicts of interest.

## DEPENDENCE ON INFORMATION SYSTEMS AND TECHNOLOGY

Information systems are an important part of the business process of the subsidiaries, including marketing their products and services, managing inventory, co-coordinating logistical support, and managing finance functions. In addition, management of the Company and its subsidiaries will continue to rely on information systems to analyze operating performance on an ongoing basis and to aid in the preparation of budgets and forecasts. Any disruptions in these systems or the failure of these systems to operate as expected could, depending on the magnitude of the problem, adversely affect the business, financial conditions and results of operations of a Subsidiary and the Company.

Integration of complex systems and technology presents significant challenges in terms of costs, human resources and development of effective internal controls. In the ordinary course of business, systems will require modifications and refinements to address the Company's growth and business requirements. The operating subsidiaries could be adversely affected if they are unable to modify their systems as necessary.

Certain of the operating subsidiaries process, transmit and store credit card data and are therefore subject to compliance with certain requirements established by credit card companies. Non-compliance with these requirements, whether through system breaches or limitations, may result in substantial fines and/or temporary or permanent exclusion from one or more credit card acceptance programs. The inability to process one or more credit card brands could have a material impact on the passenger bookings, revenue and profitability of certain of the operating subsidiaries.

## COMPLIANCE WITH GOVERNMENT REGULATIONS

The subsidiaries of the Company are subject to a variety of federal, provincial, state and local laws, regulations, and guidelines. The financial and managerial resources necessary to ensure such compliance could escalate significantly in the future which could have a material adverse effect on the business, financial condition, results of operations and cash flows of the subsidiaries and the Company.

The airline industry in Canada and the United States is subject to strict government standards and regulations. Government entities such as Transport Canada, the Competition Bureau, the Canadian Transportation Agency, and other government entities may implement new laws or regulatory schemes, or render decisions, rulings or changes in policy that could have a material adverse effect on the airline industry in general by significantly increasing the cost of airline operations, imposing additional requirements on operations, or reducing the demand for air travel.

While management believes that Perimeter, Keewatin, Calm Air, Bearskin and Custom are currently in compliance with all applicable government standards and regulations, there can be no assurance that the companies will be able to continue to comply with all applicable standards and regulations. A failure to comply with applicable standards and regulations could result in the revocation of the company's operating certificate and a temporary or permanent cessation of flight operations.

## TECHNOLOGICAL INNOVATION

The operating subsidiaries continue to invest in technology and innovation. Their ability to anticipate changes in technology and to successfully develop and introduce new and enhanced products on a timely basis using such technologies will be a significant factor in the operating subsidiaries remaining competitive. If there is a shift away from the use of such technologies, costs may not be recovered. In addition, if other technologies in which the investment of the operating subsidiaries is not as great or their expertise is not as fully developed emerge as the industry-leading technologies, the operating subsidiaries may be placed at a competitive disadvantage, which could have a material adverse effect on the Company's overall profitability and financial condition.

## 13. Outlook

### ACQUISITION STRATEGY

The Company has approximately $167 million in available capital under its $235 million senior credit facility. This capacity gives the Company the ability to respond quickly when the right acquisition presents itself. Referrals for potential acquisition targets continue to be steady.

The anticipated lower rates of economic growth on a go forward basis are tempering the price expectation of sellers. The Company has developed, and is working to expand its network of referral sources that regularly present it 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 strong, there can be no assurance target companies meeting the Company's standards will be found.

### AVIATION SEGMENT

The Companies' aviation subsidiaries continue to act as lifelines into communities that have limited access by ground, supplying critical medical, cargo and transportation services to these communities. To differing degrees within each airline, the Company's aviation services are required as a result of the remoteness of the communities served; demand is relatively inelastic, mitigating the impact of changes in the economic climate. Heading into 2013, the demand for the Companies' aviation services will be fairly consistent with the levels experienced in 2012. There are multiple years left on our three key contracts with the Government of Nunavut. One of the contracts provides passenger transportation to medical patients and government workers and the other two contracts provide medevac services to the central and eastern regions as a sole service provider. These contracts provide EIC with a strong base level of service in the far north. For our non-contracted services, which represent the majority of our revenues, there are no significant new competitors expected in our key markets.

Despite experiencing growing revenue opportunities in our key Manitoba market, the Company's aviation companies experienced an overall revenue decrease in 2012 as a result of increased competition in the Ontario market and lower passenger volumes in the far north. To respond to these changes in demand the Company will reassess where its assets will best be utilized in the Ontario market throughout 2013 and has accelerated its fleet rationalization plan for Calm as discussed in previous reports.

The fleet rationalization plan focuses on reducing the number of aircraft types in Calm's fleet and flying aircraft in combi configuration. The reduction of aircraft types will lead to lower operating costs driven by greater efficiency in labour, maintenance, and inventory. The combination of investment in combi aircrafts and infrastructure in the far north will enable 24 hour operations in select locations. The extended operating hours will yield improved efficiency and also support higher service levels to our key freight customers.

In the fourth quarter of 2012, the Company sold its remaining four SAAB 340 aircraft. The SAAB 340 inventory will be disposed of throughout 2013 and no significant gains or losses are expected on this disposition. The Company added two Dornier jets in 2012, increased its ATR fleet, and added northern infrastructure to support Calm's fleet rationalization. Heading into 2013 the Company will add one more ATR and enhance the freight capability of an ATR by adding a large door. This will enable Calm to retire its sole Hawker at the end of 2013 leading to further efficiencies from reducing aircraft types.

The other major capital initiative started in 2012 was the building of a new hangar for Calm in Winnipeg. It is anticipated that Calm will move into this new facility in the second quarter of 2013. This hangar will include a heavy maintenance facility to support the maintenance on the Company's larger aircraft that are currently being serviced by third parties. The heavy maintenance facility will not only lead to reduced maintenance costs, but more importantly will enhance the availability of our aircraft. It is anticipated that this heavy maintenance facility will be operational in 2013.

The Company began to invest in enhanced GPS technology for its 19 seat aircraft in 2012, which includes a glass cockpit. This technology takes advantage of the latest navigational equipment and provides enhanced safety and efficiency in difficult flying conditions. The upgrade program is expected to reduce the number of weather related aborted landings. This would result in improved customer service and reduced costs related to weather related redirection of flights. The capital expenditures for this upgrade will occur throughout 2013.

The Company is consistently monitoring their expenses and costs structure. Volatility or increases in fuel prices are beyond the Company's control and can have a significant impact on the profitability of aviation operations. Most of the Company's aviation holdings either 'pass through' the cost of fuel to the customer base or have the ability to add a fuel surcharge to equalize the incremental cost of the fuel. While most of the Company's aviation subsidiaries are able to eventually pass along price increases, the Company and its subsidiaries are mindful of the impact price increases have on the communities they serve. The Company's airlines providing services to government agencies have provisions whereby fuel is a flow through cost, mitigating the exposure on government related work.

Consistent with past disclosure, the Aviation segment experiences seasonality. The first quarter is the seasonally slowest quarter of the year followed by the fourth quarter. The Aviation segment's financial performance in the winter months, particularly in the far north, is always subject to the possibility of significant unforeseeable disruption due to periodic and sometimes prolonged adverse weather conditions beyond the control of the Company.

### MANUFACTURING SEGMENT

As has been the case over the past year, the economic recovery overall in the US continues to be slow. However, that being the case, our manufacturing entities continue to experience sustained strong demand across the Company's Manufacturing segment markets.

During the fourth quarter of 2012, WesTower continued to ramp its activity levels on the previously announced turfing contract with AT&T in all five of the geographical regions awarded in the United States. In addition to this WesTower has begun to expand its footprint by increasing its activity levels within these regions as well as new awarded territory. Further to this AT&T has extended the original awarded contract one additional year. As previously mentioned, there is no specific dollar amount guaranteed as a part of the contract. The Company believes, based on the history of AT&T's infrastructure work in the contract territories, that the additional revenue from the contract could be in excess of $500 million over the original three year life of the contract. This estimate is subject to a number of variables, including the fluid nature of the telecom environment and the ongoing introduction of new technology, both of which could significantly impact AT&T's infrastructure requirements. Accordingly, there can be no assurances of the revenues that will be generated from the contract.

With the majority of the transition from the incumbent contractors to WesTower having happened, WesTower's focus has been on performance execution to match expectations set by AT&T. While most of the start-up related issues have been dealt with through 2012 there are some remaining management infrastructure and resource additions yet to be finalized. Management expects this to continue throughout the better part of 2013 positioning WesTower to continue to capitalize on these investments through the remainder of the year.

WesTower's strong performance on their AT&T turf contract continues to generate additional growth opportunities in other areas within AT&T. Further to this WesTower continues to capitalize on growth opportunities outside of AT&T as a result of the rapid growth within the wireless industry. As stated in earlier quarters the data traffic created by advanced generations of smart phones and other mobile devices, continues to drive the entire telecommunications industry to add network capacity throughout North America. Management expects this growth to continue in the near term as the push to increase network capacity in both Canada and the US continues.

Despite the slow recovering economy in the US market place Stainless continues to explore its share of large, good quality opportunities as well as a strong compliment of bids within several sectors of their business. This diversity within several sectors has resulted in Stainless building a strong order book for the start of 2013. The Company has built up its order book in both shop and field jobs and has therefore focused on making sure the necessary capacity is in place to handle the volume increases as they come. While Stainless continues its focus to position itself to capture new opportunities management remains aware that the slow US recovery could dampen future sales. Management further believes the proper steps are being taken to position the order book to mitigate this risk in the short to medium term.

Throughout 2012 the oil and gas market in Alberta remained strong. There was a high demand for product coupled with a sense of urgency for delivery. There is a continuation of good quality bids in the market and the demand for product hasn't dropped off. The challenge around the limited availability of skilled labour in the region has not improved during 2012 and management believes this will continue throughout 2013. The continued shortage will challenge management in the Manufacturing segment in the areas of cost control, on time delivery as well as increased training needs. The segment's precision metal business in British Columbia continued to generate strong results from both existing and new clients. Efforts to expand its market share in the lower mainland of British Columbia continue resulting in a strong order book going into 2013.

The Manufacturing segment continues to benefit from strong efforts in marketing and sales. This effort continues to generate quality bid opportunities in most of the segment's markets and has maintained or increased their order backlogs in all of their major markets. The diversity of the Manufacturing segment along with having strong backlogs and quality opportunities encourages management, however, they remain cognizant of the continued sluggish growth across the North American economy and the potential for this slow growth to continue for some time. Management continues to believe that the Manufacturing segment is well positioned for the short to medium term based on opportunities and its current order books.

## 14. Selected Annual Information

The following table provides selected annual information for the Company for the years ended 2010 through to 2012.

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Revenues | $ 800,573 | $ 510,303 | $ 244,386 |
| Expenses[1] | 706,075 | 435,464 | 200,118 |
| EBITDA | $ 94,498 | $ 74,839 | $ 44,268 |
| Total non-operating income (expense) | 69,147 | 54,094 | 30,501 |
| Net income | $ 25,351 | $ 20,745 | $ 13,767 |
| | | | |
| Earnings per share | | | |
| Basic | $ 1.26 | $ 1.24 | $ 1.07 |
| Diluted | 1.25 | 1.21 | 1.03 |
| | | | |
| Dividends declared | $ 32,717 | $ 27,100 | $ 20,342 |
| Per share | 1.63 | 1.605 | 1.56 |
| | | | |
| Free cash flow | $ 76,776 | $ 64,109 | $ 38,636 |
| Per share basic | 3.83 | 3.82 | 2.99 |
| Per share fully diluted | 3.02 | 3.18 | 2.44 |
| | | | |
| Free cash flow less maintenance capital expenditures | $ 46,005 | $ 34,469 | $ 24,223 |
| Per share basic | 2.30 | 2.05 | 1.88 |
| Per share fully diluted | 2.05 | 1.82 | 1.60 |
| | | | |
| Financial Position | | | |
| Working capital | $ 156,561 | $ 67,277 | $ 39,739 |
| Total assets | 702,844 | 478,401 | 326,240 |
| Total long-term liabilities[2] | 229,450 | 163,391 | 102,815 |
| Total liabilities | 408,302 | 252,764 | 148,609 |
| | | | |
| Share Information | | | |
| Common shares outstanding as at December 31, | 20,636,593 | 17,399,182 | 14,518,842 |

Note 1): Expenses include direct operating expenses (excluding depreciation and amortization), cost of goods sold (excluding depreciation and amortization) and general and administrative expenses, but it excludes any unusual non-operating one-time items.

Note 2): Long-term liabilities include the non-current portions of long-term debt and finance leases, and convertible debentures.

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Exchange Income Corporation for the years ended December 31, 2012 and 2011, 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 3 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 external auditors, Deloitte LLP, conduct an independent audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and express their opinion thereon. Those standards require that the audit is planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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 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 |
| Chief Financial Officer | President & Chief Executive Officer |

February 27, 2013

# INDEPENDENT AUDITOR'S REPORT

## To the Shareholders of Exchange Income Corporation

We have audited the accompanying consolidated financial statements of Exchange Income Corporation, which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Exchange Income Corporation as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants
February 27, 2013
Winnipeg, Manitoba

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| (audited, in thousands of Canadian dollars) | As at December 31, 2012 | 2011 |
|---|---|---|
| **ASSETS** | | |
| CURRENT | | |
| Cash and cash equivalents | $ 4,166 | $ 11,475 |
| Accounts receivable | 134,508 | 69,172 |
| Costs incurred plus recognized profits in excess of billings (Note 13) | 120,968 | 25,913 |
| Inventory (Note 6) | 63,865 | 39,853 |
| Prepaid expenses | 6,219 | 4,879 |
| | 329,726 | 151,292 |
| CAPITAL ASSETS (Note 7) | 269,036 | 220,190 |
| INTANGIBLE ASSETS (Note 8) | 28,393 | 23,252 |
| DEFERRED INCOME TAX ASSETS (Note 23) | 8,699 | 15,240 |
| GOODWILL (Note 8) | 73,516 | 68,427 |
| | $ 709,370 | $ 478,401 |
| **LIABILITIES** | | |
| CURRENT | | |
| Accounts payable and accrued expenses | $ 125,614 | $ 57,726 |
| Income taxes payable | 7,218 | 2,654 |
| Deferred revenue | 8,582 | 8,909 |
| Billings in excess of costs incurred plus recognized profits (Note 13) | 30,346 | 13,489 |
| Current portion of long-term debt and finance leases (Note 9) | 1,405 | 1,237 |
| | 173,165 | 84,015 |
| LONG-TERM DEBT AND FINANCE LEASES (Note 9) | 68,404 | 47,997 |
| CONVERTIBLE DEBENTURES (Note 10) | 161,046 | 115,394 |
| DEFERRED INCOME TAX LIABILITY (Note 23) | 12,213 | 5,358 |
| | 414,828 | 252,764 |
| **EQUITY** | | |
| SHARE CAPITAL (Note 11) | 268,494 | 194,049 |
| CONVERTIBLE DEBENTURES - Equity Component (Note 10) | 9,304 | 6,516 |
| CONTRIBUTED SURPLUS - Matured Debentures | 102 | 102 |
| DEFERRED SHARE PLAN (Note 16) | 1,575 | 1,435 |
| RESERVED SHARES (Note 5) | 1,234 | 1,851 |
| RETAINED EARNINGS | | |
| Cumulative Earnings | 129,018 | 103,667 |
| Cumulative Dividends (Note 12) | (115,760) | (83,043) |
| | 13,258 | 20,624 |
| ACCUMULATED OTHER COMPREHENSIVE INCOME (Note 20) | 575 | 1,060 |
| | 294,542 | 225,637 |
| | $ 709,370 | $ 478,401 |

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

Approved on behalf of the directors by:

Duncan Jessiman, Director

Donald Streuber, Director

# CONSOLIDATED STATEMENTS OF INCOME

| (audited, in thousands of Canadian dollars, except for per share amounts) | For the years ended December 31, 2012 | 2011 |
|---|---|---|
| REVENUE | | |
| Aviation | $ 280,407 | $ 274,337 |
| Manufacturing | 520,166 | 235,966 |
| | 800,573 | 510,303 |
| EXPENSES | | |
| Direct operating - excluding depreciation and amortization | 195,797 | 184,977 |
| Cost of goods sold - excluding depreciation and amortization | 434,171 | 188,234 |
| General and administrative | 76,107 | 62,253 |
| Depreciation and amortization | 38,355 | 30,591 |
| | 744,430 | 466,055 |
| EARNINGS BEFORE THE FOLLOWING | 56,143 | 44,248 |
| Finance costs - interest | 14,149 | 12,390 |
| Acquisition costs | 1,358 | 1,830 |
| Impairment Loss (Note 7) | 2,032 | - |
| EARNINGS BEFORE INCOME TAXES | 38,604 | 30,028 |
| INCOME TAX EXPENSE (Note 23) | | |
| Current | 6,904 | 653 |
| Deferred | 6,349 | 8,630 |
| | 13,253 | 9,283 |
| NET EARNINGS FOR THE YEAR attributable to common shareholders | $ 25,351 | $ 20,745 |
| EARNINGS PER SHARE (Note 14) | | |
| Basic | $ 1.26 | $ 1.24 |
| Diluted | $ 1.25 | $ 1.21 |

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

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| (audited, in thousands of Canadian dollars) | For the years ended December 31, 2012 | 2011 |
|---|---|---|
| Attributable to common shareholders | | |
| NET EARNINGS FOR THE YEAR | $ 25,351 | $ 20,745 |
| OTHER COMPREHENSIVE INCOME (LOSS), Cumulative translation adjustment, net of tax (Note 20) | (485) | 1,748 |
| COMPREHENSIVE INCOME FOR THE YEAR | $ 24,866 | $ 22,493 |

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

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| (audited, in thousands of Canadian dollars) | Share Capital | Warrants | Convertible Debentures - Equity Component |
|---|---|---|---|
| Balance, January 1, 2011 | $ 148,046 | $ 155 | $ 3,037 |
| Shares issued for Bearskin vendors (Note 5) | 5,512 | — | — |
| Shares issued for WesTower vendors (Note 5) | 11,161 | — | — |
| Shares issued for marketing agreement | 221 | — | — |
| Warrants exercised into shares | 4,240 | (155) | — |
| Convertible debentures converted into shares (Note 10) | 20,171 | — | (1,149) |
| Convertible debentures issued (Note 10) | — | — | 4,628 |
| Shares issued under dividend reinvestment plan | 3,226 | — | — |
| Shares issued under ESPP (Note 16) | 1,472 | — | — |
| Deferred share plan amendment | — | — | — |
| Deferred share vesting | — | — | — |
| Comprehensive income | — | — | — |
| Dividends declared (Note 12) | — | — | — |
| Balance, December 31, 2011 | $ 194,049 | $ — | $ 6,516 |
| Balance, January 1, 2012 | $ 194,049 | $ — | $ 6,516 |
| Shares issued to acquisition vendors (Note 5) | 4,476 | — | — |
| Prospectus offering | 55,689 | — | — |
| Convertible debentures (Note 10) | | | |
| Converted into shares | 7,395 | — | (650) |
| Issued | — | — | 3,438 |
| Shares issued under dividend reinvestment plan | 3,818 | — | — |
| Shares issued under First Nations community partnership agreements | 495 | — | — |
| Deferred share plan vesting (Note 16) | — | — | — |
| Deferred share plan issuance | 492 | — | — |
| Shares issued under ESPP (Note 16) | 1,463 | — | — |
| Shares issued under vesting of reserved shares | 617 | — | — |
| Comprehensive income | — | — | — |
| Dividends declared (Note 12) | — | — | — |
| Balance, December 31, 2012 | $ 268,494 | $ — | $ 9,304 |

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

| | Contributed Surplus - Matured Debentures | Deferred Share Plan | Reserved Shares | Retained Earnings: Cumulative Earnings | Retained Earnings: Cumulative Dividends | Accumulated Other Comprehensive Income/(Loss) | Total |
|---|---|---|---|---|---|---|---|
| | $ 102 | $ — | $ — | $ 82,922 | $ (55,943) | $ (688) | $ 177,631 |
| | — | — | — | — | — | — | 5,512 |
| | — | — | 1,851 | — | — | — | 13,012 |
| | — | — | — | — | — | — | 221 |
| | — | — | — | — | — | — | 4,085 |
| | — | — | — | — | — | — | 19,022 |
| | — | — | — | — | — | — | 4,628 |
| | — | — | — | — | — | — | 3,226 |
| | — | — | — | — | — | — | 1,472 |
| | — | 1,070 | — | — | — | — | 1,070 |
| | — | 365 | — | — | — | — | 365 |
| | — | — | — | 20,745 | — | 1,748 | 22,493 |
| | — | — | — | — | (27,100) | — | (27,100) |
| | $ 102 | $ 1,435 | $ 1,851 | $ 103,667 | $ (83,043) | $ 1,060 | $ 225,637 |
| | $ 102 | $ 1,435 | $ 1,851 | $ 103,667 | $ (83,043) | $ 1,060 | $ 225,637 |
| | — | — | — | — | — | — | 4,476 |
| | — | — | — | — | — | — | 55,689 |
| | — | — | — | — | — | — | 6,745 |
| | — | — | — | — | — | — | 3,438 |
| | — | — | — | — | — | — | 3,818 |
| | — | — | — | — | — | — | 495 |
| | — | 632 | — | — | — | — | 632 |
| | — | (492) | — | — | — | — | — |
| | — | — | — | — | — | — | 1,463 |
| | — | — | (617) | — | — | — | — |
| | — | — | — | 25,351 | — | (485) | 24,866 |
| | — | — | — | — | (32,717) | — | (32,717) |
| | $ 102 | $ 1,575 | $ 1,234 | $ 129,018 | $ (115,760) | $ 575 | $ 294,542 |

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| (audited, in thousands of Canadian dollars) | For the years ended December 31, 2012 | 2011 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net earnings for the year | 25,351 | 20,745 |
| Items not affecting cash: | | |
| Depreciation and amortization | 38,355 | 30,591 |
| Accretion of interest | 2,689 | 2,278 |
| Long-term debt discount (paid) accretion | 58 | (58) |
| Foreign exchange loss on debt (unrealized) | (41) | 28 |
| (Gain) on sale of disposal of capital assets | (7) | (205) |
| Deferred income tax | 6,349 | 8,630 |
| Deferred share program share-based vesting | 632 | 365 |
| Impairment loss | 2,032 | - |
| Other | - | (95) |
| | 75,418 | 62,279 |
| Changes in non-cash operating working capital items (Note 21) | (96,361) | (6,504) |
| | (20,943) | 55,775 |
| FINANCING ACTIVITIES | | |
| Proceeds from (repayment of) long-term debt & finance leases, net of issuance costs | 20,057 | (17,341) |
| Proceeds from issuance of debentures, net of issuance costs (Note 10) | 54,647 | 87,718 |
| Proceeds from issuance of shares, net of issuance costs | 60,871 | 9,004 |
| Cash dividends (Note 12) | (32,717) | (27,100) |
| | 102,858 | 52,281 |
| INVESTING ACTIVITIES | | |
| Purchase of capital assets, net of disposals | (63,256) | (42,029) |
| Purchase of intangible assets | (2,494) | (61) |
| Cash outflow for acquisitions (Note 5) | (25,625) | (90,290) |
| Restricted cash (Note 5) | - | 27,625 |
| Cash acquired in acquisitions (Note 5) | 2,151 | 6,703 |
| | (89,224) | (98,052) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (7,309) | 10,004 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 11,475 | 1,471 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | 4,166 | 11,475 |
| Supplementary cash flow information | | |
| Interest paid | 10,870 | 10,247 |
| Income taxes paid (recovery) | 4,417 | 1,504 |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011
(in thousands of Canadian dollars, except per share information)

## 1. Organization

Exchange Income Corporation ("EIC" or the "Company") is a diversified, acquisition-oriented corporation focused on acquisition opportunities in the industrial products and aviation sectors, 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 Company is incorporated in Canada and the address of the registered office is 1067 Sherwin Road, Winnipeg, Manitoba, Canada R3H 0T8.

As at December 31, 2012, the principal wholly-owned operating subsidiaries of the Company are Perimeter Aviation LP ("Perimeter"), Keewatin Air LP ("Keewatin"), Calm Air International LP ("Calm Air"), Bearskin Lake Air Service LP ("Bearskin"), Custom Helicopters Ltd. ("Custom"), 4873999 Manitoba Ltd., 7328010 Canada Ltd., Overlanders Manufacturing LP ("Overlanders"), Water Blast Manufacturing LP ("Water Blast"), WesTower Communications Ltd. ("WesTower CDA") and EIIF Management USA Inc. ("EIIF USA"). Stainless Fabrication, Inc. ("Stainless"), WesTower Communications Inc. (the US operations of WesTower – "WesTower US") and Dallas Sailer Enterprises, Inc. ("Water Blast Dakota") are wholly owned subsidiaries of EIIF USA. Through the Company's subsidiaries, products and services are provided in two business segments: Aviation and Manufacturing.

## 2. Basis of Preparation

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. These consolidated financial statements are presented in thousands of Canadian dollars, except per share information.

These consolidated financial statements are for the year ended December 31, 2012, and have been prepared in accordance with IFRS.

The policies applied in these consolidated financial statements are based on IFRS's issued and outstanding as of the approval date of these financial statements, which were approved by the Board of Directors of the Company for issue on February 27, 2013.

## 3. Significant Accounting Policies

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

### A) BASIS OF MEASUREMENT

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value, including share-based liabilities, derivative instruments, fair value through profit or loss financial instruments, and available-for-sale financial instruments.

### B) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Perimeter, Keewatin, Calm Air, Bearskin, 4873999 Manitoba Ltd., 7328010 Canada Ltd., Custom, Overlanders, Water Blast, WesTower CDA, EIIF USA and their respective subsidiaries. All significant inter-company transactions have been eliminated for purposes of these consolidated financial statements.

Subsidiaries are those entities (including special purpose entities) which the Company controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are de-consolidated from the date that control ceases.

## C) REVENUE RECOGNITION

The Company recognizes revenue principally on two types of transactions: provision of flight and flight ancillary services in the Aviation segment and sales of manufacturing products and services 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 consolidated statement of financial position as deferred revenue and recognized as flight revenue when the service is provided or when the ticket expires. Perimeter offers a customer loyalty program where a customer receives a loyalty point as a percentage of each ticket purchased. When the Company issues an award the fair value is deferred and is recognized as revenue on redemption of the award by the participant to whom the award is issued. The Company performs regular evaluations on the deferred revenue liability for passenger tickets purchased in advance within the Aviation segment's operating entities. These evaluations may result in adjustments being recognized as revenue. Due to the complexity of the pricing and systems, historical experience, and other factors including refunds, exchanges and unused tickets, certain amounts are recognized as revenue based on estimates. Events and circumstances may result in actual results that are different from estimates.

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 and WesTower as described below on long-term contracts. Payments received in advance are recorded as deferred revenue until the product has been delivered to the customer. Non-refundable deposits, however, are recorded as revenue when they are received from the customer.

### Long-term contracts

Revenues from long-term contracts associated with manufacturing products are recognized on a percentage-of-completion basis. The operations of Stainless and WesTower (acquired April 1, 2011) within the Manufacturing segment include these contracts. 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.

The Company presents two lines on the statement of financial position pertaining to long-term contracts revenue recognition. A current asset and current liability are recorded that represent the difference between the revenues recognized and the amounts billed to the customers of these long-term contracts. The current asset is called "Costs incurred plus recognized profits in excess of billings" and the current liability is called "Billings in excess of costs incurred plus recognized profits". Amounts billed to customers are presented as Accounts Receivable.

### Agency Sales

Certain fuel sales transactions within the Aviation segment's aviation support entities have the characteristics of agent sales and as a result revenues are recorded based on the net amount retained which is the difference between the amount billed to a customer less the amount paid to the supplier. The amount receivable from the customer and the amount owing to the fuel supplier are not reported on a net basis.

## D) EXPENSES

### Direct operating – excluding depreciation and amortization

The fixed and variable costs incurred in the operations of the Company's Aviation segment are included in this line item. Depreciation and amortization are presented separately on a consolidated basis.

### Cost of goods sold – excluding depreciation and amortization

The cost of sales for the Company's Manufacturing segment is included in this line item. This includes costs related to shipping and handling and the cost of finished goods inventory. Depreciation and amortization are presented separately on a consolidated basis.

## E) FOREIGN CURRENCY TRANSLATION

### Functional and presentation currency

Items included in the financial statements of each consolidated entity in the EIC group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

The financial statements of entities that have a functional currency different from that of the Company ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the statement of financial position, and income and expenses – at the average rate of the period (as this is considered a reasonable approximation to actual rates). All resulting changes are recognized in other comprehensive income as cumulative translation adjustments. For these consolidated financial statements, the functional currency of Stainless, WesTower US and Water Blast Dakota is US dollars.

If the Company disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognized in profit or loss. If the Company disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary are reallocated between controlling and non-controlling interests.

### Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the statement of income.

## F) 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, 2012, cash equivalents was nil (December 31, 2011 – nil).

## G) RESTRICTED CASH

Restricted cash is comprised of cash held in trust by legal counsel in preparation for the closing of the acquisition of Bearskin that closed on January 1, 2011 (Note 5).

## H) FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. The only instruments held by the Company classified in this category are foreign exchange forward contracts (described further below in (v) derivative financial instruments).

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of operations. Gains and losses arising from changes in fair value are presented in the statement of income in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current.

(ii) Available-for-sale investments: Available-for-sale investments are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. The Company doesn't have any available-for-sale assets.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income, except for foreign currency translation gains and losses on monetary available-for-sale financial assets which are recognized in the statement of income. Available-for-sale investments are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of them within twelve months.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the statement of income as part of interest income. Dividends on available-for-sale equity instruments are recognized in the statement of income as part of other gains and losses when the Company's right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of income and included in other gains and losses.

(iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are comprised of trade receivables and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade payables, long-term debt, convertible debentures and debentures. Trade payables are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. Long-term debt, convertible debentures and debentures are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

(v) Derivative financial instruments: All derivatives have been classified as fair value through profit or loss, are included on the consolidated statement of financial position within accounts receivable, warrants or accrued expenses and are classified as current or non-current based on the contractual terms specific to the instrument. Gains and losses on re-measurement are included in finance costs (interest) in the case of interest rate swaps and other gains and losses within general and administrative costs in the case of forward contracts and warrants.

The Company has used derivatives in the form of foreign exchange forward contracts to manage risks related to fluctuations in foreign currencies. The Company considers derivative instruments to manage the variable interest rate risk and has entered into interest rate swaps in order to manage this risk in the past. As at December 31, 2012, no derivatives were outstanding in the Company (2011 – $8).

The Company has no hedging arrangements where hedge accounting applies.

The convertible debentures of the Company are compound instruments that contain a conversion feature 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 debentures at the time the convertible debentures were issued. The residual 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. For tax purposes a taxable temporary difference will result as the tax base of the convertible debentures is the face value of the notes while the accounting base is described above. This difference is considered temporary resulting in a deferred tax liability.

### I) IMPAIRMENT OF FINANCIAL ASSETS

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

(i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

(ii) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net income.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

### J) 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.

The Company measures net realizable value as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The Company makes estimates on the net realizable value when reasons are identified on an item-by-item basis for a suggested change in the value of inventory change due to market change, damaged goods, obsolescence, or changes in estimated costs to complete.

### K) CAPITAL ASSETS

Tangible assets comprised mainly of land, buildings, aircraft, aircraft spare parts, machinery, tooling and equipment are valued at cost less accumulated depreciation and impairment losses. The cost of purchased capital assets is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire it. The cost of self-constructed assets includes the cost of material, direct labor, an appropriated proportion of production overheads and borrowing costs to construct. When an asset includes major components that have different useful lives, they are accounted for as separate items.

Expenditures incurred to replace a component in a tangible asset that is accounted for separately, including major inspection and overhaul costs, are capitalized. Other subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the asset. Any replacement of an essential component will result in the original component being written off and the replacement being capitalized. All other expenditures such as ordinary maintenance and repairs are recognized in the income statement as an expense as incurred.

In regards to the maintenance of the Company's aircraft, costs for routine aircraft maintenance as well as repair costs are charged as maintenance expense as incurred. Costs for major aircraft frame, engine overhauls and other major aircraft components incurred on owned aircraft are capitalized and amortized over the useful economic life of the components concerned.

Depreciation is charged to the statement of income on a straight-line basis over the estimated useful lives of the assets. For the Aviation segment's aircraft related assets, the useful lives are based on miles flown on the aircraft related item. Land is not depreciated. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate in the period of the change. The estimated useful lives of the main categories of depreciable capital assets are:

| | |
|---|---|
| Buildings | 20 – 25 years |
| Aircraft frames and rotables | 10 – 13 years |
| Aircraft engines | 2 – 20 years |
| Aircraft propellers | 2 – 7 years |
| Aircraft landing gear | 5 – 15 years |
| Equipment | 5 – 10 years |
| Other | 3 – 4 years |
| Leasehold improvements over the term of lease | |

Gains or losses arising on the disposal of tangible fixed assets are included in the statement of income in earnings before income taxes.

### L) INTANGIBLE ASSETS

Intangible assets are recorded at cost. The Company has intangible assets with indefinite lives which 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 |
| Non-compete contracts | Straight-line over 5 years |
| Operating certificates | Straight-line over 2 – 30 years |
| Information technology systems | Straight-line over 3 – 5 years |
| Other | Straight-line over 5 – 40 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.

### M) 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 in a business combination. Goodwill acquired through a business combination is allocated to each cash-generating units ("CGU"), or group of CGUs, that are expected to benefit from the related business combination.

## N) IMPAIRMENT OF LONG-LIVED ASSETS

Capital assets and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized, such as the Company's indefinite life intangible assets, are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The Company determines the fair value less costs to sell as an amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal but when no active market exists it is derived using estimation techniques with discounted cash flow analysis. The Company determines value in use as being the present value of the expected future cash flows of the relevant asset or CGU.

Goodwill is reviewed for impairment annually or at any time if an indicator of impairment exists. A group of CGUs represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, which is not higher than an operating segment. The Company tests goodwill at the segment level.

The Company evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

## O) CURRENT AND DEFERRED INCOME TAXES

Income tax comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is also recognized directly in other comprehensive income or equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investment in subsidiaries and associates, except, in the case of subsidiaries where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets are reviewed annually and reduced to the extent it is no longer probable that sufficient profits will be available to allow all or part of the asset to be recovered.

Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset is realized or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred income tax assets and liabilities are presented as non-current.

## P) EMPLOYEE BENEFITS

### Share-Based Compensation – Deferred Share Plan

Certain employees of the Company and the Company's Board of Directors participate in a share-based compensation plan of the Company's shares (Note 16). 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 granted to the Company's Board of Directors vest immediately at the time of the grant and the deferred shares granted to the employees of the Company vest evenly over a three-year period. The value is charged to compensation expense over the vesting period.

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.

The Deferred Share Plan is accounted for as an equity-settled method. Under this method the deferred shares granted are fair valued at the grant date when the grant is approved by the Company's board. The fair value of the grant is based on the market price of the Company's stock at the grant date. As the deferred shares vest the Company records an expense and increases equity in accordance with the graded vesting. Potential common shares that have vested but haven't been issued under the deferred share plan are included in the weighted average shares outstanding in the Company's earnings per share calculation.

A nil forfeiture rate has been applied given the history of the program and the participants within the program. 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.

### Share-Based Compensation – Employee Share Purchase Plan

Certain employees of the Company participate in a share based compensation plan of the Company's shares. 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. Based on the history of previously vested programs, an estimate of forfeited shares is taken into consideration in valuing the liability recognized and is adjusted for differences between estimated forfeited shares and actual forfeitures at the end of the vesting period.

### Pension Plan

The Company has pension-related costs associated with the defined contribution pension plans that certain Calm Air and Bearskin personnel are entered into. The Company's accounting policy is to expense contributions as earned during the period when the contributions become payable and is recorded within general and administrative expenses of the Aviation segment. During 2012, the Company recorded pension plan costs of $1,222 (2011 – $778).

## Q) PROVISIONS

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at the Company's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The Company performs evaluations to identify onerous contracts which are contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it and, where applicable, records provisions for such contracts.

## R) BORROWING COSTS

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the statement of income in the period in which they are incurred.

### S) LEASES

Leases are classified as finance leases when the lease arrangement transfers substantially all the risks and rewards of ownership to the lessee. A finance lease results in a depreciable capital asset and a liability associated with the future payments of the lease being recognized. All other leases are classified as operating leases with total lease rental payments recognized as an expense over the term of the lease.

Gains and losses on sale and operating leaseback transactions are recognized immediately in the statement of income when it is clear that the transactions are established at fair value. If the sale price is below fair value, any loss shall be recognized immediately except that, if the loss is compensated for by future lease payments at below market price, it shall be deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the gain shall be deferred and amortized over the period for which the asset is expected to be used. In the context of sale and finance leaseback transactions, any gain on the sale is deferred and recognized as interest income over the lease term.

### T) SHARE CAPITAL

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

### U) RESERVED SHARES

As part of the acquisition of WesTower (Note 5), the Company assumed an obligation associated with certain employees of WesTower. The payment of the obligation will be done with the issuance of the Company's shares. As a result the Company presents the equity-settled share-based obligation as reserved shares in equity. When the shares are issued, the obligation is reclassified to Common shares also within equity.

### V) WARRANTS

During 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. The warrants were 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. During 2011 these warrants matured.

### W) DIVIDENDS

Dividends on common shares of the Company are recognized in the Company's financial statements in the period in which the dividends are declared.

### X) EARNINGS PER SHARE

Basic earnings per share ("EPS") is calculated by dividing the net income (loss) for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period, including deferred shares that have vested under the Company's Deferred Share Plan.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to warrants is computed using the treasury stock method. The Company's potential dilutive common shares comprise of warrants and convertible debentures, and the dilutive impact of convertible debentures is calculated using the "if converted" method.

## ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

### IFRS 9 – Financial Instruments

IFRS 9 – Financial Instruments was issued in October 2010. This Standard is the first step in the process to replace IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and financial liabilities, and is likely to affect the Corporation's accounting for its financial assets. The Standard is not applicable until annual periods beginning on or after January 1, 2015, but is available for early adoption. The Company has not fully assessed the impact of adopting IFRS 9; however, it anticipates that its impact will be limited.

### IFRS 10, Consolidated Financial Statements

IFRS 10, Consolidated Financial Statements, issued by the IASB in May 2011, provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27 Consolidated and Separate Financial Statements and Standing Interpretations Committee ("SIC") 12 Consolidation - Special Purpose Entities. IFRS 10 is to be applied retrospectively and is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company has evaluated the impact of the above standard on its financial statements and noted that IFRS 10 will have no impact on the Company's financial statements. The Company will adopt IFRS 10 for its 2013 reporting.

### IFRS 11, Joint Arrangements

IFRS 11, Joint Arrangements, issued by the IASB in May 2011, establishes principles for financial reporting for entities than have an interest in arrangements that are controlled jointly. IFRS 11 replaces IAS 31 Interests in Joint Ventures and Standing Interpretations Committee ("SIC") 13 Jointly Controlled Entities – Non Monetary Contributions by Venturers. IFRS 11 is to be applied retrospectively and is effective for annual reporting periods beginning on or after January 1, 2013, with earlier application permitted. The Company has evaluated the impact of the above standard on its financial statements and noted that IFRS 11 will have no impact on the Company's financial statements. The Company will adopt IFRS 11 for its 2013 reporting.

### IFRS 12, Disclosure of Interests in Other Entities

IFRS 12, Disclosure of Interests in Other Entities, issued by the IASB in May 2011, is a new standard that addresses the disclosure requirements for all interests in other entities, including subsidiaries, joint arrangements, associates, and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company has evaluated the impact of the above standard on its financial statements and noted that IFRS 12 will have no impact on the Company's financial statements. The Company will adopt IFRS 12 for its 2013 reporting.

### IFRS 13, Fair Value Measurement

IFRS 13, Fair Value Measurement, issued by the IASB in May 2011, replaces the fair value measurement guidance currently dispersed across different IFRS standards with a single definition of fair value and a comprehensive framework for measuring fair value when such measurement is required under other IFRSs. It also establishes disclosure requirements about fair value measurements. IFRS 13 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently evaluating the impact of the above standard on its financial statements. The Company will adopt IFRS 13 for its 2013 reporting.

### Amendments to IAS 1, Presentation of Financial Statements

The amendments to IAS 1, Presentation of Financial Statements, issued by the IASB in June 2011, requires companies preparing financial statements to group together items within other comprehensive income ("OCI") on the basis of whether they may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The amendments are effective for annual periods beginning on or after July 1, 2012, with earlier application permitted. The Company has evaluated the impact of the above standard on its financial statements and noted that the changes within IAS had no impact on the Company's financial statements. The Company has adopted the amendments to IAS 1 for the period ended December 31, 2012.

## 4. Critical Accounting Estimates and Judgments

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of these consolidated financial statements. These underlying assumptions are reviewed on an ongoing basis. Actual results could differ materially from those estimates.

### 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 statement of financial position 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.

In certain circumstances the Company also has to consider the differences between the acquisition of a business and the purchase of assets depending on the terms of an acquisition contract. Certain judgments can be made in this determination which impacts the valuation and recognition of assets acquired and liabilities assumed. When an asset acquisition occurs the identifiable assets acquired and liabilities assumed are allocated the cost of the acquisition and no goodwill or gain on a bargain purchase would be recognized.

See Note 5 for the acquisitions made by the Company in 2012 and 2011, including Bearskin on January 1, 2011, WesTower on April 1, 2011, Custom on February 1, 2012 and Water Blast Dakota on December 5, 2012. These acquisitions have been determined to be business combinations because the operations of those businesses all meet the definition of a business under IFRS.

### LONG-TERM CONTRACT REVENUE RECOGNITION

Stainless and WesTower operate 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.

### AVIATION SEGMENT REVENUE RECOGNITION

The Company performs regular evaluations on the deferred revenue liability for passenger tickets purchased in advance within the Aviation segment's operating entities. The deferred revenue liability also includes the value of Perimeter's customer loyalty program. These evaluations may result in adjustments being recognized as revenue. Due to the complexity of the pricing and systems, historical experience, and other factors including refunds, exchanges and unused tickets, certain amounts are recognized as revenue based on estimates. Events and circumstances may produce actual results that are different from estimates.

The Company also evaluates the Aviation segment's fuel sales transactions which includes certain transactions being recognized as agency sales as described in Note 3c) above. Certain judgments are made by the Company in determining which fuel sales within the Aviation segment are treated as agency sales and shown on a net basis. The criterion used in the Company's assessment is based on the terms, conditions and other characteristics of the transactions. There is no gross profit impact based on the decision made by the Company and only impacts the presentation between gross and net of costs within the Aviation segment's revenues and direct operating expenses.

### COMPONENTIZATION

Certain tangible assets of the Company have significant components that are allocated into separate categories that are amortized over each category's estimated useful economic life. This is particularly prevalent for the Aviation segment's aircraft. Included in the significant components are major inspection and overhaul costs that are capitalized. The Company makes estimates regarding the categorization of these components, their economic useful lives and their residual values. Changes to these estimates are recognized through depreciation expense and are adjusted in the period when the change is made. These assumptions are reviewed regularly by the Company and in particular when aircraft maintenance events take place.

### DEPRECIATION & AMORTIZATION PERIOD FOR LONG-LIVED ASSETS

The Company makes estimates about the expected useful lives of long-lived assets and the expected residual values of the assets based on the estimated current fair value of the assets, the Company's aircraft fleet plans and the cash flows expected to be generated from them. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in utilization of the aircraft, changing market prices for aircraft of the same or similar types, and changes in the utilization of other major manufacturing equipment and buildings. Estimates and assumptions are evaluated at least annually. Generally, these adjustments are accounted for on a prospective basis, through depreciation and amortization expense. For the purposes of sensitivity analysis on these estimates, a 50% reduction to residual values on the Company's aircraft with remaining useful lives greater than five years as at December 31, 2012 would result in an increase of approximately $4.1 million to annual depreciation expense. For the Company's aircraft with shorter remaining useful lives and other major manufacturing equipment and buildings, the residual values are not expected to change significantly.

### IMPAIRMENT CONSIDERATIONS ON LONG-LIVED ASSETS

Goodwill and indefinite life intangible assets are not amortized. Goodwill and all intangibles are assessed for impairment at least annually. Impairment testing is performed on long-lived assets by comparing the carrying amount of the asset or cash generating unit to their recoverable amount, which is calculated as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Value in use is calculated based upon a discounted cash flow analysis, which requires management to make a number of significant assumptions including assumptions relating to future operating plans, discount rates and future growth rates. The assumptions include using the Company's weighted average cost of capital at the assessment date which incorporates the Company's existing capital items (Note 22). Growth factors are based on industry related standards but range between 2.5 – 3.0%.

### DEFERRED INCOME TAXES

The Company recognizes deferred tax assets related to tax-loss carryforwards and other deductible temporary differences where it is probable that sufficient future taxable income can be generated in order to fully utilize such losses and deductions. This requires significant estimates and assumptions regarding future earnings, and the ability to implement certain tax planning opportunities in order to assess the likelihood of utilizing such losses and deductions. These estimates and assumptions are subject to uncertainty and if changed could materially affect the assessment of the ability to fully realize the benefit of the deferred tax assets.

The Company is subject to income taxes in both Canada and the United States. Significant judgment is required in determining the provision for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company maintains provisions for uncertain tax positions that are believed to appropriately reflect our risk with respect to tax positions under discussion, audit, dispute, or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company regularly assesses the adequacy of these provisions at the end of the reporting period. However it is possible that at some future date an additional liability could result from audits by the relevant taxing authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

As at December 31, 2012 the Company has recognized uncertain tax positions in the amount of $2,106 (including accrued interest of $100). The uncertain tax positions have been recognized as part of business combinations described in Note 5. The Company is indemnified for these uncertain tax positions, and therefore, the uncertain tax position is offset by a receivable from the vendors of the applicable subsidiary in the amount of $2,106.

### FUNCTIONAL CURRENCY

The Company makes judgments around its presentation currency and the functional currency of its operating subsidiaries. The structure of the Company includes certain U.S. subsidiaries with foreign operations in that functional currency and the assessment of those entities' functional currency impacts the accounting impact within the Company's consolidated results. There are several indicators that are assessed in determining functional currency, including the currency influencing sales prices for goods and services, the currency impacting competitive forces and regulations, and the currency impacting operational costs incurred. The U.S. operating subsidiaries of the Company have been determined to have a U.S. functional currency which is different from the Company's Canadian dollar presentation currency. As a result of this assessment by the Company and as described further in Note 20, the foreign currency translation adjustments are recorded through Other Comprehensive Income.

### LEGAL PROVISION

Subsequent to December 31, 2012, a subsidiary of the Company received notice that a law firm has been retained in connection with an incident that occurred within the operations of the subsidiary during the 2012 year. The incident is insurable but the potential outcome of this matter is not yet determinable. The Company considers itself to be adequately covered by its insurance policy. Given the uncertainty of the situation, the Company has not accrued either a liability or related insurance receivable pertaining to this matter.

## 5. Acquisitions

### ACQUISITION OF CUSTOM HELICOPTERS

On February 1, 2012, the Company purchased the shares of Custom. Custom was a privately-owned provider of helicopter-based aviation services in Manitoba and Nunavut.

The results of operations are included in the Company's consolidated statement of operations for the Aviation segment for the period since the date of acquisition. During the 11 month period of 2012 since acquisition, Custom contributed third party revenues of $14,861, loss before tax of $107 (including internal interest costs of $3,197), and total assets of $36,753.

The acquisition price of $28,395 was funded through a combination of $24,154 of debt financing from the Company's credit facility and the issuance of the Company's common shares ("Shares") worth $4,241 to the vendors of Custom (170,121 Shares). The Shares issued were valued in the purchase consideration at the market price of the Company's stock on the closing date.

The agreed working capital was finalized during the third quarter of 2012 and the tables below have been adjusted to reflect the final working capital settlement.

| | |
|---|---|
| **Consideration given:** | |
| Cash | $ 24,154 |
| Issue of 170,121 Shares of the Company at a price of $24.93 per share | 4,241 |
| **Total purchase consideration** | $ 28,395 |

The consideration given included a negative contingent consideration that is associated with a provision recorded within the net assets acquired in the table below. The Company is indemnified in the share purchase agreement by the Custom vendors for certain liabilities that may become due if certain circumstances occur. The indemnity asset and the provision established are $133 and recorded within accounts receivable and income taxes payable, respectively.

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 | $ | 2,171 |
| Accounts receivable | | 1,758 |
| Inventory | | 1,286 |
| Prepaid expenses | | 239 |
| Capital assets | | 23,485 |
| Intangible assets | | 3,734 |
| | | 32,673 |
| Less fair value of liabilities assumed: | | |
| Accounts payable and accrued liabilities | | 455 |
| Taxes payable | | 1,704 |
| Long-term debt | | 802 |
| Deferred taxes | | 6,530 |
| Fair value of identifiable net assets acquired | | 23,182 |
| Goodwill | | 5,213 |
| **Total purchase consideration** | $ | 28,395 |

Of the $3,734 acquired intangible assets, $2,134 was assigned to brand names, $252 was assigned to customer relationships, $215 was assigned to non-compete agreements, $576 was assigned to contracts, and $557 was assigned to certificates. 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.

## OTHER ACQUISITIONS

On December 5, 2012, the Company closed the acquisition of Dallas Sailer Enterprises Inc, a tuck-in operation of Water Blast located in a region in which it did not previously have the Hotsy distribution rights being North Dakota, United States ("Water Blast Dakota"). Dallas Sailer Enterprises, Inc, operated a Hotsy retail operation in North Dakota. The aggregate consideration of US$1,586, (or $1,572) consisted of US$1,349 of cash and 8,487 Shares with a value of US$237. The acquisition generated an increase to goodwill of US$476 (or $473).

## ACQUISITION OF BEARSKIN AIRLINES

On January 1, 2011, the Company purchased the airline operations and assets of Bearskin Lake Air Service Ltd. ("Bearskin"). Bearskin was a privately-owned commuter airline providing passenger service in Ontario and Manitoba.

The results of operations are included in the Company's consolidated statement of operations since the date of acquisition and Bearskin is part of the Aviation segment. During the 2011 year Bearskin contributed third party revenues of over $54 million, earnings before income tax of $3.7 million and total assets of approximately $50 million.

The acquisition price of $33,017 was funded through a combination of $27,505 of cash, consisting mainly of debt financing from the Company's credit facility, and the issuance of the Company's common shares worth $5,512 to the vendors of Bearskin (314,047 shares). The shares issued were valued in the purchase consideration at the market price of the Company's stock on the closing date.

As at December 31, 2010, the Company's deposit in trust presented as restricted cash relating to the Bearskin acquisition was used in the closing proceeds for the transaction on January 1, 2011.

The agreed working capital was finalized during 2011.

| | | |
|---|---|---|
| **Consideration given:** | | |
| Cash | $ | 27,505 |
| Issue of 314,047 shares of the Company at a price of $17.55 per share | | 5,512 |
| **Total purchase consideration** | $ | 33,017 |

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

| | | |
|---|---|---|
| **Fair value of assets acquired:** | | |
| Cash | $ | 2,604 |
| Accounts receivable | | 844 |
| Inventory | | 4,963 |
| Prepaid expenses | | 118 |
| Capital assets | | 27,820 |
| Intangible assets | | 2,769 |
| | | 39,118 |
| Less fair value of liabilities assumed: | | |
| Accounts payable and accrued liabilities | | 3,773 |
| Deferred revenue | | 2,504 |
| Deferred taxes | | 7,010 |
| Fair value of identifiable net assets acquired | | 25,831 |
| Goodwill | | 7,186 |
| **Total purchase consideration** | $ | 33,017 |

Of the $2,769 acquired intangible assets, $2,129 was assigned to brand names, $236 was assigned to customer relationships, $145 was assigned to non-compete agreements, $177 was assigned to contracts, and $82 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.

### ACQUISITION OF WESTOWER COMMUNICATIONS

On April 1, 2011, the Company purchased the shares of WesTower Communications, consisting of two companies that make up the operations in the US and Canada. WesTower is a manufacturing and service entity that operates throughout Canada and the United States in the wireless tower industry, mainly in the design, erection, reinforcing, maintenance and servicing of towers.

The results of operations are included in the Company's consolidated statement of operations since the date of acquisition and WesTower is part of the Manufacturing segment. For the nine months of operations during the 2011 year since WesTower was acquired, it contributed third party revenues of over $166 million, earnings before income taxes $1.1 million (including internal interest costs of $3.0 million) and total assets of approximately $125 million.

The acquisition price of $73,860 was funded through a combination of $60,848 of cash primarily from debt financing through the Company's credit facility, the issuance of the Company's common shares worth $11,161 to the vendors of WesTower (520,341 shares) and $1,851 of reserved shares of the Company that will be issued evenly over the next three anniversaries of the closing date (86,238 shares). The shares issued and the reserved shares were valued in the purchase consideration at the market price of the Company's stock on the closing date.

The agreed working capital was finalized during 2011.

| | | |
|---|---|---|
| **Consideration given:** | | |
| Cash | $ | 60,848 |
| Issue of 520,341 shares of the Company at a price of $21.45 per share | | 11,161 |
| Reserved shares (86,238 shares of the Company at a price of $21.45 per share) | | 1,851 |
| **Total purchase consideration** | $ | 73,860 |

The consideration given included negative contingent consideration that is associated with a provision recorded within the net assets acquired in the table below. The Company is indemnified in the share purchase agreement by the WesTower vendors for certain liabilities that may become due if certain circumstances occur. The indemnity asset and the provision established are $1.9 million and recorded within accounts receivable and income taxes payable, respectively.

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

| | | |
|---|---|---|
| **Fair value of assets acquired:** | | |
| Cash | $ | 4,100 |
| Accounts receivable | | 34,214 |
| Costs incurred plus recognized profits in excess of billings | | 17,717 |
| Inventory | | 7,291 |
| Prepaid expenses | | 1,946 |
| Capital assets | | 20,831 |
| Intangible assets | | 9,725 |
| | | 95,824 |
| Less fair value of liabilities assumed: | | |
| Accounts payable and accrued liabilities | | 18,469 |
| Income taxes payable | | 3,873 |
| Billings in excess of costs incurred plus recognized profits | | 3,177 |
| Finance leases | | 2,737 |
| Long-term debt | | 8,786 |
| Deferred taxes | | 5,191 |
| Fair value of identifiable net assets acquired | | 53,591 |
| Goodwill | | 20,269 |
| **Total purchase consideration** | $ | 73,860 |

Of the $9,725 acquired intangible assets, $6,445 was assigned to brand names, $2,304 was assigned to customer relationships, $717 was assigned to non-compete agreements, and $259 was assigned to backlog items. 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.

## 6. Inventories

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

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Parts and other consumables | $ 20,188 | $ 17,759 |
| Raw materials | 38,607 | 10,830 |
| Work in process | 1,278 | 2,044 |
| Finished goods | 3,792 | 9,220 |
| Total inventory | $ 63,865 | $ 39,853 |

During 2012, inventory from the Aviation segment with a value of $22,966 (2011 – $25,322) was recorded as a direct operating expense and inventory from the Manufacturing segment with a value of $103,524 (2011 – $56,069) was recorded as a cost of goods sold expense.

## 7. Capital Assets

The Company's capital assets consist of the following:

| | | | December 31, 2012 |
|---|---|---|---|
| | Cost | Accumulated Depreciation | Net Book Value |
| Land | $ 7,061 | $ — | $ 7,061 |
| Buildings | 72,146 | 9,822 | 62,324 |
| Aircraft frames | 121,555 | 30,021 | 91,534 |
| Aircraft engines | 80,243 | 33,327 | 46,916 |
| Aircraft propellers and rotors | 18,211 | 7,087 | 11,124 |
| Aircraft landing gear | 10,742 | 3,652 | 7,090 |
| Aircraft rotable parts | 17,817 | 2,468 | 15,349 |
| Equipment | 58,993 | 34,316 | 24,677 |
| Other | 5,319 | 4,298 | 1,021 |
| Leasehold improvements | 3,219 | 1,279 | 1,940 |
| Total | $ 395,306 | $ 126,270 | $ 269,036 |

| | | | | | | | | Year Ended December 31, 2012 |
|---|---|---|---|---|---|---|---|---|
| Net Book Value | Opening | Acquisition | Additions | Disposals | Depreciation | Exchange Differences | Impairment | Ending |
| Land | $ 7,039 | $ — | $ 26 | $ — | $ — | $ (4) | $ — | $ 7,061 |
| Buildings | 49,364 | 3,965 | 10,670 | — | (1,671) | (5) | — | 62,323 |
| Aircraft frames | 61,360 | 12,016 | 31,216 | (784) | (10,295) | — | (1,979) | 91,534 |
| Aircraft engines | 47,508 | 4,003 | 13,246 | (7,225) | (10,616) | — | — | 46,916 |
| Aircraft propellers and rotors | 9,622 | 3,064 | 2,836 | (1,852) | (2,546) | — | — | 11,124 |
| Aircraft landing gear | 7,533 | — | 1,910 | (1,371) | (929) | — | (53) | 7,090 |
| Aircraft rotable parts | 11,840 | 340 | 6,623 | (754) | (2,700) | — | — | 15,349 |
| Equipment | 23,360 | 128 | 8,781 | (100) | (7,360) | (132) | — | 24,677 |
| Other | 878 | 5 | 517 | — | (376) | (3) | — | 1,021 |
| Leasehold improvements | 1,686 | — | 557 | — | (295) | (7) | — | 1,941 |
| Total | $ 220,190 | $ 23,521 | $ 76,382 | $ (12,086) | $ (36,788) | $ (151) | $ (2,032) | $ 269,036 |

During 2012 the Company entered into an arrangement to sell several aircraft within Calm Air to third parties in association with Calm Air's fleet renewal plan to sell its SAAB aircraft. A total of six aircraft were structured to be sold for combined gross proceeds of US$10,575. As a result of entering into the agreement, the Company recorded an impairment loss of $1,820 during the year to bring the net book value of these aircraft down to the expected net proceeds of the disposals after selling costs. All six aircraft were delivered within 2012.

Also during 2012 the Company recorded an impairment loss of $212 on a Beech 99 aircraft within Perimeter's fleet as a result of the decision to cease using the aircraft in its operations. As a result the Company recorded an impairment loss of $212 during 2012 to bring the net book value down to the expected market value for the remaining major components of the aircraft.

| | | | December 31, 2011 |
|---|---|---|---|
| | Cost | Accumulated Depreciation | Net Book Value |
| Land | $ 7,039 | $ — | $ 7,039 |
| Buildings | 57,453 | 8,089 | 49,364 |
| Aircraft frames | 87,077 | 25,717 | 61,360 |
| Aircraft engines | 72,231 | 24,723 | 47,508 |
| Aircraft propellers and rotors | 14,310 | 4,688 | 9,622 |
| Aircraft landing gear | 11,663 | 4,130 | 7,533 |
| Aircraft rotable parts | 13,658 | 1,818 | 11,840 |
| Equipment | 50,795 | 27,435 | 23,360 |
| Other | 4,760 | 3,882 | 878 |
| Leasehold improvements | 2,689 | 1,003 | 1,686 |
| Total | $ 321,675 | $ 101,485 | $ 220,190 |

| | | | | | | | | Year Ended December 31, 2011 |
|---|---|---|---|---|---|---|---|---|
| Net Book Value | Opening | Acquisition | Additions | Disposals | Depreciation | Exchange Differences | Impairment | Ending |
| Land | $ 705 | $ 6,304 | $ 30 | $ — | $ — | $ — | $ — | $ 7,039 |
| Buildings | 35,458 | 13,374 | 2,420 | — | (1,888) | — | — | 49,364 |
| Aircraft frames | 50,840 | 7,369 | 11,031 | (630) | (7,250) | — | — | 61,360 |
| Aircraft engines | 32,427 | 7,505 | 16,197 | — | (8,771) | 150 | — | 47,508 |
| Aircraft propellers and rotors | 7,645 | 1,048 | 2,842 | (11) | (1,852) | (50) | — | 9,622 |
| Aircraft landing gear | 6,544 | — | 1,823 | — | (834) | — | — | 7,533 |
| Aircraft rotable parts | 7,987 | 1,931 | 3,793 | — | (1,871) | — | — | 11,840 |
| Equipment | 13,136 | 9,971 | 5,505 | (90) | (5,486) | 324 | — | 23,360 |
| Other | 666 | 640 | 225 | — | (653) | — | — | 878 |
| Leasehold improvements | 1,327 | 294 | 277 | — | (212) | — | — | 1,686 |
| Total | $ 156,735 | $ 48,436 | $ 44,143 | $ (731) | $ (28,817) | $ 424 | $ — | $ 220,190 |

During the year, the Company reclassified some of the prior year addition amounts into different categories to be consistent with classification of 2012 amounts. The net impact on total prior year additions and prior year net book value is nil, but differences exist when comparing amounts recorded within the categories in the prior year tables above to the amounts disclosed in the 2011 annual report.

## 8. Intangible Assets & Goodwill

The following summarizes the Company's intangible assets as at December 31, 2012 and 2011:

| | | | December 31, 2012 |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| Indefinite Life Assets | | | |
| Brand name | $ 21,071 | $ — | $ 21,071 |
| Finite Life Assets | | | |
| Customer contracts | 1,367 | 744 | 623 |
| Customer relationships | 7,055 | 4,665 | 2,390 |
| Non-compete agreements | 1,348 | 552 | 796 |
| Certifications | 1,586 | 562 | 1,024 |
| Information technology systems | 1,225 | 1,035 | 190 |
| Other | 2,938 | 639 | 2,299 |
| Total | $ 36,590 | $ 8,197 | $ 28,393 |

| | | | | | | | Year Ended December 31, 2012 |
|---|---|---|---|---|---|---|---|
| Net Book Value | Opening | Acquisition | Additions | Disposals | Amortization | Exchange Differences | Ending |
| Indefinite Life Assets | | | | | | | |
| Brand name | $ 18,402 | $ 2,727 | $ — | $ — | $ — | $ (58) | $ 21,071 |
| Finite Life Assets | | | | | | | |
| Customer contracts | 232 | 562 | — | — | (171) | — | 623 |
| Customer relationships | 3,006 | 252 | — | — | (839) | (29) | 2,390 |
| Non-compete agreements | 852 | 216 | — | — | (254) | (18) | 796 |
| Certifications | 579 | 559 | — | — | (111) | (3) | 1,024 |
| Information technology systems | 178 | — | 152 | — | (140) | — | 190 |
| Other | 3 | — | 2,340 | — | (44) | — | 2,299 |
| Total | $ 23,252 | $ 4,316 | $ 2,492 | $ — | $ (1,559) | $ (108) | $ 28,393 |

| | | | December 31, 2011 |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| Indefinite Life Assets | | | |
| Brand name | $ 18,402 | $ — | $ 18,402 |
| Finite Life Assets | | | |
| Customer contracts | 805 | 573 | 232 |
| Customer relationships | 6,832 | 3,826 | 3,006 |
| Non-compete agreements | 1,150 | 298 | 852 |
| Certifications | 1,030 | 451 | 579 |
| Information technology systems | 1,073 | 895 | 178 |
| Other | 598 | 595 | 3 |
| Total | $ 29,890 | $ 6,638 | $ 23,252 |

| Net Book Value | Opening | Acquisition | Additions | Disposals | Amortization | Exchange Differences | Ending |
|---|---|---|---|---|---|---|---|
| | | | | | | | Year Ended December 31, 2011 |
| Indefinite Life Assets | | | | | | | |
| Brand name | 9,678 | 8,576 | $ — | $ — | $ — | 148 | 18,402 |
| Finite Life Assets | | | | | | | |
| Customer contracts | 173 | 177 | — | — | (118) | — | 232 |
| Customer relationships | 1,170 | 2,540 | — | — | (752) | 48 | 3,006 |
| Non-compete agreements | 149 | 862 | — | — | (186) | 27 | 852 |
| Certifications | 709 | — | — | (13) | (119) | 2 | 579 |
| Information technology systems | 360 | — | 62 | — | (244) | — | 178 |
| Other | 15 | 340 | — | — | (354) | 2 | 3 |
| Total | 12,254 | 12,495 | 62 | (13) | (1,773) | 227 | 23,252 |

The Company has brand name indefinite life assets for the operations of Bearskin, Calm Air, Custom, Water Blast, Water Blast Dakota, and WesTower. These entities all have a brand name that represents the quality of goods or services and safety standards that those entities provide to their customers.

Bearskin has a brand name intangible recorded of $2,129 that was recognized for its reputation in the Northwestern Ontario market where it operates its scheduled service. Its historical safety record and regular flight schedule to many small to mid-sized communities gives it a competitive advantage over other airlines or other transportation methods. As Bearskin continues to deliver the scheduled service with high safety standards, the Bearskin brand will continue to provide benefit to the Company. This was recognized in 2011 with the acquisition of Bearskin (Note 5).

Calm Air has a brand name intangible recorded of $4,483 that is similar to that of Bearskin in that through the scheduled service and safety record the operations of Calm Air has built a recognizable brand to its customer base. The Calm Air brand is particularly recognized and generates value on the route between Winnipeg and Thompson, Manitoba. This is created from Calm Air's effective use of flying the appropriate size plane for that route which generates a cost advantage over other competitors. As Calm Air continues to deliver the scheduled service for this route with high safety standards and the appropriate aircraft, the Calm Air brand will continue to provide benefit to the Company. This was recognized in 2009 with the acquisition of Calm Air.

Custom has a brand name intangible recorded of $2,134 that was recognized for its reputation in the Manitoba and Nunavut regions which it has been established as a high quality aviation company in terms of service with a strong safety record. Custom has become the dominant carrier in the Manitoba market during its history since 1977 where its ability to often deliver service at the last minute because of the size of their fleet has brought value to its brand. The fleet has been designed to meet the various needs of the Manitoban market based on lift and capacity compared to other regions and this allows it to meet the demand requests of its customers using the most efficient and effective aircraft. This was recognized in 2012 with the acquisition of Custom (Note 5).

Water Blast has a brand name intangible recorded of $5,195 based on the combined benefit coming from its distribution rights of Hotsy product in Alberta and British Columbia, and its custom manufacturing brand of Water Blast. Having the exclusive distribution rights in those provinces gives it a competitive advantage with the high quality standards of the Hotsy product over competitors selling other product types. The custom manufacturing capabilities from years of manufacturing experience results in customers in those provinces and beyond to come to Water Blast for the quality of product and ability to supply the product without significant downtime. As Water Blast continues to retain the Hotsy distribution rights for those provinces and continues to build quality product, the Water Blast brand will continue to provide benefit to the Company. This was recognized in 2007 with the acquisition of Water Blast.

Water Blast Dakota has a brand name intangible recorded of US $587 based on the benefit coming from its distribution rights of Hotsy product in North Dakota. Having the exclusive distribution rights in those provinces gives it a competitive advantage with the high quality standards of the Hotsy product over competitors selling other product types. As Water Blast Dakota continues to retain the Hotsy distribution rights for this region its brand will continue to provide benefit to the Company. This was recognized with the acquisition of Water Blast Dakota near the end of 2012.

WesTower has a brand name intangible recorded of $3,804 for its Canadian operations and US $2,744 for its U.S. operations, both are recognized for its reputation in the industry for quality of work and high safety standards. These factors that are known by the customers of WesTower help to bring in additional contract work for WesTower in comparison to other major competitors. As WesTower continues to work with high levels of safety and meet its high standards for quality, the WesTower brand will continue to provide benefit to the Company. This was recognized in 2011 with the acquisition of WesTower (Note 5).

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Balance, beginning of year | $ | 68,427 | $ | 39,678 |
| Goodwill from business acquisitions (Note 5) | | 5,686 | | 27,455 |
| Change in goodwill of foreign operations (Stainless, WesTower and Water Blast Dakota) | | (597) | | 1,294 |
| Balance, end of year | $ | 73,516 | $ | 68,427 |

As a result of the foreign currency accounting policy for the consolidation of Stainless, Water Blast Dakota and WesTower US as described in Note 3e), the goodwill recorded in Stainless (US $14,751), in Water Blast Dakota (US $476) and WesTower US (US $12,415) are valued at the period-end exchange rate. As a result the goodwill fluctuates as the Canadian dollar reporting currency changes in comparison to the US dollar. With the strengthening of the Canadian dollar during the 2012 period, the goodwill of these entities decreased, in particular for Stainless and WesTower US given that Water Blast Dakota was acquired late in 2012.

## 9. Long-Term Debt And Finance Leases

The following summarizes the Company's long-term debt and finance leases as at December 31, 2012 and December 31, 2011:

| | | December 31, 2012 | | December 31, 2011 |
|---|---|---|---|---|
| Revolving term facility | | | | |
| Canadian dollar amounts drawn | $ | 750 | $ | 25,000 |
| United States dollar amounts drawn (US$67,150 and US$21,450, respectively) | | 66,808 | | 21,815 |
| Total credit facility debt outstanding, principal value | | 67,558 | | 46,815 |
| less: unamortized transaction costs | | (616) | | (707) |
| less: unamortized discount on outstanding Banker's Acceptances | | - | | (58) |
| Net credit facility debt | | 66,942 | | 46,050 |
| Finance leases | | 2,867 | | 3,184 |
| Total net credit facility debt and finance leases | | 69,809 | | 49,234 |
| less: current portion of finance leases | | (1,405) | | (1,237) |
| Long-term debt and finance leases balance | $ | 68,404 | $ | 47,997 |

The Company had US $67,150 drawn from the U.S. dollar portion of its credit facility at December 31, 2012 (December 31, 2011 – US $21,450).

Interest expense recorded during the year ended December 31, 2012 for the long-term debt and finance leases was $3,285 (2011 – $3,448).

## CREDIT FACILITY

The following is the continuity of long-term debt for the year ended December 31, 2012:

| | | | | | Year Ended December 31, 2012 |
|---|---|---|---|---|---|
| | Opening | Withdrawals | Repayments | Exchange Differences | Ending |
| Credit facility amounts drawn | | | | | |
| Canadian dollar portion | $ 25,000 | $ 57,250 | $ (81,500) | $ — | $ 750 |
| United States dollar portion | 21,815 | 79,686 | (32,954) | (1,739) | 66,808 |
| | 46,815 | 136,936 | (114,454) | (1,739) | 67,558 |
| Unamortized transaction costs | (707) | | | | (616) |
| Unamortized discount on outstanding BA's | (58) | | | | — |
| | $ 46,050 | | | | $ 66,942 |

| | | | | | Year Ended December 31, 2011 |
|---|---|---|---|---|---|
| | Opening | Withdrawals | Repayments | Exchange Differences | Ending |
| Credit facility amounts drawn | | | | | |
| Canadian dollar portion | $ 46,000 | $ 74,500 | $ (95,500) | | $ 25,000 |
| United States dollar portion | 7,410 | 14,000 | | 405 | 21,815 |
| | 53,410 | 88,500 | (95,500) | 405 | 46,815 |
| Unamortized transaction costs | (310) | | | | (707) |
| Unamortized discount on outstanding BA's | — | | | | (58) |
| | $ 53,100 | | | | $ 46,050 |

During 2012 the Company's senior credit facility was amended to change value within the Canadian and US funds components within the total facility. The total credit available under the facility did not change with this amendment. The total credit available under the senior credit facility is $235,000 consisting of $160,000 in Canadian funds and US $75,000 (prior to the 2012 amendment the split was $200 million and US $35 million). The credit facility includes a revolving operating line of credit up to a maximum of $10,000 and consisting of $7,000 in Canadian funds and $3,000 in US funds. Also at the time of the amendment the term of the credit facility was extended a year as part of the revolving three year credit facility. The maturity of the credit facility is March 2015.

Transaction costs of $274 and US $75 were incurred during the 2012 year and will be amortized over the remaining term of the facility at the time the costs were incurred. Amortization of transaction costs included in interest expense for the 2012 year was $438 (2011 –$433).

The Company has a total of $4,819 letters of credit issued to various suppliers of the Company. These have been issued during the last two years but have not been utilized by the holders of them. This is not considered part of the amounts drawn from the Company's credit facility as at December 31, 2012 or the comparative period.

### FINANCE LEASES

The Company leases vehicles from a third party under finance leases expiring at various times through to fiscal 2017. The assets and liabilities under finance leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. Interest rates on finance leases vary from 4% to 8%.

The following is the continuity of the finance leases outstanding in WesTower for the year ended December 31, 2012:

| | | | | | 2012 |
|---|---|---|---|---|---|
| | Opening | Assumed/ Entered Into | Repayments | Exchange Differences | Ending |
| Finance leases | | | | | |
| Canadian dollar leases | $ 1,568 | $ 1,049 | $ (706) | $ — | $ 1,911 |
| US dollar leases | 1,616 | 34 | (662) | (32) | 956 |
| | $ 3,184 | $ 1,083 | $ (1,368) | $ (32) | $ 2,867 |

The future minimum lease payments and the net present value of the future minimum payments of the Company's finance leases as at December 31, 2012 are as follows:

| | Less than 1 year | Between 1 year and 5 years | More than 5 years | Total |
|---|---|---|---|---|
| Total future minimum lease payments | 1,518 | 1,521 | $ — | 3,039 |
| less: amount representing interest | (113) | (59) | — | (172) |
| Present value of future minimum lease payments | 1,405 | 1,462 | $ — | 2,867 |

The cost and accumulated depreciation of the finance leased equipment consists of the following as at December 31, 2012:

| | December 31, 2012 |
|---|---|
| Vehicles under finance leases | $ 12,772 |
| less: accumulated depreciation | (9,175) |
| | $ 3,597 |

## 10. Convertible Debentures

| Series - Year of Issuance | Maturity | Interest Rate | Conversion Price |
|---|---|---|---|
| Series F - 2009 | April 8, 2014 | 10% | $ 10.75 |
| Series G - 2009 | September 30, 2014 | 7.5% | $ 14.50 |
| Series H - 2010 | May 31, 2017 | 6.5% | $ 20.00 |
| Series I - 2011 | January 31, 2016 | 5.75% | $ 26.00 |
| Series J - 2011 | May 31, 2018 | 6.25% | $ 30.60 |
| Unsecured Debentures - 2012 | September 30, 2019 | 5.5% | $ 36.80 |

Summary of the debt component of the convertible debentures:

| | 2012 Balance, Beginning of Year | Debentures Issued | Accretion Charges | Debentures Converted | Repaid on Maturity | 2012 Balance, End of Year | December 31, 2011 Balance |
|---|---|---|---|---|---|---|---|
| Series F | 1,181 | $ — | 19 | $ (38) | $ — | 1,162 | 1,181 |
| Series G | 7,520 | — | 57 | (2,912) | — | 4,665 | 7,520 |
| Series H | 25,659 | — | 144 | (4,016) | — | 21,787 | 25,659 |
| Series I | 33,161 | — | 408 | (35) | — | 33,534 | 33,161 |
| Series J | 53,178 | — | 548 | (20) | — | 53,706 | 53,178 |
| Unsecured - 2012 | — | 52,791 | 142 | — | — | 52,933 | — |
| | | | | | | 167,787 | 120,699 |
| less: unamortized transaction costs | | | | | | (6,741) | (5,305) |
| Convertible Debentures - Debt Component, end of year | | | | | | 161,046 | 115,394 |
| less: current portion | | | | | | — | — |
| Convertible Debentures - Debt Component (long-term portion) | | | | | | 161,046 | 115,394 |

| | 2011 Balance, Beginning of Year | Debentures Issued | Accretion Charges | Debentures Converted | Repaid on Maturity | 2011 Balance, End of Year | December 31, 2010 Balance |
|---|---|---|---|---|---|---|---|
| Series D | 1,061 | $ — | (1) | (1,060) | $ — | $ — | 1,061 |
| Series F | 1,869 | — | 19 | (707) | — | 1,181 | 1,869 |
| Series G | 22,545 | — | 96 | (15,121) | — | 7,520 | 22,545 |
| Series H | 27,776 | — | 252 | (2,369) | — | 25,659 | 27,776 |
| Series I | — | 32,796 | 365 | | — | 33,161 | — |
| Series J | — | 52,878 | 300 | — | — | 53,178 | — |
| | | | | | | 120,699 | 53,251 |
| less: unamortized transaction costs | | | | | | (5,305) | (2,484) |
| Convertible Debentures - Debt Component, end of year | | | | | | 115,394 | 50,767 |
| less: current portion | | | | | | — | (1,052) |
| Convertible Debentures - Debt Component (long-term portion) | | | | | | 115,394 | 49,715 |

During the 2012 year convertible debentures totaling a face value of $7,560 were converted at various times into 437,304 Shares of the Company (2011 – $20,519 face value into 1,391,438 Shares). Interest expense recorded during the 2012 year for the convertible debentures was $10,864 (2011 – $8,942).

## SERIES F CONVERTIBLE DEBENTURE OFFERING

The Company issued the Five Year 10% Series F Subordinate Secured Convertible Redeemable Debentures in 2009. 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.

The Series F convertible debentures have $1,189 of principal outstanding as at December 31, 2012 and mature in April 2014.

### SERIES G CONVERTIBLE DEBENTURE OFFERING

The Company issued the Five Year 7.5% Series G Subordinate Secured Convertible Redeemable Debentures in 2009. 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.

The Series G convertible debentures have $4,817 of principal outstanding as at December 31, 2012 and mature in September 2014.

### SERIES H CONVERTIBLE DEBENTURE OFFERING

The Company issued the Seven Year 6.5% Series H Subordinate Secured Convertible Redeemable Debentures in April 2010. These debentures bear interest at the rate of 6.5% per annum payable semi-annually in arrears, in cash, on May 31 and November 30 of each year. The maturity of the debentures is May 31, 2017. 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 a conversion price of $20.00. 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. After May 31, 2013, but prior to May 31, 2015, the Company has the option to redeem these debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time. On and after May 31, 2015 but prior to the maturity date the Company has the option to redeem these debentures without any weighted average market price thresholds. If the Company elects to redeem the debentures, the debentureholders have the option to convert the debentures into Shares of the Company at the conversion price. Transaction costs of $1,570 were incurred during the 2010 year in relation to the issuance of the Series H debentures.

The Series H convertible debentures have $23,053 of principal outstanding as at December 31, 2012 and mature in May 2017.

### SERIES I CONVERTIBLE DEBENTURE OFFERING

On January 11, 2011, the Company announced the closing of a bought deal offering of five-year 5.75% Series I convertible senior secured debentures with a $26.00 conversion price. A total $35,000 principle amount of debentures were issued and will mature on January 31, 2016. Interest is payable semi-annually in arrears, in cash, on January 31 and July 31 of each year. 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 a conversion price of $26.00. 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 I 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 $1,861 were incurred during the first quarter of 2011 in relation to the issuance of the Series I debentures ($118 allocated to the equity portion for this series).

The Series I convertible debentures have $34,965 of principal outstanding as at December 31, 2012 and mature in January 2016.

### SERIES J CONVERTIBLE DEBENTURE OFFERING

On May 4, 2011, the Company announced the closing of a bought deal offering of seven-year 6.25% Series J convertible senior secured debentures with a $30.60 conversion price. A total $50,000 principal amount of debentures were issued. On May 9, 2011, the Company announced the over-allotment option was exercised by the Company's syndicate of bankers for an additional $7,500 principle amount. The total $57,500 principle amount outstanding from the base offering and over-allotment is $57,500 will mature on May 31, 2018. Interest is payable semi-annually in arrears, in cash, on May 31 and November 30 of each year. 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 a conversion price of $30.60. 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 J 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. After May 31, 2014, but prior to May 31, 2016, the Company has the option to redeem these debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time. On and after May 31, 2016 but prior to the maturity date the Company has the option to redeem these debentures without any weighted average market price thresholds. If the Company elects to redeem the debentures, the debentureholders have the option to convert the debentures into Shares of the Company at the conversion price. Transaction costs of $2,918 were incurred during the second quarter of 2011 in relation to the issuance of the Series J debentures ($237 allocated to the equity portion for this series).

The Series J convertible debentures have $57,480 of principal outstanding as at December 31, 2012 and mature in May 2018.

### SEPTEMBER 2012 UNSECURED CONVERTIBLE DEBENTURE OFFERING

The Company issued the Seven Year 5.5% Convertible Unsecured Subordinated Debentures in September 2012. These debentures bear interest at the rate of 5.5% per annum payable semi-annually in arrears, in cash, on March 31 and September 30 of each year. The maturity of the debentures is September 30, 2019. 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 a conversion price of $36.80. The Company has a cash conversion option allowing it to elect for a conversion to pay the holder cash rather than issue Shares based on a volume-weighted average trading price of the Company's Shares for a 10 day period prior to the conversion.

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 ending five days prior to the maturity date. The Company also has the ability to convert these unsecured 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. After September 30, 2015, but prior to September 30, 2017, the Company has the option to redeem these debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time. On and after September 30, 2017 but prior to the maturity date the Company has the option to redeem these debentures without any weighted average market price thresholds. If the Company elects to redeem the debentures, the debentureholders have the option to convert the debentures into Shares of the Company at the conversion price.

Transaction costs of $2,854 were incurred during the 2012 year in relation to the issuance of these debentures.

The September 2012 Unsecured convertible debentures have $57,500 of principal outstanding as at December 31, 2012 and mature in September 2019.

### CONVERTIBLE DEBENTURES EQUITY COMPONENT

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 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:

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Series F - 2009 | $ 61 | $ 63 |
| Series G - 2009 | 176 | 355 |
| Series H - 2010 | 1,238 | 1,469 |
| Series I - 2011 | 1,489 | 1,492 |
| Series J - 2011 | 3,136 | 3,137 |
| Unsecured Debentures - 2012 | 3,204 | — |
| Convertible Debentures - Equity Component, end of year | $ 9,304 | $ 6,516 |

The Series F-J convertible debentures are secured, subordinate only to senior security, by a charge on the assets and undertakings of the Company and its subsidiaries. The September 2012 convertible debenture offering represents a direct unsecured debt obligation of the Company.

## 11. Share Capital

Changes in the Shares issued and outstanding during the year ended December 31, 2012 are as follows:

| | | 2012 |
|---|---|---|
| | Number of Shares | Amount |
| Share capital, beginning of year | 17,399,182 | $ 194,049 |
| Issued for Custom vendors (Note 5) | 170,121 | 4,241 |
| Issued for Water Blast Dakota vendors (Note 5) | 8,487 | 235 |
| Prospectus offering, March 2012 | 2,324,150 | 55,689 |
| Issued under vesting of reserved shares | 28,746 | 617 |
| Issued under deferred share plan | 31,517 | 492 |
| Issued upon conversion of convertible debentures | 437,304 | 7,395 |
| Issued under dividend reinvestment plan (DRIP) | 155,777 | 3,818 |
| Issued under employee share purchase plan (ESPP) | 54,309 | 1,463 |
| Issued under First Nations community partnership agreements | 27,000 | 495 |
| Share capital, end of year | 20,636,593 | $ 268,494 |

Changes in the Shares issued and outstanding during the 2011 year are as follows:

| | | 2011 |
|---|---|---|
| | Number of shares | Amount |
| Share capital, beginning of year | 14,518,842 | $ 148,046 |
| Issued upon conversion of convertible debentures | 1,391,438 | 20,171 |
| Issued for Bearskin vendors | 314,047 | 5,512 |
| Issued for WesTower vendors | 520,341 | 11,161 |
| Issued for warrants exercised | 408,482 | 4,240 |
| Issued to Tribal Councils Investment Group | 12,728 | 221 |
| Issued under employee share purchase plan (ESPP) | 71,689 | 1,472 |
| Issued under dividend reinvestment plan (DRIP) | 161,615 | 3,226 |
| Share capital, end of year | 17,399,182 | $ 194,049 |

During the year ended December 31, 2012, the Company closed a bought-deal offering of its common stock on March 6, 2012. The prospectus resulted in the Company issuing 2,324,150 of its Shares and the Company obtained $57,523 of gross proceeds. Costs incurred in association with the offering were $2,475 ($1,834 net of tax).

## 12. Dividends 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 during the 2012 year and the comparative 2011 year are as follows:

| Year Ended December 31 | 2012 | 2011 |
|---|---|---|
| Cumulative dividends, beginning of year | $ 83,043 | $ 55,943 |
| Dividends during the year | 32,717 | 27,100 |
| Cumulative dividends, end of year | $ 115,760 | $ 83,043 |

The amounts and record dates of the dividends during the 2012 year and the comparative 2011 year are as follows:

| | | | 2012 Dividends | | | 2011 Dividends |
|---|---|---|---|---|---|---|
| Month | Record date | Per Share | Amount | Record date | Per Share | Amount |
| January | January 31, 2012 | $ 0.135 | $ 2,390 | January 31, 2011 | $ 0.13 | $ 2,006 |
| February | February 29, 2012 | 0.135 | 2,423 | February 28, 2011 | 0.13 | 2,049 |
| March | March 30, 2012 | 0.135 | 2,740 | March 31, 2011 | 0.13 | 2,064 |
| April | April 30, 2012 | 0.135 | 2,749 | April 29, 2011 | 0.135 | 2,266 |
| May | May 31, 2012 | 0.135 | 2,753 | May 31, 2011 | 0.135 | 2,307 |
| June | June 29, 2012 | 0.135 | 2,756 | June 30, 2011 | 0.135 | 2,313 |
| July | July 31, 2012 | 0.135 | 2,781 | July 29, 2011 | 0.135 | 2,321 |
| August | August 31, 2012 | 0.135 | 2,783 | August 31, 2011 | 0.135 | 2,325 |
| September | September 28, 2012 | 0.135 | 2,787 | September 30, 2011 | 0.135 | 2,329 |
| October | October 31, 2012 | 0.135 | 2,790 | October 31, 2011 | 0.135 | 2,366 |
| November | November 30, 2012 | 0.14 | 2,868 | November 30, 2011 | 0.135 | 2,370 |
| December | December 31, 2012 | 0.14 | 2,897 | December 31, 2011 | 0.135 | 2,384 |
| Total | | $ 1.63 | $ 32,717 | | $ 1.605 | $ 27,100 |

Subsequent to December 31, 2012 and before these consolidated financial statements were authorized, the Company declared a dividend of $0.14 per Share for January 2013 and February 2013.

## 13. Segmented Information

The Company's reportable business segments include 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, Ontario, Quebec and Nunavut. The Manufacturing segment consists of niche specialty metal manufacturers in markets throughout Canada and the United States.

On February 1, 2012 the Company acquired Custom (Note 5) and results for Custom since the acquisition date are included in the Aviation segment. On December 5, 2012 the Company acquired Water Blast Dakota (Note 5) and the results for Water Blast Dakota since the acquisition date are included in the Manufacturing 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 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 of the Company.

| | Year Ended December 31, 2012 | | | | Year Ended December 31, 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | Aviation | Manufacturing | Company | Consolidated | Aviation | Manufacturing | Company | Consolidated |
| Revenue | $ 280,407 | $ 520,166 | $ — | $ 800,573 | $ 274,337 | $ 235,966 | $ — | $ 510,303 |
| EBITDA | 52,065 | 51,043 | (8,610) | 94,498 | 57,160 | 24,994 | (7,315) | 74,839 |
| Depreciation and amortization | | | | 38,355 | | | | 30,591 |
| Finance costs - interest | | | | 14,149 | | | | 12,390 |
| Acquisition costs | | | | 1,358 | | | | 1,830 |
| Impairment loss | | | | 2,032 | | | | — |
| Earnings before tax | | | | $ 38,604 | | | | $ 30,028 |

| | Year Ended December 31, 2012 | | | | Year Ended December 31, 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | Aviation | Manufacturing | Company | Consolidated | Aviation | Manufacturing | Company | Consolidated |
| Total assets | $ 267,443 | $ 331,526 | $ 110,401 | $ 709,370 | $ 236,538 | $ 171,460 | $ 70,403 | $ 478,401 |
| Net capital asset additions | 56,965 | 6,150 | 141 | 63,256 | 38,880 | 3,064 | 85 | 42,029 |
| Goodwill | 25,996 | 47,520 | — | 73,516 | 20,783 | 47,644 | — | 68,427 |
| Total liabilities | $ 38,212 | $ 126,791 | $ 249,825 | $ 414,828 | $ 39,108 | $ 39,884 | $ 173,772 | $ 252,764 |

The following is the geographic breakdown of revenues for the year ended December 31, 2012 and the 2011 comparative year, based on location of the customer, and the capital assets and goodwill as at the balance sheet dates:

| Year Ended December 31 | 2012 | 2011 |
|---|---|---|
| Canada | $ 439,494 | $ 397,328 |
| United States | 361,079 | 112,975 |
| Total revenue for the year | $ 800,573 | $ 510,303 |

| | As at December 31, 2012 | | As at December 31, 2011 | |
|---|---|---|---|---|
| | Capital Assets | Goodwill | Capital Assets | Goodwill |
| Canada | $ 260,547 | $ 46,013 | $ 212,917 | $ 40,800 |
| United States | 8,489 | 27,503 | 7,273 | 27,627 |
| | $ 269,036 | $ 73,516 | $ 220,190 | $ 68,427 |

As a result of the foreign currency policy for the consolidation of Stainless, WesTower's US operations entity and Water Blast Dakota, the goodwill recorded in those US based entities (Stainless US $14,751, WesTower US operational entity US $12,415 and Water Blast Dakota US $476) is valued at the period-end exchange rate and as a result, fluctuates as the Canadian dollar reporting currency changes in comparison to the US dollar.

During the year ended December 31, 2012, the entity reported revenues of US$233,482 (2011 – US$20,600) relating to AT&T. These revenues were reported within the Manufacturing segment and have been disclosed as earned in the United States within the geographical breakdown of revenues above, based on location of the customer. The revenues from this customer for the 2012 year were 29% of total revenues (2011 – 4%).

## PERCENTAGE OF COMPLETION REVENUES

The operations of Stainless and WesTower within the Manufacturing segment have long-term contracts where revenues 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. During the year ended December 31, 2012, the Company recognized revenue on these types of long-term contracts totaling $473,569 (2011 – $196,190).

The following summarizes the costs and estimated earnings on uncompleted contracts as of December 31, 2012:

| As at December 31 | 2012 |
|---|---|
| Costs incurred on uncompleted contracts | $ 308,489 |
| Estimated earnings | 112,532 |
| | $ 421,021 |
| less: Billings to date | (330,399) |
| Total | $ 90,622 |
| | |
| Costs incurred plus recognized profits in excess of billings | $ 120,968 |
| Billings in excess of costs incurred plus recognized profits | (30,346) |
| Total | $ 90,622 |

## 14. Earnings Per Share

Basic earnings per share is calculated by dividing the net income attributable to owners of the parent by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Company has two categories of dilutive potential common shares: convertible debentures and warrants. For the convertible debentures, the convertible debt is assumed to have been converted into common shares and the net income is adjusted to eliminate the interest expense from the convertible debt less the tax effect. For the warrants, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's outstanding shares for the period), based on the exercise price attached to the warrants. The number of shares calculated above is compared with the number of shares that would have been issued assuming exercise of the warrants. All warrants expired throughout 2011 and have no impact on 2012 calculations.

The computation for basic and diluted earnings per share for the year ended December 31, 2012 and comparative in 2011 year are as follows:

| Year Ended December 31 | 2012 | 2011 |
|---|---|---|
| Net earnings for the year, available to common shareholders | $ 25,351 | $ 20,745 |
| Dilutive effect of convertible debentures | 7,931 | 6,543 |
| Add back impact from anti-dilutive factors | (6,077) | (3,968) |
| Diluted earnings for the year | $ 27,205 | $ 23,320 |
| | | |
| Basic weighted average number of shares | 20,043,731 | 16,786,310 |
| Dilutive effect of convertible debentures | 5,405,447 | 4,977,066 |
| Add back impact from anti-dilutive factors | (3,667,702) | (2,551,774) |
| Dilutive effect of warrants | — | 33,845 |
| Diluted basis average number of shares | 21,781,476 | 19,245,447 |
| Earnings per share: | | |
| Basic | $ 1.26 | $ 1.24 |
| Diluted | $ 1.25 | $ 1.21 |

## 15. Expenses by Nature

The following breaks down expenses by nature for direct operating expenses, cost of goods sold, and general and administrative expenses (all excluding depreciation and amortization), which are presented in the statement of income.

| | 2012 | 2011 |
|---|---|---|
| Salaries, wages & benefits | $ 183,877 | $ 131,653 |
| Aircraft operating expenses | 109,048 | 104,505 |
| Materials | 337,627 | 154,463 |
| General and administrative - not allocated | 45,175 | 24,166 |
| Building rent & maintenance | 8,731 | 6,351 |
| Communication & information technology | 3,462 | 4,083 |
| Advertising | 3,585 | 3,483 |
| Sub-contracting services | 10,121 | 2,581 |
| Other | 4,449 | 4,179 |
| | $ 706,075 | $ 435,464 |

## 16. Employee Benefits

### DEFERRED SHARE PLAN

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

| | 2012 | 2011 |
|---|---|---|
| Deferred shares outstanding, beginning of year | 112,596 | 80,713 |
| Granted during the year | 45,351 | 24,013 |
| Granted through dividends/distributions declared during the year | 9,481 | 7,870 |
| Redeemed during the year | (31,517) | — |
| Forfeited during the year | (1,398) | — |
| Deferred shares outstanding, end of year | 134,513 | 112,596 |
| Vested portion of deferred shares outstanding, end of year | 66,103 | 57,464 |

The fair value of the deferred shares granted during the 2012 year was $1,113 at the time of the grant and was based on the market price of the Company's shares at that time (2011 – $472). During the 2012 year, the Company recorded net compensation expense of $632 for the Deferred Share Plan within the general and administrative expenses of head-office (2011 – net compensation expense of $365).

### 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.

During 2012, 54,309 Shares were issued out of Treasury, effective November 20, 2012 for the 2012 program that will vest in 18 months (Quarter 2 of 2014). The fair value of the additional shares that will be awarded upon the vesting conditions of the plan being attained is estimated at $533 based on the share price and monthly dividend rate as at that time. The cost of the award is recognized in head-office expenses of the Company over the 18 month vesting period beginning in December 2012.

During 2011, 71,689 Shares were issued out of Treasury, effective October 28, 2011 for the 2011 program that will vest in 18 months (Quarter 2 of 2013). The fair value of the additional shares that will be awarded upon the vesting conditions of the plan being attained is estimated at $549 based on the share price and monthly dividend rate as at that time. The cost of the award is recognized in head-office expenses of the Company over the 18 month vesting period beginning in December 2011.

Over the amortization period as the plans reach the end of the 18 month vesting period, the liability associated with the award is adjusted for changes in the Company's share price at the period-end, any changes in the Company's dividend rate and any known forfeitures. During 2012, total expenses incurred in head-office expenses was $545 (2011 – $659).

## 17. Contingencies and 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 | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Less than 1 year | $ 9,169 | $ 6,799 |
| Between 1 year and 5 years | 15,676 | 11,512 |
| More than 5 years | 12,212 | 9,523 |
| | $ 37,057 | $ 27,834 |

Included in the table above are commitments obligated to related parties in association with leased property used in the operations of the Manufacturing segment which are described further in Note 18.

During the year the Company expensed $12,958 of operating lease costs.

## 18. Related Party Transactions

The following transactions were carried out by the Company with related parties.

### PROPERTY LEASES

Various entities within the Manufacturing segment lease several buildings from related parties who were vendors of the manufacturing entity that the Company purchased the business from originally. These vendors are considered related parties because of their continued involvement in the management of those businesses. These leases are considered to be at market terms and recognized in the consolidated financial statements at the exchange amounts. The total costs incurred in 2012 under these leases was $1,553 (2011 – $1,293) and the lease term maturities range from 2013 to 2016. The expense is recorded within general and administrative expenses and is paid monthly, therefore no balance exists on the Company's statement of financial position (2011 – nil).

### PROFESSIONAL SERVICES

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 2012 are $928 (2011 – $1,483). As at December 31, 2012, there was a nil payable balance recorded on the consolidated statement of financial position (2011 – $18).

### KEY MANAGEMENT COMPENSATION

The Company identifies its key management personnel being those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of the Company's board (whether executive or otherwise).

Compensation awarded to key management for the 2012 year and the comparative 2011 year is as follows:

| | 2012 | 2011 |
|---|---|---|
| Salaries and short-term benefits | $ 3,974 | $ 2,649 |
| Share-based payments | 600 | 282 |
| | $ 4,574 | $ 2,931 |

## 19. Financial Instruments and Risk Management

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. 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

The Company has US $67,150 outstanding on its credit facility (Canadian equivalent of $66,808). 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 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 WesTower US and Stainless throughout the United States. The Company has no outstanding derivative instruments to reduce its exposure to the currency risk.

The Company also recorded a currency translation loss of $485 (2011 – gain of $1,748) in Other Comprehensive Income as described below in Note 20.

A $0.01 weakening in the value of the Canadian dollar in relation to the US dollar applied to the Company's US financial instruments outstanding at December 31, 2012 would have a $nil impact on net earnings and decrease the foreign currency translation adjustment in Other Comprehensive Income by approximately $0.6 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 Company manages this risk and seeks financing terms in individual arrangements that are most advantageous.

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, 2012, $750 was outstanding under Canadian Prime and US $67,150 was outstanding under US Prime.

Based on the outstanding credit facility throughout 2012, net of cash and cash equivalents, a 1% increase in interest rates for the Company would decrease net earnings by approximately $0.6 million ($0.4 million after-tax).

The interest rates of the convertible debentures (Note 10) 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 and the customer receivables are monitored at each business entity level. As at December 31, 2012, the Company's credit risk exposure consists mainly of the carrying amounts of accounts receivable.

As at December 31, 2012, $12.4 million of the outstanding receivables were greater than 90 days outstanding. Approximately $5.8 million of this relates to the Manufacturing segment and the $6.6 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 10).

The Company's financial liabilities and related capital amounts have contractual maturities which are summarized below into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the following table are the contractual undiscounted cash flows:

| | Total | Less than 1 year | Between 1 year and 5 years | More than 5 years |
|---|---|---|---|---|
| Accounts payable and accrued expenses | $ 125,614 | $ 125,614 | $ — | $ — |
| Long-term debt | 67,558 | — | 67,558 | — |
| Convertible debentures | 179,004 | — | 64,024 | 114,980 |
| Total | $ 372,176 | $ 125,614 | $ 131,582 | $ 114,980 |

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 2015. 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 and outstanding convertible debentures with Shares of the Company or cash, at the Company's option.

## MEASUREMENT CATEGORIES

As explained in Note 3h), financial assets and liabilities have been classified into categories that determine their basis of measurement and, if applicable, any items that are measured at fair value, whether changes in fair value are recognized in the statement of income or comprehensive income. The Company's financial assets fall into the following categories: loans and receivables, and amortized cost for liabilities. The following table shows the carrying value of the financial assets and liabilities for each of those categories at December 31, 2012 and 2011.

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| **ASSETS** | | |
| Loans and receivables | | |
| Cash and cash equivalents | $ 4,166 | $ 11,475 |
| Accounts receivable | 134,508 | 69,172 |
| | $ 138,674 | $ 80,647 |
| **LIABILITIES** | | |
| Amortized cost | | |
| Accounts payable and accrued expenses | $ 125,614 | $ 57,726 |
| Long-term debt | 66,942 | 46,050 |
| Convertible debentures | 161,046 | 115,394 |
| | $ 353,602 | $ 219,170 |

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.

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 at December 31, 2012 is $168,600 (2011 – $121,545).

## 20. Other Comprehensive Income (Loss)

During the year ended December 31, 2012 the Company had other comprehensive loss of $485 (net of $117 tax) that relates to foreign currency translation adjustments of the operations of Stainless, Water Blast Dakota, and the US operations of WesTower from US dollars to the Canadian dollar reporting currency (2011 – income of $1,748, net of $116 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.

## 21. Changes in Working Capital Items

The changes in non-cash operating working capital items during the 2012 year and the comparative 2011 year are as follows:

| Year Ended December 31, | | 2012 | | 2011 |
|---|---|---|---|---|
| Accounts receivable | $ | (63,576) | $ | (4,487) |
| Costs incurred plus recognized profits in excess of billings | | (94,785) | | (7,433) |
| Inventory | | (22,422) | | (4,930) |
| Prepaid expenses | | (1,101) | | 677 |
| Accounts payable and accrued charges | | 67,139 | | 992 |
| Income taxes payable | | 2,993 | | 781 |
| Deferred revenue | | (327) | | 763 |
| Billings in excess of costs incurred plus recognized profits | | 16,857 | | 6,626 |
| Foreign currency adjustments | | (1,139) | | 507 |
| Net change in working capital items | $ | (96,361) | $ | (6,504) |

## 22. 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:

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Total senior debt outstanding, principal value | 67,558 | 46,815 |
| Convertible debentures outstanding, face value | 179,004 | 129,064 |
| Shares | 268,494 | 194,049 |
| Reserved shares | 1,234 | 1,851 |
| Total capital | 516,290 | 371,779 |

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 2013 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 include financial covenants and ratios, including leverage ratios that assess the funded senior debt to adjusted earnings before interest, income tax expense, depreciation, amortization, acquisition costs 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 2012 year.

Changes in the capital of the Company over the year ended December 31, 2012 are mainly attributed to the Company's collecting proceeds from its March 2012 Shares offering and using the majority of the net proceeds as a repayment against its outstanding credit facility balance after acquiring Custom. The Company also withdrew funds from its credit facility throughout 2012 in order to fund the working capital requirements of WesTower's organic growth.

## 23. Income tax

### RECONCILIATION OF EFFECTIVE TAX RATE

The tax on the company's profit before tax differs from the amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Earnings before provision for income taxes | $ | 38,604 | $ | 30,028 |
| Combined Canadian federal and provincial tax rates | | 27.0% | | 28.5% |
| Income tax expense at statutory rates | | 10,423 | | 8,558 |
| | | | | |
| Increase (decrease) in taxes resulting from: | | | | |
| Permanent differences | | 1,376 | | 714 |
| Change in effective rate | | (423) | | (138) |
| Impact of foreign tax rate differences | | 1,760 | | (49) |
| Withholding taxes | | – | | 134 |
| Other | | 117 | | 64 |
| Provision (recovery) for income taxes | $ | 13,253 | $ | 9,283 |

### UNRECOGNIZED DEFERRED TAX LIABILITIES

At December 31, 2012 a deferred tax liability of $483 (2011 - $nil) for temporary differences of $9,665 (2011 - $nil) related to investments in subsidiaries was not recognized because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

## MOVEMENT IN DEFERRED TAX BALANCES DURING THE YEAR

The movement of the deferred income tax account is as follows:

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Deferred income tax asset/(liability) at January 1 | $ | 9,882 | $ | 32,040 |
| Acquisitions | | | | |
| Custom | | (6,530) | | |
| Bearskin | | – | | (6,959) |
| WesTower | | – | | (5,204) |
| Tax credit/(charge) relating to components of other comprehensive income | | 31 | | (172) |
| Tax credit/(charge) to statement of income through deferred tax | | (6,349) | | (8,630) |
| Tax credit/(charge) to equity | | (411) | | (1,290) |
| Other | | (137) | | 97 |
| Net deferred income tax asset/(liability) at December 31 | $ | (3,514) | $ | 9,882 |

The movement in deferred income tax assets and liabilities during the year is as follows:

| | December 31, 2011 | Acquisition through business combination | Credited / (charged) through statement of income | Credited / (charged) to other comprehensive income | Credited / (charged) through equity | Reclass | December 31, 2012 |
|---|---|---|---|---|---|---|---|
| Deferred income tax assets | | | | | | | |
| Capital assets | $ (19,219) | $ — | $ 438 | $ — | $ — | $ — | $ (18,781) |
| Intangible assets | (2,535) | — | (722) | — | — | — | (3,257) |
| Financing costs | 175 | — | (498) | — | 647 | — | 324 |
| Accruals - deductible when paid | 459 | — | 122 | — | — | — | 581 |
| Deferred compensation plans | 387 | — | (387) | — | — | — | — |
| Capital and non-capital loss carryforwards | 38,378 | — | (5,398) | — | — | — | 32,980 |
| Other comprehensive income | (126) | — | (22) | 31 | — | — | (117) |
| Convertible debentures | (2,271) | — | 306 | — | (1,058) | — | (3,023) |
| Other | (8) | — | — | — | — | — | (8) |
| Total deferred income tax asset | $ 15,240 | $ — | (6,161) | 31 | (411) | $ — | 8,699 |
| | | | | | | | |
| Deferred income tax liability | | | | | | | |
| Capital assets | $ (2,607) | (5,523) | 420 | $ — | $ — | $ — | (7,710) |
| Intangible assets | (3,305) | (1,007) | (99) | — | — | — | (4,411) |
| Accruals - deductible when paid | 818 | — | 377 | — | — | — | 1,195 |
| Non-deductible reserves | (2,228) | — | (4) | — | — | — | (2,232) |
| Capital and non-capital loss carryforwards | 1,796 | — | (855) | — | — | — | 941 |
| Other | 168 | — | (27) | — | — | (137) | 4 |
| Total deferred income tax liability | (5,358) | (6,530) | (188) | — | — | (137) | (12,213) |
| Net | $ 9,882 | $ (6,530) | $ (6,349) | $ 31 | $ (411) | $ (137) | $ (3,514) |

| | December 31, 2010 | Acquisition through business combination | Credited / (charged) through statement of income | Credited / (charged) to other comprehensive income | Credited / (charged) through equity | December 31, 2011 |
|---|---|---|---|---|---|---|
| Deferred income tax assets | | | | | | |
| Capital assets | $ (13,188) | $ (6,211) | $ 180 | $ — | $ — | $ (19,219) |
| Intangible assets | (1,975) | (748) | 188 | — | — | (2,535) |
| Financing costs | 438 | — | (476) | — | 213 | 175 |
| Accruals - deductible when paid | 594 | — | (135) | — | — | 459 |
| Deferred compensation plans | 289 | — | 98 | — | — | 387 |
| Capital and non-capital loss carryforwards | 46,790 | — | (8,412) | — | — | 38,378 |
| Other comprehensive income | (8) | — | — | (118) | — | (126) |
| Convertible debentures | (1,035) | — | 267 | — | (1,503) | (2,271) |
| Other | 135 | — | (143) | — | — | (8) |
| Total deferred income tax asset | $ 32,040 | $ (6,959) | $ (8,433) | $ (118) | $ (1,290) | $ 15,240 |
| | | | | | | |
| Deferred income tax liability | | | | | | |
| Capital assets | $ — | $ (1,912) | $ (632) | $ (63) | $ — | $ (2,607) |
| Intangible assets | — | (3,009) | (207) | (89) | — | (3,305) |
| Accruals - deductible when paid | — | 334 | 452 | 32 | — | 818 |
| Non-deductible reserves | — | (1,598) | (625) | (5) | — | (2,228) |
| Capital and non-capital loss carryforwards | — | 994 | 731 | 71 | — | 1,796 |
| Other | — | (13) | 181 | — | — | 168 |
| Total deferred income tax liability | — | (5,204) | (100) | (54) | — | (5,358) |
| Net | $ 32,040 | $ (12,163) | $ (8,533) | $ (172) | $ (1,290) | $ 9,882 |

## NON-CAPITAL LOSS CARRY-FORWARDS

As at December 31, 2012, the Company had non-capital loss carry-forwards available to reduce future years' taxable income, which expire as follows:

| | Non-capital Loss Carryforwards |
|---|---|
| Year of expiry | |
| 2024 and beyond | $ 125,792 |
| | $ 125,792 |

# BOARD OF DIRECTORS AND SENIOR MANAGEMENT

## BOARD OF DIRECTORS

**Hon. Gary Filmon,** P.C., O.C., O.M.
Chairman

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

**Donald Streuber,** F.C.A.
Chair, Audit Committee

**Gary Buckley**
Chair, Compensation Committee

**Michael Pyle**
President & Chief Executive Officer

**Brad Bennett, O.B.C.**

**Serena H. Kraayeveld,** F.C.A., ICD.D
Chair, Corporate Governance Committee

**Edward Warkentin,** LL.B.

**William Wehrle**

## SENIOR MANAGEMENT

**Michael Pyle**
President & Chief Executive Officer

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

**Adam Terwin, C.A., C.F.A.**
Chief Financial Officer

**Darwin Sparrow**
Vice-President & Chief Operating Officer, Manufacturing

**Carmele N. Peter, LL.B.**
Chief Administrative Officer

**Michael Swistun**
Director of Acquisitions

# CORPORATE INFORMATION

## OFFICERS

**Michael Pyle**
President & Chief Executive Officer

**Adam Terwin**
Chief Financial Officer

**Darwin Sparrow**
Vice-President & Chief Operating Officer, Manufacturing

**Carmele N. Peter**
Chief Administrative Officer

**Dianne Spencer**
Corporate Secretary

## LEGAL COUNSEL

**Aikins, MacAulay & Thorvaldson LLP**
Winnipeg, Manitoba

## AUDITORS

**Deloitte LLP**
Winnipeg, Manitoba

## BANKERS

**TD Canada Trust**
Roynat Inc.
CIBC
Alberta Treasury Board

## TRANSFER AGENT

**CIBC Mellon Trust Company**
Calgary, Alberta

## STOCK EXCHANGE LISTING & SYMBOL

**TSX: EIF**

## ANNUAL GENERAL& SPECIAL MEETING

**May 14, 2013, at 10:30 AM CST**
**Calm Air Hangar Facility**
50 Morberg Way
Winnipeg, MB R3H 0A4

## CORPORATE OFFICE

1067 Sherwin Road
Winnipeg, Manitoba R3H 0T8
Phone: (204) 982-1857
Fax: (204) 982-1855
exchangeincomecorp.ca

## WEBSITE LISTINGS

**Bearskin Airlines**:
bearskinairlines.ca

**Calm Air**:
calmair.com

**Custom Helicopters:**
customheli.com

**Keewatin Air**:
keewatinair.ca

**Perimeter Aviation**:
perimeter.ca

**Regional One**:
regionalone.com

**Jasper Tank Manufacturing**:
jaspertank.com

**Overlanders Manufacturing**:
overlanders.com

**Stainless Fabrication**:
stainlessfab.com

**Water Blast Manufacturing**:
hotsyalbertaab.com

**WesTower Communications**:
westower.com

Production and Design by TMX Equicom

Exchange
Income
Corporation

WWW.EXCHANGEINCOMECORP.COM