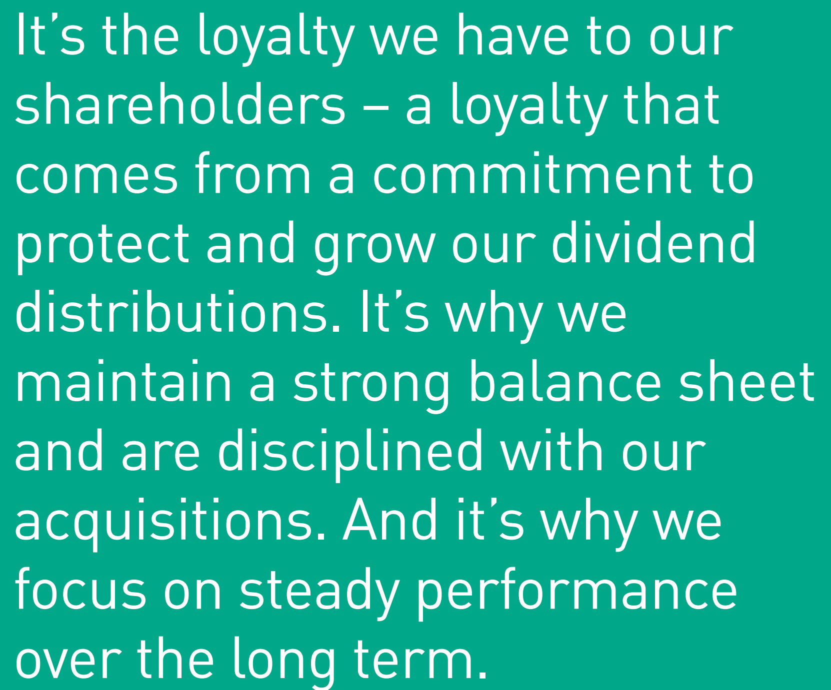
DEPENDABLE

EXCHANGE INCOME CORPORATION

2013 ANNUAL REPORT

WHAT MAKES US DEPENDABLE

We have increased our dividends eight times since becoming a public company in 2004. Late in 2013, we were tested by disappointing financial results and growth challenges facing our largest subsidiary, WesTower Communications. We have faced similar challenges in the past. Not only did we overcome them, we ended up becoming a $1 billion revenue company. This track record and the stability of our operations give us the confidence to maintain our dividend distributions at $1.68 per share.



It’s the loyalty we have to our shareholders – a loyalty that comes from a commitment to protect and grow our dividend distributions. It’s why we maintain a strong balance sheet and are disciplined with our acquisitions. And it’s why we focus on steady performance over the long term.

ON THE LOOKOUT FOR GROWTH

Discipline is at the heart of our acquisition strategy. It makes us focus on the things that matter. It's made us grow over the years. In 2013, we acquired Regional One, a provider of after-market aircraft engines and parts. This marked the 11th acquisition in less than 10 years and the largest in our history. With each acquisition we use very clear criteria that our target must match. No match means no deal.

AT THE RIGHT PRICE

WITH THE RIGHT TEAM

DEPENDABLE RETURNS

Yield is what our shareholders want. It's what we deliver. Even against a backdrop of margin pressure and reduced profitability caused by managing massive growth, our strategy of keeping a strong balance sheet and a disciplined acquisition model allowed our dividend distributions to remain intact and generally offset the market's volatility in 2013.

DIVIDEND DISTRIBUTIONS DECLARED*

DIVIDEND DISTRIBUTIONS DECLARED PER SHARE*

*The Company operated as an income trust fund until July 2009

YIELD*

7.4%

DIVIDEND DISTRIBUTIONS PER SHARE

$1.68

*As at December 31, 2013

PRESIDENT'S MESSAGE

Mike Pyle
President and Chief Executive Officer

It would be an exaggeration to use the Dickens line, "it was the best of times, it was the worst of times," to describe our performance for 2013. And yet, the phrase is somewhat appropriate if we look back at some of our major developments. We surpassed the $1 billion revenue mark for the first time. We entered new markets and diversified our cash flow through the acquisition of Regional One, our largest to date. We experienced explosive growth at WesTower. However, we generated EBITDA and net earnings that were considerably below our expectations.

Although some of our key financial metrics were disappointing, we are far from discouraged by our performance or by our prospects for improvement. In fact, we believe that the challenges we are facing, particularly those that are confronting WesTower, provide opportunity to grow and strengthen our company in the future.

The challenges facing WesTower are largely due to the massive growth it has experienced in a relatively short period. Since we first acquired the company in 2011, WesTower's revenue has grown from less than $200 million to more than $625 million. This explosive growth can be explained by the significant demand that wireless carriers across North America have for WesTower's products and services necessary in the continual deployment of telecommunication network build-outs. More specifically, WesTower's growth is tied to a major contract it won with AT&T, a contract that has since been expanded into four new regions in the western United States. The overall geographic footprint of this contract now covers a large portion of the United States. This contract will help to accelerate WesTower's transformation from being a sub-contractor to becoming a national, full-service contractor to major carriers.

Honoring customer commitments and maintaining a high safety record in a period of very rapid growth has come at a cost; WesTower's U.S. operations experienced pressures to its margins as a result of higher costs and inefficiencies. Most specifically, WesTower's U.S. operations incurred an $11 million expense in the third quarter from adjustments to initial project estimates as well as $5.5 million in external advisor costs. These higher costs and related margin pressures led to a loss in the third quarter, the first in more than five years.

We have taken measures to address some of the margin pressures at WesTower by implementing new systems and appointing a new management team led by Steven Pickett, an industry veteran with almost 30 years of experience in the telecommunications sector. Already, these efforts resulted in modest improvements to WesTower's performance in the fourth quarter. We expect similar improvements to occur gradually over the next year.

Similar operational improvements were mirrored by the Aviation segment, which completed a fleet re-structuring program, purchased two ATR and one Dash 8 aircraft and capitalized on new customer opportunities. The Aviation segment's revenue and EBITDA contributions were also strengthened by the addition of Regional One. The acquisition, the largest in our history at $89.9 million, was important on a number of levels. First, it allowed us to diversify our cash flow and enter new geographical and product markets. More strategically, Regional One's revenue derived from the sale of aircraft engines and parts helps to offset a major expense category for the rest of the Aviation segment companies.

Our track record of steady growth, implementing measures to improve margins and disciplined acquisitions, enabled us to maintain our dividend distributions at the current $1.68 per year per share.

We ended 2013 with a strong balance sheet and we are well positioned to capitalize on acquisition opportunities as they emerge. In early 2014, we completed a $40 million issue of convertible debentures which further enhances our liquidity and our ability to respond quickly when opportunities are identified. Our goal will be to apply our proven acquisition strategy to further diversify our operations and cash flow. The objective will be to establish a more equitable balance between our two segments and our subsidiaries.

We thank our shareholders and employees for their ongoing support and look forward to capitalizing on our opportunities and delivering results consistent with our historic performance.

CHAIRMAN'S MESSAGE

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

The 2013 year was a challenging year for EIC. On a positive note, we continued to experience significant growth, both organically and through acquisition, which enabled us to exceed $1 billion in revenue for the first time in our history. However, the pace and magnitude of the growth, principally in WesTower's U.S. operations, exceeded the capacity of our management processes and systems to address this rapid change. While WesTower was able to provide a high-quality product, delivered safely and to the satisfaction of our customers, our margins were severely impacted and our profitability fell short of both 2012 levels and our expectations. While we are not satisfied with the 2013 results, we are confident that the changes we have made in the past few months have laid the foundation to ensure profitable growth going forward.

Our business model has been consistent since we began in 2004. We are committed to building a reliable and growing cash flow stream which enables us to deliver dependable and increasing dividends to our shareholders. We do this through disciplined acquisition and sound management of our acquired companies. We identify companies which have defined, proven market niches with demonstrated free cash flow and which can be acquired at a price that is accretive to our shareholders. We also believe in maintaining a strong balance sheet which will withstand operating challenges that may arise, because in business they always do.

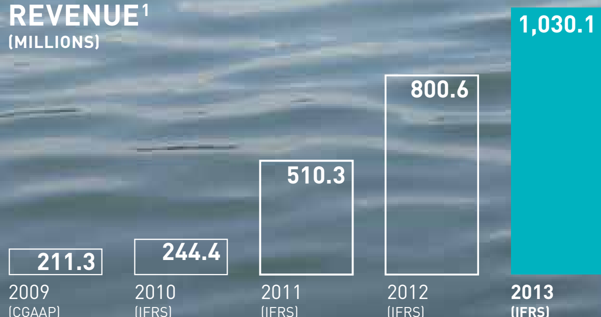
In the past we have withstood the challenge of competition in our aviation sector and the challenge of a severe economic downturn's effect on our manufacturing sector. In fact, we completed a significant acquisition (Calm Air) in the midst of the economic turmoil in 2008 / 2009 because of our consistent results and our strong balance sheet – an accomplishment few companies could have achieved. A disciplined strategy and strong balance sheet paid off.

The current challenge we face is unique as it arises not from weakness in demand and revenue, but because of exceptional demand for our services. We are disappointed that to date this surge in revenue has reduced our profitability but believe this is a temporary outcome. In fact, we believe the changes we have made will enable WesTower to operate profitably at the new revenue levels. There is no way around the fact that there has been significant short-term pain in adapting to the new customer demands. It is equally, evident, however that this process has enabled WesTower to grow from a small subcontractor in the telecom space to a major player providing general contracting capability and telecommunications expertise to the largest players in the cell phone business. This metamorphosis will create value for our shareholders for years to come.

The challenges at WesTower have also emphasized the importance of our diversified business model. Operating in businesses with different revenue cycles provides resiliency and reliability to our cash flow and our ability to pay dividends. The rapid growth of WesTower has also demonstrated the risk to our model of having too large a portion of EIC in any one of our operations. This challenge will be met by restoring the profitability at WesTower as well as by growing the balance of our company, both organically and by disciplined acquisition. Diversity and balance have served EIC and our shareholders well over the last decade, and we intend to restore that balance over ensuing periods in a measured and thoughtful manner.

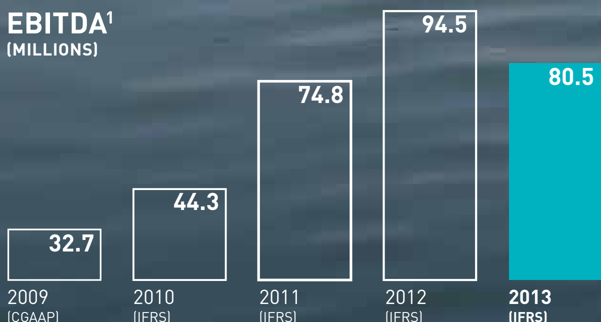
In closing, I want to thank our shareholders for their support in 2013. We are disappointed in the profitability we generated in this period, but we are confident that these short-term challenges will ultimately be the foundation of our future success. The turnaround at WesTower will not be immediate, but changes have been made and we will demonstrate consistent improvement in 2014.

HARD WORK DELIVERS



37.3%

5-YEAR CAGR[3]



19.7%

5-YEAR CAGR[3]

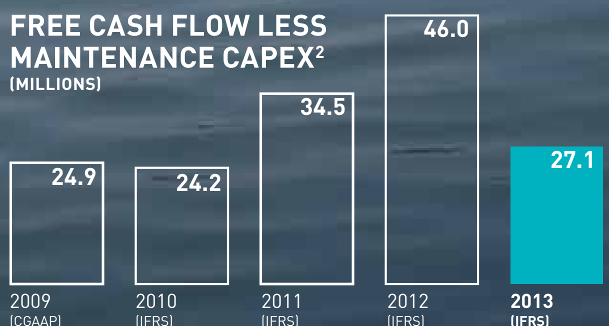
[1]The Company adopted International Financial Reporting Standards (IFRS) in 2010. Previously, the Company used Canadian Generally Accepted Accounting Principles (CGAAP). As a result, comparison of historical results may include financial treatments that are not identical.
[3]Compound Annual Growth Rate

DEPENDABLE RESULTS

We reached an important milestone in 2013, surpassing the $1 billion revenue mark for the first time. Managing this massive growth has taken effort and lowered our profitability in 2013. Our results were impacted by one-time costs and lower margins incurred by WesTower's U.S. operations to keep up with its customer commitments. Steps have been taken at WesTower to remove the inefficiencies that occurred in 2013 and are expected to gradually restore back to its historical margin levels.

-7.5%

5-YEAR CAGR[3]



1.7%

5-YEAR CAGR[3]

[2]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 adoption of IFRS.

OUR OPERATIONS

AVIATION

	PERIMETER	KEEWATIN	CALM AIR	BEARSKIN	CUSTOM HELICOPTERS	REGIONAL ONE
Year Acquired	May 2004	July 2005	April 2009	January 2011	February 2012	April 2013
Assets	33 turbo-prop aircraft (max 50 seats); main hangar facilities in Winnipeg, MB & Thompson, MB; and private terminal at Winnipeg airport.	2 jets & 11 turbo-prop aircraft (max 19 seats); owned hangars in Rankin Inlet, NU, Iqaluit, NU and Winnipeg, MB.	2 jets & 12 turbo-prop aircraft (max 42 seats passengers & 68 seats pure cargo); main hangars in Winnipeg, Thompson & Churchill, MB.	15 turbo-prop aircraft (max 19 seats); main hangar in Thunder Bay, ON & seconday hangar in Sioux Lookout, ON.	22 helicopters; five main hangars in northern MB & NU for maintenance, inventory & bulk fuel storage.	60,000 sq. ft. facility for inventory and distribution of aircraft components and parts.
Products / Services	Scheduled & chartered air transportation service for passengers & cargo and air ambulance services.	Medical evacuation service specialist; scheduled & chartered transportation services.	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	Scheduled services to remote communities in northern MB & northwestern ON; flexible on-demand charter services to anywhere in North America.	Remote communities in NU & northern MB.	Scheduled services to remote communities in northern MB & NU; cargo shipment into northwestern Ontario.	Scheduled services to remote communities in ON & MB.	MB & NU with some seasonal service operations throughout Canada.	Airlines & maintenance service providers located worldwide.
Competitive Advantages	Adjustable aircraft for quick reconfiguration to accommodate varying numbers of passengers & cargo; community partnerships with scheduled service communities; operational flexibility for fast on-demand services.	Staffed with highly experienced medical professionals & flight crew; northern owned hangar facilities; specially equipped aircraft for medical transport.	Fleet specially adapted for passenger & cargo configuration in the Arctic; heavy maintenance facility in Winnipeg; strategically located 24 hr operational cargo warehouses in MB & NU.	Direct routes to mid-sized communities.	Dominant player in geographic regions; internal maintenance and repair capabilities; approved Bell helicopter service centre.	Highly experienced team offering regional airlines a variety of options for leasing or purchasing from its large inventory.

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 and our diversified strategy helps us be dependable to our shareholders. It's that simple.

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	April 2011
40,000 sq. ft. manufacturing facility in Acheson, AB.	72,000 sq ft manufacturing facility including powder coating production line in Abbotsford, BC.	57,000 sq. ft. manufacturing facility in Edmonton, AB; 9 retail locations in Alberta, British Columbia, Saskatchewan and North Dakota.	85,000 sq. ft. manufacturing facility in Springfield, Missouri.	53,000 sq. ft. manufacturing facilities with 46 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.	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.

SPOTLIGHT ON

PERIMETER AVIATION

For more than 50 years, Perimeter has been putting First Nations customers first by partnering with the communities being serviced and by providing essential aviation services to the far north.

LARGEST INDEPENDENT CARRIER IN MANITOBA WITH

33 AIRCRAFT

Exchange completed its first acquisition in 2004 when it purchased Perimeter Aviation for $18 million when the business was generating annual revenues of approximately $27 million. Perimeter was targeted because it operated as a niche airline in northern Manitoba. In the past 10 years, Perimeter has grown to become the largest independent carrier in Manitoba with its own terminal at the Winnipeg James Armstrong Richardson International Airport and annual revenues of over $84 million in 2013.

With a fleet of 33 aircraft, Perimeter provides scheduled passenger, charter, air ambulance and cargo transportation services to First Nations communities that are largely remote and difficult to access, especially after winter ice roads have closed. Perimeter flies from Winnipeg to more than 20 destinations in Manitoba and northern Ontario, providing an essential service for their customers.

Perimeter's success is largely three-fold. First, its ability to rapidly and easily configure the cabins of its fleet depending on the passenger and freight load requirements of each of its scheduled flight service. Second, it operates a safe and low-cost fleet at its own terminal dedicated to the service of its customers. Third, focus on its relationship with its customers and reinvesting in the communities it serves.

SPOTLIGHT ON

REGIONAL ONE

Based in Miami, Florida, Regional One purchases, sells and leases aircraft, aircraft parts, engines and engine parts to regional and commuter airline operators worldwide.

REGIONAL ONE'S EBITDA CONTRIBUTIONS SINCE APRIL 2013

$14.9 MILLION

Exchange's most recent acquisition, Regional One, was completed in April 2013 for $89.9 million, which represents the largest ever in the Corporation's history.

Regional One was principally acquired to diversify the Corporation's revenue and cash flow by entering into new geographical and product markets. On a more strategic level, Regional One's revenue contributions help to offset the costs for engine parts and components incurred by Exchange's Aviation segment airlines.

With access to more working capital provided by the Corporation, Regional One has been able to capitalize on market opportunities and grow its inventory for sale or lease to its more than 150 airline company customers around the world. At any given time, Regional One's available inventory includes aircraft, landing gear, flight control systems, engines and engine components, and other aircraft components.

SPOTLIGHT ON

WESTOWER

WesTower Communications is a manufacturer, installer and maintenance provider of communication towers focused on the rapidly expanding telecommunications industry. Founded in 1989, WesTower has grown to become the largest company in its sector with more than 45 offices and over 2,300 employees. WesTower's growth has been driven by the ongoing deployment of LTE (long-term evolution) networks by wireless companies in North America.

WESTOWER'S REVENUE CONTRIBUTIONS FOR 2013, UP 47% FROM 2012

$627.9 MILLION

WesTower's growth over the past several years has been dramatic. In 2011, less than six months after it was acquired by the Corporation, WesTower won a multi-year contract with a major U.S. wireless carrier to build and service cell phone towers. The contract, which was initially valued at $500 million, has since been expanded to new regions.

WesTower's efforts to manage its massive growth and fulfill its customer contracts on time resulted in significant pressures to its margins and profitability in 2013. As a result of WesTower's performance, the Corporation's financial results for 2013 were marked by a 29% growth in consolidated revenue to $1.03 billion, but a 65% decline in net earnings to $9.0 million.

The Corporation has made a series of changes, including appointing a new executive team and introducing new systems, aimed at restoring WesTower's margins to historical levels and structuring it to be more easily scalable for additional growth opportunities. The Corporation expects that the margin improvement will occur on a gradual basis over the next several quarters.

MD&A + FINANCIALS

TABLE OF CONTENTS

Management's Discussion & Analysis	19
Management's Responsibility for Financial Reporting	60
Independent Auditor's Report	61
Consolidated Statements of Financial Position	62
Consolidated Statements of Income	63
Consolidated Statements of Changes in Equity	64
Consolidated Statements of Cash Flows	66
Notes to the Consolidated Financial Statements	67
Board of Directors & Senior Management	108
Corporate Information	109

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 26, 2014

Introduction

This Management's Discussion and Analysis ("MD&A") supplements the audited consolidated financial statements and related notes for the year ended December 31, 2013 ("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 International Financial Reporting Standards ("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, 2013.

Forward-Looking Statements

This year-end 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 year-end report. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. Readers of this year-end 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 year-end 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 year-end report are made as of the date of this report or such other date specified in such statement.

Non-IFRS Financial Measures

EBITDA, Adjusted Net Earnings, Free Cash Flow and Maintenance Capital Expenditures are not recognized measures under the International Financial Reporting Standards ("IFRS") and are, therefore, defined below.

EBITDA

EBITDA is defined as earnings before interest, income taxes, depreciation, amortization, other non-cash items such as gains or losses recognized on the fair value of contingent consideration items 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 IFRS and the Company's calculation of EBITDA may differ from similar calculations used by comparable entities.

Adjusted Net Earnings

Adjusted Net Earnings is defined as net earnings adjusted for acquisition costs expensed, asset impairment, gains or losses recognized on the fair value of contingent consideration items, and amortization of intangible assets that are purchased at the time of acquisitions.

Free Cash Flow

Free Cash Flow for the period is equal to cash flow from operating activities as defined by IFRS, 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.

Maintenance Capital Expenditures

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 IFRS 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

1. Financial Highlights

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

For the year ended December 31	2013	per share basic	per share fully diluted	2012	per share basic	per share fully diluted
Financial Performance						
Revenue	$ 1,030,079			$ 800,573		
EBITDA	80,499			94,498		
Net earnings	8,984	$ 0.42	$ 0.42	25,351	$ 1.26	$ 1.25
Adjusted net earnings	11,649	0.54	0.54	29,330	1.46	1.43
Free cash flow	65,133	3.03	2.68	76,776	3.83	3.02
Free cash flow less maintenance capital expenditures	27,126	1.26	1.26	46,005	2.30	2.05
Dividends declared	35,889	1.68		32,717	1.63	
Financial Position	December 31, 2013			December 31, 2012		
Working capital	$ 256,646			$156,561		
Capital assets	331,351			269,036		
Total assets	961,372			709,370		
Senior debt	220,247			69,809		
Equity	305,826			294,542		
Share Information	December 31, 2013			December 31, 2012		
Common shares outstanding	21,752,400			20,636,593		

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 primarily in Manitoba, Ontario, and Nunavut, including certain First Nations communities, and other North American locations for chartered related services, operated by *Calm Air*, *Keewatin*, *Perimeter*, *Bearskin*, *Custom Helicopters*, and other aviation supporting businesses. Regional One, Inc. ("*Regional One*") was acquired on April 12, 2013 and is focused on supplying regional airline operators around the world with various after-market aircraft, engines, and component parts; and

(b) Manufacturing – providing a variety of metal manufacturing goods and metal 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 ("Subsidiary" or "Subsidiaries") 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 – Regional One

The Company announced on February 28, 2013 that it had signed a stock purchase agreement to acquire the shares of Regional One and closed the acquisition on April 12, 2013. Regional One is a leading provider of aircraft and engine aftermarket parts to regional airline operators around the world.

The acquisition price was US$88.8 million ($89.9 million) and was funded through a combination of US cash, the issuance of the Company's Common Shares ("Shares") and the recognition of consideration liabilities for future payments. At the time of closing, the Company paid US$45.1 million in cash ($45.8 million). Additionally the Company paid US$15.7 million ($15.9 million) to an escrow agent associated with future results being attained by Regional One and this is treated as a consideration liability on the Statement of Financial Position. The Company issued 494,656 Shares with a value of US$13.6 million ($13.8 million) and the recognized contingent consideration liabilities associated with future payments was US$14.4 million ($14.5 million). The Company also assumed debt within Regional One of US$1.6 million ($1.6 million) and paid it off at the time of closing.

During the second quarter of 2013 subsequent to the closing date, the Company released US$9.1 million ($9.4 million) of the cash in escrow, paid US$0.5 million in cash ($0.5 million), and issued 178,552 of Shares with a value of US$4.7 million ($4.9 million) as partial settlement of certain consideration liabilities that were recognized on closing.

During the fourth quarter of 2013 the working capital settlement was finalized with the vendor. As a result the Company paid US$3.2 million ($3.3 million) as partial settlement of certain consideration liabilities that were recognized on closing.

The acquisition has been immediately accretive to the Company's key financial metrics, including EBITDA, cash flows, earnings per share and Free Cash Flow. At its core, the acquisition allows us to further diversify our revenue streams and cash flow by entering new product and geographical markets. In addition, the acquisition provides a proxy for vertical integration into one of the major expense categories of our aviation segment, in essence providing a hedge against price increases in aircraft and parts. Over the past five years, Regional One has had an annual average growth rate of 25%. Consistent with the Company`s traditional acquisition criteria, Regional One was identified because it operates in a niche portion of a large industry with barriers to entry, has a solid management team in place with extensive industry expertise and its worldwide market presence provides a platform for further growth while fostering diversification of the Company`s cash flows by entering new geographical markets.

The Company's results include financial results of Regional One's operations subsequent to the closing date early in the second quarter of 2013. The Company incurred acquisition costs of $1.7 million during 2013, of which a large portion was associated with the acquisition of Regional One.

Prior Year's Acquisitions

The following acquisitions were made by the Company during the year ended December 31, 2012:

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 was funded through a combination of $24.2 million of cash through debt financing from the Company's credit facility and the issuance of Shares worth $4.2 million to the vendors of Custom (170,121 Shares).

The acquisition was 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 include Custom 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 currently has a fleet of 22 helicopters operating out of five bases: Winnipeg, Thompson, Gillam, and Garden Hill in Manitoba and Rankin Inlet in Nunavut. 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 fiscal 2012 associated with the acquisition.

Acquisition – Water Blast Dakota

Near the end of 2012, the Company acquired the shares of the privately-owned retail distributor of Hotsy product in North Dakota and turned this into a tuck-in operation ("Water Blast Dakota") of EIC's Water Blast operations. This gives EIC the Hotsy distribution rights for the State of North Dakota. 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, which is a geographic market with similarity to the existing oil and gas industry in Alberta.

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.

Year Ended December 31,	2013	2012
Earnings before income tax	$ 10,350	$ 38,604
Depreciation and amortization	48,216	38,355
Finance costs - interest	21,315	14,149
Acquisition costs	1,669	1,358
Consideration liability fair value adjustment	(1,051)	—
Impairment loss	—	2,032
Total EBITDA	$ 80,499	$ 94,498

Free Cash Flow

Year Ended December 31,	2013	2012
Cash flows from operations	$ (6,365)	$ (20,943)
Change in non-cash working capital items	69,829	96,361
Acquisition costs	1,669	1,358
	$ 65,133	$ 76,776
per share – Basic	$ 3.03	$ 3.83
per share – Fully Diluted	$ 2.68	$ 3.02

The Free Cash Flow generated by the Company for the current year was $65.1 million, a decrease of $11.6 million or 15% over the comparative year. The change in Free Cash Flow is the result of a number of factors but primarily as a result of the decrease in the EBITDA generated by the Company.

The EBITDA generated by the Company decreased by $14.0 million or 15% in 2013 over the comparative period and is analyzed in more detail in Section 4 – Analysis of Operations. The largest impact in the amount of EBITDA generated by the Company is a result of the decline from the WesTower business that made a significant change in certain estimates pertaining to its US operations. The US operations of WesTower experienced lower gross margins as a result of project inefficiencies with higher than expected costs to complete the projects. The addition of Regional One in the Aviation segment that was acquired in April 2013 offset the decline in the WesTower results. Included in EBITDA but excluded from Free Cash Flow is $1.3 million of net gains on disposals of capital items. On the Statement of Cash Flow the net gain is treated outside of cash flows from operating activities and is part of the disposal proceeds of capital assets.

Offsetting the consolidated EBITDA reduction was a cash tax recovery of $1.7 million as a result of lower earnings resulting in a benefit to Free Cash Flow of $8.7 million. The increase in the Company's debt items resulted in an increase of cash interest by $5.5 million. The increase is mainly a result of higher levels of convertible debentures outstanding during 2013 coming from the issuances of new convertible debentures in September 2012 and March 2013. The change in other non-cash items of $0.5 million was an increase to Free Cash Flow.

On a basic per share basis, the decrease in absolute Free Cash Flow was the main factor contributing to the decrease on a per share basis but that was compounded by the higher base of the Company's shares outstanding. The combined impact resulted in Free Cash Flow of $3.03 per share for 2013, which is a decrease of $0.80 (or 21%) from the 2012 comparable. The average amount of Shares outstanding for 2013 was 7% higher than the 2012 comparative. Explanations around the increase in Shares outstanding can be found in Section 7 – Liquidity and Capital Resources. On a fully diluted basis, the additional convertible debentures outstanding in 2013 impacted the decrease of $0.34 or 11% to $2.68 per share for 2013 over the 2012 comparative. The $57.5 million of principal from the September 2012 unsecured convertible debentures was included in only a portion of the comparative year and the $65.0 million of principal from the March 2013 unsecured convertible debentures was not outstanding in the 2012 comparative period at all.

During 2013 the Company invested in short-term external advisory services in association with WesTower's business process reengineering to support its significant organic growth. Included in Free Cash Flow are the WesTower short-term external advisory costs totaling $5.5 million. If these short-term external advisory costs are excluded, Free Cash Flow would increase by an after-tax amount of $3.5 million, yielding Free Cash Flow of $68.6 million or $3.20 per share basic. These short-term advisory services ended in the fourth quarter of 2013.

Free Cash Flow Less Maintenance Capital Expenditures

Year Ended December 31,	2013	2012
Free Cash Flow	$ 65,133	$ 76,776
Maintenance Capital Expenditures	38,007	30,771
	$ 27,126	$ 46,005
per share – Basic	$ 1.26	$ 2.30
per share – Fully Diluted	$ 1.26	$ 2.05

The Free Cash Flow less maintenance capital expenditures generated by the Company for the current year was $27.1 million, a decrease of $18.9 million or 41% over the comparative year. The decline is due to both the $11.6 million (or 15%) decrease in Free Cash Flow described above and the increase in maintenance capital expenditures of $7.2 million (or 24%) as 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 2013 decreased to $1.26 ($1.26 fully diluted) in comparison to $2.30 ($2.05 fully diluted) in the 2012 comparative. The decrease of 45% (39% fully diluted) is due to the lower Free Cash Flow less maintenance capital expenditures generated by the Company compounded by an increased base of Shares outstanding for the Company during 2013. The maintenance capital expenditure component of this metric is described further below and accounted for the $1.77 per share decrease from Free Cash Flow. The maintenance capital expenditures impact for the comparable period in 2012 was $1.53 per share.

Included in Free Cash Flow less maintenance capital expenditures are WesTower short-term external advisory costs of $5.5 million. If these short-term external advisory costs are excluded, Free Cash Flow less maintenance capital expenditures would increase by an after-tax amount of $3.5 million, yielding Free Cash Flow less maintenance capital expenditures of $30.6 million or $1.43 per share basic. These short-term advisory services ended in the fourth quarter of 2013.

Capital Expenditures

Year Ended December 31,	2013	2012
Cash maintenance capital expenditures	$ 36,415	$ 29,457
add: finance lease principal payments	1,592	1,314
Maintenance capital expenditures	38,007	30,771
Growth capital expenditures	44,104	36,293
	$ 82,111	$ 67,064
Maintenance capital expenditures per share - Basic	$ 1.77	$ 1.54
Growth capital expenditures per share - Basic	2.05	1.81
Total capital expenditures per share - Basic	$ 3.82	$ 3.35

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 Company's maintenance capital expenditures include aircraft engine overhauls and airframe heavy checks that are recognized when these events occur. Each aircraft type has different requirements for its major components according to manufacturer standards and the timing of the event can be dependent on the extent that the aircraft is utilized. As a result the extent and timing of these maintenance capital expenditure events can be very lumpy from period to period, both within the year and when analyzing to the comparative period in the prior year.

Maintenance Capital Expenditures

Total maintenance capital expenditures for 2013 totalled $38.0 million, an increase of $7.2 million over the comparative year. The Aviation segment continues to make up the majority of these expenditures and the majority of the Company's year over year increase is within this segment. The maintenance capital expenditures of the Manufacturing segment remained relatively consistent with the prior year.

With the acquisition of Regional One during 2013, a large portion of the Aviation segment's increase in 2013 can be attributed to Regional One that has no comparable in 2012. Regional One's maintenance capital expenditures were $4.0 million during the period of 2013 since it was acquired in April and represents over half of the Aviation segment's increase. Regional One's maintenance capital expenditures consist of the additions required in order to maintain the lease portfolio at its existing operating level. Additions above this amount are considered to be growth capital expenditures. The remaining increase for the Aviation segment was primarily due to the timing of maintenance events for the Perimeter and Calm Air fleets in comparison to 2012, with the majority of the increase occurring in the fourth quarter. During the fourth quarter of 2013 these entities experienced an anomaly around the number of unscheduled engine overhaul events that took place resulting from a combination of timing, weather, and engine malfunction. Overall these entities incurred an additional $3.1 million relating to these unscheduled events. The majority of the Aviation segment's maintenance capital expenditures from the operating airlines relate to engine overhauls, heavy checks and rotable additions and will vary from period to period based on the timing of significant maintenance events. The expenditures at these various airlines are generally proportionate to the size and number of aircraft they operate.

The Manufacturing segment's capital expenditures were mainly from WesTower which spent $2.0 million during 2013 and includes $1.6 million of finance lease payments. The Manufacturing segment's capital expenditures are largely equipment and vehicles. The finance lease principal payments of WesTower 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 $44.1 million in growth capital expenditures during 2013, an increase of $7.8 million over the comparative year. The majority of the growth capital expenditures were in the Aviation segment accounting for $37.3 million. Regional One had a net investment of $7.6 million, which includes growth additions of $12.4 million less disposals of $4.8 million. Regional One has a focus on growing its lease portfolio and long-term sales portfolio and several profitable purchase opportunities were executed during the year. As well, primarily in the fourth quarter, Regional One sold several capital assets that were available for lease, partially offsetting these additions. Other growth expenditures include Perimeter's expenditures on the new Dash 8-300, Keewatin's expenditure to purchase a new King Air to support its growing medevac operations, Calm Air's expenditures on the new ATR-42 and ATR-72, and ground infrastructure that 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 aviation growth expenditures are net of insurance proceeds received for aircraft and proceeds for aircraft that have been disposed of by the Company for fleet renewal plans.

The Manufacturing segment's growth capital expenditures of $6.8 million in 2013 included $1.1 million on a powder coating facility in order to develop in-house capabilities to support Overlanders' precision metal business and the growth capital expenditures at WesTower on equipment to support their expanding operations 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, 2013 and the comparative year in 2012 were as follows:

Month	Record date	Per Share	2013 Dividends Amount	Record date	Per Share	2012 Dividends Amount
January	January 31, 2013	$ 0.14	$ 2,901	January 31, 2012	$ 0.135	$ 2,390
February	February 28, 2013	0.14	2,905	February 29, 2012	0.135	2,423
March	March 29, 2013	0.14	2,911	March 30, 2012	0.135	2,740
April	April 30, 2013	0.14	2,985	April 30, 2012	0.135	2,749
May	May 31, 2013	0.14	3,011	May 31, 2012	0.135	2,753
June	June 28, 2013	0.14	3,016	June 29, 2012	0.135	2,756
July	July 31, 2013	0.14	3,019	July 31, 2012	0.135	2,781
August	August 30, 2013	0.14	3,023	August 31, 2012	0.135	2,783
September	September 30, 2013	0.14	3,026	September 28, 2012	0.135	2,787
October	October 31, 2013	0.14	3,030	October 31, 2012	0.135	2,790
November	November 29, 2013	0.14	3,031	November 30, 2012	0.14	2,868
December	December 31, 2013	0.14	3,031	December 31, 2012	0.14	2,897
Total		$ 1.68	$ 35,889		$ 1.63	$ 32,717

Actual dividends for 2013 totaled $35.9 million, which was an increase of $3.2 million or 10% from the comparative 2012. Per share dividends for 2013 totaled $1.68, which was an increase of 3% over the dividends paid per share of $1.63 in the comparative 2012.

The increase in total dividends declared by the Company is mainly a result of the increase in the Shares outstanding during 2013 and also the per share dividend increase of 4% (or $0.005) per month that started with the November 2012 declared dividend and continued throughout 2013.

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,	2013	Per share basic	Per share fully diluted	2012	Per share basic	Per share fully diluted
Free Cash Flows		55%	63%		43%	54%
Free Cash Flows less maintenance capital expenditures		133%	133%		71%	80%

The performance of WesTower's US operations and the resulting decrease in EBITDA during 2013 negatively impacted all of the Company's payout ratios. In addition, the Company increased dividends per share in the 2013 periods, which also negatively impacts the payout ratios.

The Company's Board of Directors regularly examines the dividends paid to shareholders. The current level is deemed prudent given EIC's current composition of subsidiary companies and the current outlook for these entities.

Fourth Quarter Key Performance Indicators

Three months ended December 31,	2013	Per share basic	Per share fully diluted	2012	Per share basic	Per share fully diluted
EBITDA	$ 22,326			$ 25,642		
Free Cash Flows	16,651	$ 0.76	$ 0.67	20,729	$ 1.00	$ 0.76
Free Cash Flows less maintenance capital expenditures	5,246	0.24	0.24	13,432	0.65	0.57
Dividends Declared	9,092	0.42		8,555	0.415	

The EBITDA generated by the Company for the fourth quarter of 2013 was $22.3 million, a decrease of $3.3 million or 13% over the comparative period. The items impacting the EBITDA generated in the fourth quarter of 2013 are described in Section 6 – Review of Fourth Quarter Results. Overall the decrease can be attributed to the decline in EBITDA at WesTower due to operational inefficiencies coming from its organic growth with its turfing contract. This was offset by the addition of Regional One which was not included in the 2012 comparative.

The Free Cash Flow generated by the Company for the fourth quarter of 2013 was $16.7 million, a decrease of $4.1 million or 20% over the comparative period. Consistent with the discussion for the full year, the decrease in EBITDA generated by the Company negatively impacted the Free Cash Flow for the fourth quarter of 2013. Included in EBITDA but excluded from Free Cash Flow is $0.7 million of net gains on disposals of capital items. On the Statement of Cash Flow the net gain is treated outside of cash flows from operating activities and is part of the disposal proceeds of capital assets. The Company incurred higher levels of cash interest on its debt items ($1.7 million) which was mostly offset by a decrease in cash tax expense for the 2013 period in comparison to the comparable period ($1.4 million). The change in other non-cash items of $0.2 million was an increase to Free Cash Flow.

The Company's Free Cash Flow basic per share for the fourth quarter of 2013 was $0.76, a decrease of $0.24 or 24% over the comparative period. On a fully diluted basis the Company's Free Cash Flow per share for the fourth quarter of 2013 was $0.67, a decrease of $0.09 or 12% over the comparative period. On a basic per share basis, the decrease in absolute Free Cash Flow was the main factor contributing to the decrease on a per share basis which was compounded by the higher base of the Company's shares outstanding. Explanations around the increase in Shares outstanding can be found in Section 7 – Liquidity and Capital Resources. Negatively impacting the fully diluted basis are the additional convertible debentures outstanding in 2013 consisting of the $65.0 million of principal from the March 2013 unsecured convertible debentures.

During the fourth quarter of 2013, the Company invested in short-term external advisory services in association with WesTower's business process reengineering to support its significant organic growth. Included in Free Cash Flow are the WesTower short-term external advisory costs totaling $0.7 million. If these short-term external advisory costs are excluded, Free Cash Flow would increase by an after-tax amount of $0.4 million, yielding Free Cash Flow of $17.1 million or $0.78 per share basic. These short-term advisory services ended in the fourth quarter of 2013.

The Free Cash Flow less maintenance capital expenditures generated by the Company for the fourth quarter of 2013 was $5.2 million, a decrease of $8.2 million or 61% over the comparative period. The decline is due to both the $4.1 million (or 20%) decrease in Free Cash Flow described above and the increase in maintenance capital expenditures of $4.1 million (or 56%) as described further below.

On a basic per share basis, Free Cash Flow less maintenance capital expenditures for the fourth quarter of 2013 decreased to $0.24 ($0.24 fully diluted) in comparison to $0.65 ($0.57 fully diluted) in the 2012 comparative. The decrease of 63% (58% fully diluted) is due to the lower Free Cash Flow less maintenance capital expenditures generated by the Company compounded by an increased base of Shares outstanding for the Company during 2013. The maintenance capital expenditure component of this metric accounted for the $0.52 per share decrease from Free Cash Flow. The maintenance capital expenditures impact for the comparable period in 2012 was $0.35 per share.

Included in Free Cash Flow less maintenance capital expenditures are WesTower short-term external advisory costs of $0.7 million. If these short-term external advisory costs are excluded, Free Cash Flow less maintenance capital expenditures would increase by an after-tax amount of $0.4 million, yielding Free Cash Flow less maintenance capital expenditures of $5.7 million or $0.26 per share basic. These short-term advisory services ended in the fourth quarter of 2013.

The Company invested $22.7 million in capital expenditures net of disposals in the fourth quarter of 2013 (2012 – $13.6 million). Of this amount, $11.4 million was classified as maintenance capital expenditures for the Company (2012 – $7.3 million) with the balance of $11.3 million classified as growth capital expenditures (2012 – $6.3 million). Maintenance capital expenditures increased due to the addition of Regional One, as well as additional maintenance events for the Perimeter and Calm Air fleets in comparison to the same period in 2012. 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. During the fourth quarter of 2013 these entities experienced an anomaly around the number of unscheduled engine overhaul events that took place resulting from a combination of timing, weather, and engine malfunction. Overall these entities incurred an additional $3.1 million relating to these unscheduled events. Growth expenditures for the Aviation segment for the fourth quarter of 2013 include $9.6 million toward the aircraft purchases made by Perimeter, Keewatin and Calm Air and $1.4 million toward ground infrastructure for Calm Air fleet rationalization plan. Growth capital expenditures for the Manufacturing segment include $1.1 million on a powder coating facility, with the remaining relating to capital expenditures at WesTower to support their growth.

The dividends declared for the fourth quarter of 2013 totaled $9.1 million, which is an increase of $0.5 million or 6% over the 2012 comparative period. This is mainly a result of the increased number of Shares outstanding which received dividends; however, it is also a result of the total dividends declared per share increasing in the 2013 period to $0.42 (2012 - $0.415).

4. Analysis of Operations

The following section analyzes the financial results of the Company's operations for the year ended December 31, 2013 and the comparative 2012 year.

	Year Ended December 31, 2013				Year Ended December 31, 2012			
	Aviation	Manufacturing	Head-office[2]	Consolidated	Aviation	Manufacturing	Head-office[2]	Consolidated
Revenue	$ 313,214	$ 716,865	$ —	$ 1,030,079	$ 280,407	$ 520,166	$ —	$ 800,573
Expenses[1]	248,492	692,390	8,698	949,580	228,342	469,123	8,610	706,075
EBITDA	64,722	24,475	(8,698)	80,499	52,065	51,043	(8,610)	94,498
Depreciation and amortization				48,216				38,355
Finance costs - interest				21,315				14,149
Acquisition costs				1,669				1,358
Consideration liability fair value adjustment				(1,051)				-
Impairment loss				—				2,032
Earnings before taxes				10,350				38,604
Current income tax expense (recovery)				(1,747)				6,904
Deferred income tax expense				3,113				6,349
Net earnings for the year				$ 8,984				$ 25,351

Note 1): Expenses include aviation expenses (excluding depreciation and amortization), manufacturing expenses (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 revenues recognized by the Company for the current year was $1,030.1 million, an increase of $229.5 million or 29% over the comparative year. The main driver of the increase in consolidated revenue is due to the organic growth in the Manufacturing segment, in particular at WesTower, and the acquisition of Regional One in April 2013. The revenues for the Aviation segment increased by 12% to $313.2 million and the revenues for the Manufacturing segment increased by 38% to $716.9 million.

On a consolidated basis, EBITDA generated by the Company for the current year was $80.5 million, a decrease of $14.0 million or 15% over the comparative year. The main contributor to the decrease in EBITDA for 2013 is the decreased performance at WesTower in the Manufacturing segment. The EBITDA for the Aviation segment increased by 24% to $64.7 million and the EBITDA for the Manufacturing segment decreased by 52% to $24.5 million. Costs incurred at the head-office of the Company increased by 1% to $8.7 million. Included in EBITDA are short-term external advisory costs incurred in WesTower totaling $5.5 million. Excluding these short-term external advisory costs would result in EBITDA of $86.0 million, a decrease of 9% when compared to 2012.

Aviation Segment

Year Ended December 31,	2013	2012	Variance	Variance %
Revenue	$ 313,214	$ 280,407	$ 32,807	12%
Expenses	248,492	228,342	20,150	9%
EBITDA	$ 64,722	$ 52,065	$ 12,657	24%

The Aviation segment generated revenues of $313.2 million and EBITDA of $64.7 million for the year ended December 31, 2013. This represents a $32.8 million, or 12%, increase in revenue and a $12.7 million, or 24%, increase in EBITDA over the same period in 2012. Regional One, which was acquired April 2013, contributed $38.5 million in revenue and $14.9 million in EBITDA for the year ended December 31, 2013.

The Aviation segment's pre-existing entities experienced a $5.7 million, or 2%, decline in revenue for the year from $280.4 million in 2012 compared to $274.7 million in 2013. This decline is primarily driven by a decline in passenger services. Revenues generated from passenger services decreased by approximately $8.2 million, or 5%. As discussed in previous reports, the decrease in passenger revenue is predominantly the result of increased competition in the Ontario market serviced by Bearskin, as well as decreased volumes for Calm Air's market. This deterioration in revenue was partly offset by growth in charter, cargo and medevac operations. Although the third quarter was impacted by a weak charter season, this was a short term anomaly driven by lower fire evacuation work compared to the prior year. The fourth quarter of 2013 stabilized, resulting in a net increase in charter operations on an annualized basis compared to 2012. The Company has mitigated the declines in revenue experienced in its scheduled service operations by capitalizing on growth opportunities in its charter operations by expanding into new markets; and by securing new cargo contracts in the markets operated by Calm Air. Furthermore, the segment's medevac operations experienced growth in the Kivalliq regions compared to 2012. Going forward, the Aviation segment does not anticipate any further material reductions in passenger services and management believes it is well positioned for 2014.

Operational expenses for the Aviation segment increased by $20.2 million, or 9%, to $248.5 million in 2013 inclusive of $23.7 million of expenses generated from Regional One. The increase in expenses associated with Regional One were partly offset by a $3.5 million, or 2%, reduction in expenses from pre-existing operations from $228.3 million in 2012 to $224.8 million in 2013. The decrease in operating costs is driven by fewer fleet hours resulting, in lower variable operating costs such as reduced fuel and maintenance costs. This is in addition to cost reductions resulting from the implementation of Calm Air's fleet rationalization plan as discussed in previous reports, combined with the Company's other cost review initiatives. These cost reductions were partly offset by increased labour costs associated with adding a 4th Dash 8 in late 2012, combined with ramping up for a 5th Dash 8 in the fourth quarter of 2013. Furthermore, there were increases associated with labour contracts across the segment.

EBITDA increased by $12.7 million, or 24%, to $64.7 million for the year ended 2013. Regional One contributed $14.9 of this increase. The pre-existing aviation entities experienced a $2.2 million, or 4%, decline in EBITDA from $52.1 million in 2012 to $49.9 million in 2013. The EBITDA margin, inclusive of Regional One, increased from 18.6% in 2012 to 20.7% in 2013. The improvement in EBITDA margin is the direct result of the addition of Regional One which yields higher margins than those historically experienced in the pre-existing aviation entities. EBITDA margins for the year ended 2013 for the pre-existing entities experienced a small decline from 18.6% in 2012 to 18.2% in 2013 as there was increased competition in both the rotary wing operation and in the Ontario markets serviced by Bearskin.

Manufacturing Segment

Year Ended December 31,	2013	2012	Variance	Variance %
Revenue	$ 716,865	$ 520,166	$ 196,699	38%
Expenses	692,390	469,123	223,267	48%
EBITDA	$ 24,475	$ 51,043	$ (26,568)	-52%

The revenues of the Manufacturing segment for the current year was $716.9 million, an increase of $196.7 million or 38% over the comparative year. The operations of WesTower is the main factor impacting the results for the segment as it represented over 87% of the segment's revenues for 2013. WesTower has experienced rapid growth in the last two years as its US operations continue to service the turfing contract it has with its main customer, AT&T. This rapid growth has generated additional revenue volumes over this period at a pace of over 400% from pre-turfing contract volumes. As a result, this has put considerable pressure on the resources and systems at WesTower in meeting this expansion level.

In comparison to the prior year, the increase in revenues is due to the organic growth of WesTower which generated an additional $200.7 million of revenues. The growth was largely driven by the demand for LTE network builds for the major telecom companies in the US. The AT&T turfing contract revenues increased by approximately US $150 million or 67%.

The revenue increase at WesTower was offset by a decline in the remainder of the Manufacturing segment, which was driven mainly by a decrease at Stainless from the comparable year. In that comparative year, Stainless generated revenues from several large field projects and in 2013 it did not have that same level of large field projects. These large projects can result in short-term spikes in performance that will result in lumpy revenues depending on when these projects take place. Overall, the revenues generated by Stainless in 2013 were in line with expectations given the above normal large projects in 2012.

The EBITDA generated by the Manufacturing segment for the current year was $24.5 million, a decrease of $26.6 million or 52% over the comparative year. As a result of the significance of WesTower's US operations, the segment's EBITDA was directly impacted by the lower EBITDA margins realized by WesTower's US operations during 2013.

WesTower's earnings are determined using the percentage of completion method. The percentage of completion method is applied on a cumulative basis in each accounting period to the current estimates of contract revenue and contract costs. Therefore, the effect of a change in the estimate of contract revenue or contract costs, or the effect of a change in the estimate of the outcome of a contract, is accounted for as a change in accounting estimate during the period.

In the ordinary course of business, and at a minimum on a quarterly basis, management updates projected contract revenue, cost and profit or loss for each of our projects based on changes in facts, such as an approved scope change, and changes in estimates. Due to reduced profitability for certain projects completed during 2013, particularly in the third quarter, management determined that certain forecasted estimates of projected contract revenues and costs should be adjusted and related margins reduced.

The US operations of WesTower experienced lower gross margins as a result of project inefficiencies with higher than expected costs to complete the work, higher overhead costs and a higher level of material related revenues that have lower margins. Many of these inefficiencies were driven by procuring the resources, both internal and external, to meet customers' build plans. This has required a significant increase in the size of its employee base and the costs of hiring and training those new employees puts a cost burden on the operations. Rapid growth of the employee base has also resulted in high employee turnover, resulting in further training and hiring costs.

During the third quarter the Manufacturing segment recorded an $11 million adjustment from a change in estimate. WesTower's US operations also incurred short-term external advisory costs of $5.5 million in 2013 associated with improving process efficiencies and internal controls required as a result of the pressure on resources and systems experienced from the rapid growth since taking on the turfing contract with AT&T. These advisory costs were not incurred in the comparative year and ended in the fourth quarter of 2013. As well, certain inefficiencies continued throughout to the end of the 2013 period at WesTower. The combined impact of these items at WesTower had a significant negative impact on the EBITDA generated and resulted in WesTower generating a total of $8.9 million of EBITDA for 2013, which is a decrease of $25.6 million from the comparative year. WesTower's Canadian operations continue to produce strong margins and EBITDA.

The EBITDA generated by the entities outside of WesTower was $15.6 million, which is a decrease of $1.0 million from the comparative year and is mainly attributed to the lower volume of production at Stainless as explained above in the change in revenues.

Head-Office

Year Ended December 31,	2013	2012	Variance	Variance %
Expenses	$ 8,698	$ 8,610	$ 88	1%

The head-office costs incurred by the Company for the current year are $8.7 million, an increase of $0.1 million or 1% over the comparative year. The relatively small increase in head-office costs is a combination of an increase in personnel costs and professional costs offset by foreign exchange gains. The head-office team grew throughout the second half of fiscal 2012 and early 2013 and is reflective of the growth in the size of the consolidated group of companies within EIC. Despite the increase in the number of personnel at head-office, personnel costs had only a small increase for 2013 due to a decline in performance related expenses compared to 2012.

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, 2013 in comparison to the same period in 2012. Consolidated net earnings for the year ended December 31, 2013 were $9.0 million, a decrease of $16.4 million over the comparative period in 2012.

Year Ended December 31,	2013	2012	Variance	Variance %
Depreciation and amortization	$ 48,216	$ 38,355	$ 9,861	26%

The Company's depreciation and amortization for the current year was $48.2, an increase of $9.9 million or 26% over the comparative year. The change is attributable to the increase in capital asset depreciation of $9.1 million recorded by the Company, in particular the Aviation segment. The addition of Regional One and the significant capital expenditures made by the Aviation segment throughout 2012 and 2013 fiscal periods have contributed to higher depreciation throughout 2013. Amortization of intangible assets increased $0.8 million as a result of the additional amortization on the intangible assets recognized on the Regional One acquisition.

Year Ended December 31,	2013	2012	Variance	Variance %
Finance costs – interest	$ 21,315	$ 14,149	$ 7,166	51%

The Company's interest incurred for the current year was $21.3, an increase of $7.2 million or 51% over the comparative year. The increase in 2013 is mainly a result of additional interest costs on the Company's outstanding convertible debentures. An additional $6.3 million of costs were incurred by the Company and can be attributed to the September 2012 unsecured convertible debentures of $57.5 million with a 5.5% fixed interest rate and the March 2013 unsecured convertible debentures of $65.0 million with a 5.35% fixed interest rate. The September 2012 unsecured convertible debentures were outstanding for only a portion of the 2012 comparative and the March 2013 unsecured convertible debentures were not outstanding in the comparative at all. The interest from the other series of convertible debentures was relatively flat between both periods with a decrease of $0.1 million in 2013.

The Company's interest on long-term debt and finance leases increased by $1.0 million and is mainly a result of higher amounts of debt outstanding during the last few months of 2013. The Company incurred $0.2 million of non-cash interest accretion on certain consideration liabilities associated with the acquisition of Regional One and this was offset by $0.2 million of interest capitalized by the Company as part of the maintenance facility and buildings being constructed by Calm Air.

Year Ended December 31,	2013	2012	Variance	Variance %
Acquisition costs	$ 1,669	$ 1,358	$ 311	23%

The acquisition costs incurred by the Company for the current year were $1.7 million, an increase of $0.3 million or 23% over the comparative year. The costs expensed in 2013 relate almost solely to the external costs incurred for the Regional One acquisition, which closed early in April 2013. The costs expensed in 2012 pertain to a combination of costs relating to the closing of the Custom acquisition, which closed in February 2012, costs relating to the anticipated closing of the Regional One acquisition that subsequently took place early in 2013, and also external costs incurred on some other potential acquisitions and due diligence activities.

Year Ended December 31,	2013	2012	Variance	Variance %
Consideration liability fair value adjustment	$ (1,051)	$ —	$ (1,051)	—

As a result of the structure of the consideration for the acquisition of Regional One in April 2013, there were contingent consideration liability balances recorded pertaining to the planned future payment of cash and shares of the Company. Certain liabilities were recognized that will be settled by the Company through issuing shares and according to IFRS the value of these liabilities fluctuate in value based on the Company's share price up to the time they are settled or derecognized.

During the second quarter of 2013 a portion of the liability was settled and the Company issued shares to the vendor and based on the timing of that issuance, the share price decreased and resulted in a gain of $0.2 million. The remaining gain recorded relates to period end fair value adjustments where the liability was valued as at the period-end share price, which was also lower than the acquisition closing date share price and resulted in an additional gain of $0.9 million from reducing the liability recorded. Each period a fair value adjustment will be recorded as long as this liability is outstanding.

Year Ended December 31,	2013	2012	Variance	Variance %
Impairment Loss	$ —	$ 2,032	$ (2,032)	-100%

The Company recorded an impairment write-down during the 2012 comparative period in association with several aircraft within the Aviation segment. Calm Air entered into an arrangement at that time to sell its SAAB aircraft as part of its fleet renewal plan which resulted in an impairment write-down of $1.8 million on these aircraft. Also, the Company recorded a $0.2 million impairment write-down in the 2012 comparative period on a Beech 99 aircraft within Perimeter's fleet as a result of the decision to cease using the aircraft in its operations. The Company did not have any impairment charges during 2013.

Year Ended December 31,	2013	2012	Variance	Variance %
Current income tax expense (recovery)	$ (1,747)	$ 6,904	$ (8,651)	-125%
Deferred income tax expense	3,113	6,349	(3,236)	-51%
Income tax expense	$ 1,366	$ 13,253	$ (11,887)	-90%

The Company's income tax expense for the current year was $1.4 million, a decrease of $11.9 million or 90% over the comparative year.

There are two main reasons for the decrease in tax expense. The first is due to the $28.3 million (or 73%) decrease of earnings before income taxes. Secondly, a smaller proportion of consolidated net income is being generated in jurisdictions that have a higher statutory tax rate. Current income tax recovery is the expected tax receivable on losses for purposes incurred within Canadian and US subsidiaries that are corporations.

The Company has the ability to offset some of the taxable income it generates with non-capital losses. During 2013 the Company used $13.9 million of non-capital losses (2012 – $22.9 million) and it has approximately $111.9 million of non-capital losses available to offset future taxable income.

5. Summary Of Quarterly Results

				2013				2012
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenue	$ 267,500	$ 267,327	$ 275,680	$ 219,572	$ 231,447	$ 220,807	$ 201,636	$ 146,683
EBITDA	22,326	15,612	24,968	17,593	25,642	30,332	24,463	14,061
Net earnings / (loss)	1,871	(205)	5,732	1,586	6,710	9,972	7,759	910
Basic	0.09	(0.01)	0.27	0.08	0.32	0.49	0.38	0.05
Diluted	0.09	(0.01)	0.27	0.08	0.32	0.46	0.37	0.05
Free cash flow (FCF)	16,651	15,434	19,636	13,412	20,729	24,059	20,821	11,167
Basic	0.76	0.71	0.92	0.65	1.00	1.17	1.02	0.61
Diluted	0.67	0.68	0.76	0.56	0.76	0.94	0.82	0.54
FCF less maintenance capital expenditures	5,246	5,362	11,061	5,457	13,432	16,199	12,508	3,866
Basic	0.24	0.25	0.52	0.26	0.65	0.79	0.61	0.21
Diluted	0.24	0.25	0.46	0.26	0.57	0.69	0.55	0.21

6. Review of Fourth Quarter Results

	Three months ended December 31, 2013				Three months ended December 31, 2012			
	Aviation	Manufacturing	Head-office[2]	Consolidated	Aviation	Manufacturing	Head-office[2]	Consolidated
Revenue	$ 86,619	$ 180,881	$ —	$ 267,500	$ 68,782	$ 162,665	$ —	$ 231,447
Expenses[1]	67,140	175,257	2,777	245,174	56,737	147,011	2,057	205,805
EBITDA	$ 19,479	$ 5,624	$ (2,777)	$ 22,326	$ 12,045	$ 15,654	$ (2,057)	$ 25,642

Note 1): Expenses include aviation expenses (excluding depreciation and amortization), manufacturing expenses (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, which increased by $36.1 million or 16% in 2013, over the 2012 comparative period. EBITDA decreased by $3.3 million or 13% in 2013 over the comparative period in 2012.

The major factors impacting the $36.1 million increase in the Company's fourth quarter 2013 revenues are twofold. Firstly, the Manufacturing segment's organic growth and, in particular, within the operations of WesTower as a result of its turfing revenues, resulted in increased revenues of $18.2 million. Secondly, the acquisition of Regional One within the Aviation segment added $18.5 million of revenue in the fourth quarter of 2013 with no comparative in 2012. This increase was offset by a decrease in revenue of $0.6 million in the Aviation segment's pre-existing entities.

The Manufacturing segment generated $10.0 million less of EBITDA compared to the fourth quarter of 2012 and totaled $5.6 million for the fourth quarter of 2013. This decrease is attributed to WesTower, which saw a decrease in EBITDA of $10.9 million in the 2013 period. The US operations of WesTower experienced lower gross margins as a result of project inefficiencies with higher than expected costs to complete the work and higher overhead costs, consistent with the fiscal 2013 discussion. This decrease was offset by increases in EBITDA of the other manufacturing entities, which contributed a $0.9 million increase in EBITDA in the 2013 period. Partially offsetting the overall decrease in EBITDA in the Manufacturing segment was a $7.4 million increase in EBITDA generated by the Aviation segment, including $7.9 million generated by Regional One with no comparative. Also, head office costs increased during the fourth quarter of 2013 by $0.7 million compared to the same period in 2012. The costs incurred at head-office increased as a result of higher staff levels at head-office and increased professional fees incurred during the 2013 period.

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, making 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. The telecom industry generally has a very slow start to the year as this is when the large telecommunication companies 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 seasonally 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, 2013, the Company had a net cash position of $23.2 million (December 31, 2012 of $4.2 million) and net working capital of $256.6 million (December 31, 2012 of $156.6 million), which represents a current ratio of 2.23 to 1 (December 31, 2012 of 1.90 to 1).

	December 31, 2013	December 31, 2012	Change
Cash and cash equivalents	$ 23,168	$ 4,166	$ 19,002
Accounts receivable	141,947	134,508	7,439
Costs incurred plus recognized profits in excess of billings	176,971	120,968	56,003
Inventory	109,195	63,865	45,330
Prepaid expenses and deposits	10,375	6,219	4,156
Taxes receivable	4,496	—	4,496
Accounts payable and accrued expenses	(151,191)	(125,614)	(25,577)
Income taxes payable	—	(7,218)	7,218
Deferred revenue	(9,063)	(8,582)	(481)
Billings in excess of costs incurred plus recognized profits	(43,602)	(30,346)	(13,256)
Current portion of long-term debt and finance leases	(1,326)	(1,405)	79
Current portion of convertible debentures	(4,324)	—	(4,324)
Net working capital	$ 256,646	$ 156,561	$ 100,085

The Company's working capital at the end of 2013 included Regional One, which was not part of the year-end 2012 comparative. As at December 31, 2013 Regional One added working capital of $36.9 million, consisting mainly of accounts receivable and inventory. The Company's pre-existing entities had a net increase of $63.2 million in working capital over year-end 2012 which is primarily attributed to the organic growth in WesTower's US operations. During the 2013 period, the Company utilized its credit facility to fund WesTower working capital needs for the growth of its US operations.

During the year the Company closed the offering of its March 2013 Unsecured Series 5.35% seven year convertible debentures with a par value of $65.0 million, including $5.0 million from the over-allotment option, and generated net proceeds of $61.8 million. The funds generated were used by the Company to make payments against its outstanding credit facility balance in anticipation of the closing of the Regional One acquisition in April 2013. The debentures have a seven year term with a 5.35% fixed interest rate paid semi-annually. The conversion price for these debentures is $41.60. During the third quarter, the Company amended the trust indenture to remove certain terms of these March 2013 unsecured debentures and the same terms within the September 2012 unsecured debentures. The amendment removed the cash conversion feature that gave the Company the ability to force a debentureholder to be paid out in cash based on market pricing around the time of conversion versus issuing shares. Under IFRS, this feature caused the debentures to contain an embedded derivative and the potential volatility that is created from valuing the embedded derivative is not considered to have value for the Company. As a result, the cash conversion feature and the related immaterial embedded derivatives in each of these debenture series were removed effective July 26, 2013.

Subsequent to year-end 2013, the Company closed the offering of 6.0% seven year convertible debentures with a par value of $40.0 million and generated net proceeds of $38.0 million. The funds generated were used by the Company as a payment against its outstanding credit facility balance and increases the liquidity of the Company for additional growth and expansion.

The acquisition of Regional One closed during the second quarter on April 12, 2013 and the Company drew funds from its credit facility for the cash consideration of the purchase price. At the time of closing, the Company paid US$60.8 million, issued 494,656 shares with a US$13.6 million value, and recognized consideration liabilities of US$14.4 million for future payments. The Company also assumed debt within Regional One of US$1.6 million and paid it off at the time of closing. The recognized consideration liabilities include certain contingent future payments of both cash and issuance of shares within the share purchase agreement. The price of the shares used for both the shares issued at the time of closing and in the future was negotiated between the Company and the vendors. However, IFRS requires that shares issued be valued at the share price at the time of issuance and as a result certain differences exist. As well, subsequent to closing, any change in the Company's share price impacts the value of the liability and will be recorded through the Company's statement of income in the period of the change even though there is no impact on the maximum number of shares to be issued in accordance with the share purchase agreement. Included in the cash consideration paid was US$15.7 million funded to an escrow agent and being held pursuant to the terms of an escrow agreement which require certain financial results to be achieved for the release of such funds. Under IFRS this contingent consideration is not considered to fulfill the contingent liability and therefore the cash held in escrow remains as the cash of the Company until those funds are released to the vendors or returned to the Company. During the second quarter, some of those contingent requirements were fulfilled and US$9.1 million was released to the vendors. During the fourth quarter, the working capital settlement was finalized with the vendor. As a result the Company paid US$3.2 million as partial settlement of certain consideration liabilities that were recognized on closing and the funds were drawn from the Company's credit facility.

During 2013 the Company made several payments and draws on its credit facility. Near the end of March 2013, the Company used the net proceeds from the March 2013 unsecured debenture offering to repay the debt outstanding under the US portion of the Company's credit facility. As described above, the Company used its credit facility to pay a portion of the Regional One purchase consideration and it also made other draws for a variety of capital expenditures and working capital requirements. Since acquiring Regional One, the Company has drawn US$18.7 million to fund its growth opportunities to acquire assets, including aircraft, engines and various parts. Overall, the Company has had a net increase in the amount outstanding in its credit facility by US$90.0 million and $50.4 million in Canadian funds during the 2013 period.

Upon the closing of the Regional One acquisition, the Company amended its credit facility which resulted in an increase in the total amount of credit available and an extension of the term of the revolving credit facility to have a maturity of April 2017. The total credit available under the facility is $335 million, with $258 million allocated to EIC and $77 million allocated to EIIF Management USA Inc. ("EIIF USA") (prior to the amendment the total credit available was $235 million consisting of $160 million allocated to EIC and $75 million to EIIF USA). The facility allows for borrowings to be denominated in either Canadian or US funds. Based on the amounts outstanding under the credit facility as at December 31, 2013, the Company has drawn $208.3 million, excluding the impact of foreign exchange, leaving approximately $126 million of credit available to the Company as at year-end 2013. As described above, subsequent to the end of 2013 the Company obtained net proceeds from the closing of the convertible debenture offering. Combined with other amounts drawn subsequent to the end of 2013, the Company has made a net payment of $34.4 million and a net draw of US$11.7 million to its credit facility up to the date of this report.

The finance leases of WesTower's operations continue and during 2013 the Company made principal payments of $1.6 million. Also during this period, WesTower entered into new finance leases with a capital asset value and principal amount of $1.2 million and US$0.8 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 in 2013 and the Company received $4.2 million for 177,474 Shares being issued in accordance with the DRIP.

The Company obtained additional cash through the means described above and also generated $65.1 million of Free Cash Flow during 2013. The Company used these funds for significant capital expenditures over that period. See Section 3 – Key Performance Indicators for more information on the capital expenditures made by the Company.

The Company's dividends are dependent on its ability to generate cash flow from operations and Free Cash Flow. During 2013, the Company declared dividends totaling $35.9 million in comparison to $32.7 million during the 2012 comparative. This was a result of an increased number of Shares outstanding and an increase in the monthly dividend rate between the two periods. Throughout 2013, the Company declared a monthly dividend of $0.14 per share and during the first ten months of 2012 the monthly dividend declared per share was $0.135 until it was increased to $0.14 per share per month for the last two months of 2012. 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, 2013:

	Date issued	Number of shares
Shares outstanding, beginning of year		20,636,593
Issued for Regional One vendors on closing	April 12, 2013	494,656
Issued under vesting of Reserved Shares	April 25, 2013	28,746
Issued for Regional One vendors on contingent liability payment	May 31, 2013	178,552
Issued under employee share purchase plan (ESPP)	November 18, 2013	76,148
Issued upon conversion of convertible debentures	various	160,231
Issued under dividend reinvestment plan (DRIP)	various	177,474
Shares outstanding, end of year		21,752,400

The following summarizes the convertible debentures outstanding as at December 31, 2013 and the changes in the amount of convertible debentures outstanding during the year ended December 31, 2013:

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Series F - 2009	N/A	April 8, 2014	10.0%	$ 10.75
Series G - 2009	EIF.DB.A	September 30, 2014	7.5%	$ 14.50
Series H - 2010	EIF.DB.B	May 31, 2017	6.5%	$ 20.00
Series I - 2011	EIF.DB.C	January 31, 2016	5.75%	$ 26.00
Series J - 2011	EIF.DB.D	May 31, 2018	6.25%	$ 30.60
Unsecured Debentures - 2012	EIF.DB.E	September 30, 2019	5.5%	$ 36.80
Unsecured Debentures - 2013	EIF.DB.F	March 31, 2020	5.35%	$ 41.60

Par value	Balance, beginning of year	Issued	Converted	Matured	Balance, end of year
Series F	$ 1,189	$ —	$ (55)	$ —	$ 1,134
Series G	4,817	—	(1,557)	—	3,260
Series H	23,053	—	(937)	—	22,116
Series I	34,965	—	(21)	—	34,944
Series J	57,480	—	(3)	—	57,477
Unsecured Debentures - September 2012	57,500	—	—	—	57,500
Unsecured Debentures - March 2013	—	65,000	—	—	65,000
Total	$ 179,004	$ 65,000	$ (2,573)	$ —	$ 241,431

The following are the contractual obligations of the Company and its subsidiaries at December 31, 2013:

	Total	Less than 1 year	Between 1 year and 5 years	More than 5 years
Long-term debt	$ 218,345	$ —	$ 218,345	$ —
Convertible debentures	241,431	4,394	114,537	122,500
Operating leases	45,179	10,410	21,906	12,863
Finance leases	2,899	1,326	1,573	—
	$ 507,854	$ 16,130	$ 356,361	$ 135,363

8. Related Party Transactions

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

Property Leases

Various entities lease several buildings from related parties who were vendors of the 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 2013 under these leases was $2.1 million (2012 – $1.6 million) and the lease term maturities range from 2014 to 2018. 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 (2012 – nil).

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 2013 year and the comparative 2012 year is as follows:

	2013	2012
Salaries and short-term benefits	$ 2,872	$ 3,974
Share-based payments	1,118	600
	$ 3,990	$ 4,574

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.

Accounting Estimates

Business Combination

The Company's acquisitions have been accounted for using the acquisition method of accounting. Under the acquisition method, the acquiring company adds to its statement of financial position the estimated fair values of the acquired company's assets and assumed liabilities. There are various assumptions made when determining the fair values of the acquired company's assets and assumed liabilities. The most significant assumptions and those requiring the most judgment involve the estimated fair values of intangible assets.

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Any contingent consideration to be transferred by the Company is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The initial recognition of intangible assets acquired that require critical accounting estimates are customer contracts, customer relationships, customer lists, certifications and trade names. To determine the fair value of these customer based intangible assets (excluding trade names), 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. Significant assumptions include, among others, the determination of projected revenues, cash flows, customer retention rates, discount rates and anticipated average income tax rates. To determine the fair value of the trade name intangible asset, the Company adopted the royalty relief method. This valuation technique values the intangible assets based on the present value of the expected after-tax royalty cash flow stream using a hypothetical licensing arrangement. Significant assumptions include, among others, the determination of projected revenues, royalty rate, discount rates and anticipated average income tax rates.

Long-term Contract Revenue Recognition

Stainless and WesTower operate under long-term contracts with customers 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.

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, 2013 would result in an increase of approximately $3.5 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 the Company's weighted average cost of capital at the assessment date which incorporates the Company's existing capital items. 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, 2013 the Company has recognized uncertain tax positions in the amount of $2.2 million (including accrued interest of $0.2 million). The uncertain tax positions have been recognized as part of business combinations described in Note 5 of the Company's consolidated financial statements. 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 $2.2 million.

Critical Accounting Judgments

Measurement and Presentation of Capital Assets and Inventory

The Company may purchase certain aircraft and aircraft components in the normal course of the operations at Regional One. The Company must assess whether the aircraft and engines should be recognized as either inventory or capital assets depending on the anticipated use of such assets, including the ability to lease these tangible assets to customers. The determination is based on available cycle times related to aviation components and whether such assets are expected to be used in more than one period, in which case they would be classified as capital assets and amortized over their useful lives. The Company reviews its tangible assets on a regular basis to assess whether reclassifications are required between capital assets and inventory and the related accounting implications.

10. Accounting Policies

The accounting policies of the Company used in the determination of the results for years ended December 31, 2013 and 2012 that are discussed and analyzed in this report are described in detail in Note 3 of the Company's 2013 consolidated financial statements.

Future Accounting Standards

Accounting standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2013 and have not been applied in preparing these consolidated financial statements. Those which are relevant to the Company are set out below. The Company does not plan to adopt these standards early and is continuing to evaluate the impact of such standards.

IFRS 9 – Financial Instruments

IFRS 9 – Financial Instruments introduces new requirements for classifying and measuring financial assets and financial liabilities. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 also introduced additional changes related to financial liabilities. The IASB also recently introduced amendments to IFRS related to hedge accounting. The Standard is not applicable until annual periods beginning on or after January 1, 2015, but is available for early adoption.

In November 2013, the IASB issued three amendments affecting IFRS 9, IAS 7 and IAS 39. The first amendment sets out new hedge accounting requirements. The second amendment allows entities to apply the accounting for changes from own credit risk in isolation without applying the other requirements of IFRS 9. The third amendment removes the mandatory effective date of IFRS 9 from January 1, 2015 to a new date that will be determined when IFRS 9 is closer to completion.

IAS 39 – Financial Instruments: Recognition and Measurement

IAS 39, Financial Instruments: Recognition and Measurement, was amended to clarify that hedge accounting should be continued when a derivative financial instrument designated as a hedging instrument is replaced from one counterparty to a central counterparty or an entity acting in that capacity and certain conditions are met. The amendment is effective for annual periods beginning on or after January 1, 2014 with early application permitted.

IFRIC 21 – Levies

IFRIC 21, Levies, sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognized. The interpretation is effective for annual periods beginning on or after January 1, 2014 with earlier application permitted.

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 IFRS.

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, 2013, 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 continues 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 enhanced.

Management has limited the scope of design of internal controls over financial reporting to exclude the evaluation of the design of controls at Regional One, purchased April 12, 2013, as it has not determined its impact, if any, on the Company's internal controls over financial reporting. The design of these controls will be evaluated for the end of first quarter 2014.

Regional One had revenue of $38.5 million and EBITDA of $14.9 million included in the consolidated results of the Company for the period ended December 31, 2013 since the acquisition closed on April 12, 2013. As at December 31, 2013, it had current assets and current liabilities of $43.4 million and $6.5 million, respectively.

There have been no other material changes to the Company's internal controls during the 2013 year that would have materially affected or are likely to materially affect the internal controls over financial reporting.

Disclosure Controls and Procedures

Management has established and maintained disclosure controls and procedures 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, 2013 were not effective.

12. Risk Factors

The Company and its Subsidiaries are subject to a number of risks. These risks relate to the structure of the Company and to the operations at the subsidiary entities. An investment in the securities of the Company involves a number of risks. The risks and uncertainties described below are all of the significant risks that management of the Company is aware of and believe to be material to the business and results of operations of the Company. When reviewing forward-looking statements and other information contained in this document, investors and others should carefully consider these factors, as well as other uncertainties, potential events and industry and company-specific factors that may adversely affect future results of the Company. The Company operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management of the Company to predict all risk factors or the impact of such factors on the business of the Corporation. The Corporation assumes no obligation to update or revise these risk factors or other information contained in this document to reflect new events or circumstances, except as may be required by law.

The most significant risks are categorized by their source and described as follows:

External

- Economic and Geopolitical Conditions
- Competition
- Government Funding for First Nations Health Care
- Access to Capital
- Market Trends and Innovation
- General Uninsured Loss
- Speculative Nature of Investment
- Climate
- Acts of Terrorism
- Pandemic

Operational

- WesTower US Performance
- Significant Contracts and Customers
- Operational Performance and Growth
- Acquisition Risk
- Concentration Risk
- Maintenance Costs
- Access to Parts and Relationships with Key Suppliers
- Casualty Losses
- Environmental Liability Risks
- Dependence on Information Systems and Technology
- International Operations Risks
- Fluctuations in Prices of Aviation Related Assets
- Aviation Related Asset Acquisitions Price Volatility

Financial

- Availability of Future Financing
- Laws, Regulations and Standards
- Income Tax Matters
- Commodity Risk
- Foreign Exchange
- Interest Rates
- Credit Facility and the Trust Indentures
- Dividends
- Unpredictability and Volatility of Share Prices
- Dilution Risk
- Credit Risk

Human Capital

- Management and Operations
- Reliance on Key Personnel
- Employees and Labour Relations
- Conflicts of Interest

The risk factors in each category are disclosed in order from the most serious to the least serious.

External Risks

Economic and Geopolitical Conditions

External economic factors over which the Company exercises no influence could affect customer demand and disposable income. The Company is cognizant that the Canadian and US economies are susceptible to the global economy, continued weakness in the Eurozone, and 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 growth.

Negative changes in the economy will impact each of the Company's manufacturing operations differently as the Manufacturing segment is diversified and geographically dispersed. For instance a downturn will have a greater impact on some regions, like Alberta, whose economy is driven by oil and gas more than others. A US economy downturn impacts the operations of Stainless more than our other operations as their products are provided to a wide variety of US industries. WesTower is more specifically impacted by the telecommunication industry which is driven by the large telecommunication companies' capital expenditure programs that 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. This segment historically has some time lag between the economy 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 our Aviation segment, a downturn in economic growth could have the effect of reducing demand for passenger travel, as well as the demand for charter and cargo services. Reduced demand will have an impact on revenue, but will have a larger impact on profitability because of the significant fixed costs of the aviation operations. In addition to the sensitivity of operations to cycles driven by the economy, 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 the demand and supply levels of aviation related assets.

Regional One is particularly affected by economic factors that adversely impact the global commercial aviation industry generally. The global commercial aviation industry is historically cyclical and has been negatively affected in the past by geopolitical events, high oil prices, lack of capital, and weak economic conditions. A result of these economic conditions is that a number of customers of Regional One have ceased operations or filed for bankruptcy or other reorganization in recent years. If this trend continues, it could have a significant impact on the operations of Regional One. In addition, any reduction in the global operating fleet of aircraft will result in reduced demand for parts support and maintenance activities for the type of aircraft affected. Further, tight credit conditions may negatively impact the amount of liquidity available to buy parts, services, engines, and aircraft. A deteriorating airline environment may also result in additional airline bankruptcies, and Regional One may not be able to fully collect outstanding accounts receivable. Reduced demand from customers caused by weak economic conditions, including tight credit conditions and customer bankruptcies, may adversely impact Regional One's financial condition or results of operations.

Competition

The Company recognizes that there are threats in the operating environment, including new competition or increased competition which could have a significant impact on the Company's business, results from operations, and financial condition.

The Aviation segment, other than Regional One, currently focuses on niche markets in Manitoba, Ontario and Nunavut and experiences different levels of competition depending on the geography and the nature of service provided. These companies focus on providing the best service through their low cost of operation, fleet of appropriately sized owned aircraft, significant ground infrastructure and their relationships with their customers. However, the Aviation segment would be exposed to downside earnings risk if a well-capitalized competitor were to commence operations or if a current competitor were to significantly expand services in the niche markets where the entities currently operate. The greatest impact would be on the segment's scheduled operations, as competition would put pressure on load factors resulting in declining margins due to the nature of fixed costs in these operating entities. This impact would be more pronounced in the short-term until the affected entity made the appropriate changes to its

business to respond to the competition. There has been more competitive pressure experienced on Bearskin's operations and profitability over the last couple of years. Bearskin is actively reassessing its routes and deployment of aircraft to markets that are more suitable for its core competency and expertise. Over the last year the mining exploration section has weakened with commodity pricing and as a result this has led to increased competition in Custom Helicopter's market.

The markets for the products and services of Regional One are highly competitive and it faces competition from a number of sources, both domestic and international. Regional One's competitors include aircraft manufacturers, aircraft component and parts manufacturers, airline and aircraft service companies, other companies providing maintenance, repair and overhaul services, other aircraft spare parts distributors and redistributors, and other after-market service providers. Some of Regional One's competitors have substantially greater financial and other resources than it has and others may price their products and services below Regional One's selling prices. These competitive pressures could adversely affect Regional One's business, results from operations and financial condition.

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 telecommunication companies in the US and Canada, reducing the immediate threat of competition. WesTower is still exposed to competition on a portion of its work, as well as this contracted work when it is tendered again. An increase in competition could lead to pressure on margins as well as a reduction in the size of WesTower. The Alberta operations experience low levels of competition on some of their custom projects given the uniqueness of these projects. A new competitor in this market would put pressure on both its margins and revenues given their current position as the market leader. Stainless serves a diverse group of industries and experiences competition on the majority of its work. As Stainless, continues to expand its product offering and large scale field projects, it will likely experience greater levels of competition that could impact its margins.

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 have very limited medical resources and as a result, trips to 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 and 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 medical 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.

Access to Capital

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 markets. If the capital markets' 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 objectives. The Company's current level of leverage is considered reasonable and the Company has more than $126 million available under the Company's credit facility based on the amount outstanding as at December 31, 2013, which gives the Company the ability to undertake acquisitions, up to a given size, in the short-term without being dependent on the capital markets. In addition the Company raised $40 million gross proceeds from the issuance of unsecured convertible debentures in February 2014.

Market Trends and Innovation

The success of the 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 or the ability to continue to obtain orders, which could have an adverse effect on the Company's business, results from operations and financial condition.

The Subsidiaries continue to invest in technology and innovation as the industries in which they operate are constantly undergoing development and change. Their ability to anticipate changes in technology in order to successfully develop and introduce new and enhanced products or to purchase new equipment and train employees on a timely basis using such technologies will be a significant factor in the Subsidiaries remaining competitive. If there is a shift away from the use of such technologies, costs may not be recovered, adversely affecting the Company's results of operations and financial condition. In addition, if other technologies in which the investment of the Subsidiaries is not as great or their expertise is not as fully developed emerge as the industry-leading technologies, the Subsidiaries may be placed at a competitive disadvantage, which could have an adverse effect on the Company's business, results from operations and financial condition.

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 businesses. 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.

Speculative Nature of Investment

An investment in the industries in which the operating Subsidiaries are engaged in should be considered speculative. The risks associated with the operating Subsidiaries include the risks described herein. There is no assurance that the operating Subsidiaries will be able to maintain or improve their respective position in the markets in which they currently participate or may expand into.

Climate

The Corporation's results of operations could be impacted by fluctuations from weather and natural disasters. Severe weather conditions and natural disaster conditions can significantly disrupt service by impeding the movement of goods or creating air traffic control problems, which could have an adverse effect on the Company's business, results of operations and financial condition. In addition, increases in frequency, severity or duration of severe weather events, including changes in the global climate, could result in increases in fuel consumption to avoid such weather, turbulence-related injuries, delays and cancellations, any of which would increase the potential for loss of revenue and higher costs. Certain operations within the aviation segment are impacted by the length of winter road season, which is impacted by the seasonal weather during the first few months of the calendar year. The more cold the winter season, the longer the winter roads are available for customers to use as an alternative to flying with the airlines of the Company.

Acts of Terrorism

The occurrence of a terrorist attack could cause a decrease in passenger demand for travel and an increase in security measures, travel restrictions, and related costs in the airline industry. This could have an adverse effect on the Company's business, results from operations and financial condition.

Pandemic

The spread of contagious disease could have a significant impact on passenger demand for air travel and the ability to continue full operations. The Company cannot predict the likelihood of such an event occurring nor the impact it could have on the operations. Such event could have an adverse effect on the Company's business, results from operations and financial condition.

Operational Risks

WesTower US Performance

WesTower US has experienced rapid growth in the last 18 months and this has put considerable pressure on resources and systems at WesTower US. Recently, WesTower US has experienced lower gross margins as a result of certain project inefficiencies with higher than expected costs to complete its projects, higher overhead costs and a higher level of material related revenues that have lower margins. Many of these inefficiencies were driven by procuring the resources, both internal and external, to meet customers' demands. This has required a significant increase in the size of the employee base of WesTower US and the costs of hiring and training those new employees puts a cost burned on the operations of WesTower US. Rapid growth of the employee base has also resulted in high employee turnover, resulting in further training and hiring costs. Notwithstanding these challenges, demand for the products and services of WesTower US remains very strong.

The lower gross margins of WesTower US have negatively affected the financial results of the Corporation. To address these challenges, WesTower US has been re-engineering its processes and systems. This has resulted in significant additional costs to WesTower US. In addition, a new Chief Executive Officer of WesTower, Steven Pickett, has been appointed to replace former Chief Executive Office following his retirement. The Company remains committed to the re-engineering of the processes and systems of WesTower US to ensure that they are as timely and efficient as possible. If the steps to improve the processes and systems of WesTower US are not successful, the margins and profitability of WesTower US may not improve, which will negatively impact the overall financial performance of the Company.

Significant Contracts and Customers

Both the Aviation and the Manufacturing segments have many key contracts. The aviation contracts, outside of the Government of Nunavut contracts discussed below, are largely for cargo and charter services or the lease of aviation related assets, while the most significant manufacturing contract is WesTower's AT&T turfing contract. The loss of any one of these contracts will have a negative impact on the operations and cash flow of the Company.

Keewatin has medical evacuation contracts with the Government of Nunavut, which provide Keewatin with the exclusive rights to provide medical evacuations 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 an adverse effect on the business, results from operations and financial condition of Keewatin.

Calm Air provides services to the Government of Nunavut for a certain share of the medical travel market through a sub-contract with Canadian North, whereby 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 three year contract, with three one-year renewal options, 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 an adverse effect on the business, results from operations and financial condition.

The AT&T turfing contract was signed in November 2011 and is a four year contract, including a one year extension. There is a risk that this contract will not be 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. The structure of the contract does not include any guarantee or commitment by AT&T to WesTower for an amount of work to be done over the term of the contract, which creates a risk that the value of this contract could be immaterial or nil if AT&T decides to significantly reduce or stop its capital spending in the regions covered under the contract by WesTower. During 2013 WesTower recorded total revenues of US$381.2 million from AT&T, which included turfing contract work.

Operational Performance and Growth

The Company's principal source of funds is cash generated from its 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. In the event that additional capital and operating expenditures dependent on increased cash flow or additional financing arise in the future, lack of those funds could limit or delay the future growth of the Subsidiaries and their cash flow. Furthermore, underperformance of a material Subsidiary and/or combination thereof could have an adverse effect by also limiting or delaying future growth of the Subsidiaries and their cash flow, while also potentially impacting the amount of cash available for dividends to Shareholders.

Acquisition Risk

The Company regularly reviews potential acquisition opportunities to support its strategic objective to expand and diversify the Company's investments. The Company's ability to successfully grow or diversify 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.

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 higher capital expenditures and operating expenses than expected, 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 the expected operating performance 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.

The Company conducts business, legal and financial due diligence investigations in connection with its acquisitions and the purchase and sale agreements pursuant to which the Company directly or indirectly acquires a business or entity will generally contain customary representations and warranties (in certain cases to the knowledge of the vendors) with respect to the applicable business and related indemnities from the vendors regarding corporate matters, taxes, litigation, environmental, operations, employee matters and financial statements, among other things. However, there can be no assurance that the Company will uncover all risks associated with the investment in its due diligence investigations, that the representations and warranties given by such vendors will adequately protect against such risks or of recovery by the Company in the event of a breach of a representation and warranty.

Concentration Risk

The Company's performance is dependent on the results of its operating subsidiaries which are concentrated in two industry segments: Aviation and Manufacturing. Although some level of diversification exists, financial results are heavily tied to the North American economy, in particular the US market where WesTower's US operations are located. An economic decline, major shift in consumer demands, or change in technology could result in both segments experiencing simultaneous negative results. In the event that both segments experience a downturn leading to negative results, this could have an adverse effect on the Company's business, results from operations and financial condition. In particular, a significant change in the telecommunications industry and market in North America could have a significant impact on the results of the Company given the magnitude of the WesTower operations overall for the Company.

Maintenance Costs

The Company's aviation Subsidiaries, excluding Regional One, rely on aircraft tailored to operate in extreme and remote environments. Many aircraft types are no longer in production, so by nature, the aviation Subsidiaries 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 Subsidiary continually oversees the airframe, engines and components of each aircraft in the fleet. The ongoing maintenance costs, as well as the fleet renewal costs, may be significantly higher than anticipated, adversely impacting the Company's business, results from operations and financial condition.

Access to Parts and Relationships with Key Suppliers

The fabrication of products of the 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 jeopardize the ability of the 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 Alberta operations.

Casualty Losses

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. There can be no assurance that the Company's insurance coverage will be sufficient or remain available at reasonable costs to cover one or more large claims. Additionally, any incident or disaster involving one of the segments could significantly harm the Company's reputation for safety. In either event, the Company's business, results from operations and financial condition could be adversely affected.

Environmental Liability Risks

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 report, 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 report, 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.

Future environmental regulatory developments in North America and abroad concerning environmental issues, such as climate change, could adversely affect the operations of the Subsidiaries, particularly in aviation, and increase operating costs and, through their impact on customers, reduce demand for the products and services of the Subsidiaries. Actions may be taken in the future by federal, provincial, state or local governments, the International Civil Aviation Organization, or by signatory countries through a new global climate change treaty to regulate the emission of greenhouse gasses by the aviation industry. The precise nature of any such requirements and their applicability to the aviation Subsidiaries of the Company and their customers are difficult to predict, but the impact to the aviation industry would likely be adverse and could be significant, including the potential for increased fuel costs, carbon taxes or fees, or a requirement to purchase carbon credits.

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 Company's business, results from operations and financial condition.

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 Subsidiaries could be adversely affected if they are unable to modify their systems as necessary.

International Operations Risks

Regional One conducts its business in certain countries other than Canada and the United States, some of which are politically unstable or subject to military or civil conflicts. Consequently, Regional One is subject to a variety of risks that are specific to international operations, including the following:

- military conflicts, civil strife, and political risks;
- export regulations that could erode profit margins or restrict exports;
- compliance with the applicable anti-bribery laws;
- the burden and cost of compliance with foreign laws, treaties, and technical standards and changes in those regulations;
- contract award and funding delays;
- potential restrictions on transfers of funds;
- import and export duties and value added taxes;
- foreign exchange risk;
- transportation delays and interruptions; and
- uncertainties arising from foreign local business practices and cultural considerations.

While Regional One has and will continue to adopt measures to reduce the potential impact of losses resulting from the risks of doing business internationally, the Company cannot ensure that such measures will be adequate or that the regions in which Regional One operates will continue to be stable enough to allow it to operate profitably or at all.

Fluctuations in Prices of Aviation Related Assets

Regional One uses a number of assumptions when determining the recoverability of inventories, aircraft, and engines, which are on lease, available for lease or for sale. These assumptions include historical sales trends, current and expected usage trends, replacement values, current and expected lease rates, residual values, future demand, and future cash flows. Reductions in demand for inventories or declining market values, as well as differences between actual results and the assumptions utilized by Regional One when determining the recoverability of inventories, aircraft, and engines, could result in impairment charges in future periods.

Regional One's operations include leasing aircraft and engines to its customers on an operating lease basis in addition to finance leases or sale transactions. Its ability to re-lease or sell these assets on acceptable terms when the operating lease expires is subject to a number of factors which drive industry capacity, including new aircraft deliveries, availability of used aircraft and engines in the marketplace, competition, financial condition of customers, overall health of the airline industry, and general economic conditions. Regional One's inability to re-lease or sell aircraft and engines could adversely affect its results of operations and financial condition.

Aviation Related Asset Acquisitions Price Volatility

The success of Regional One's business depends, in part, on its ability to acquire strategically attractive aircraft and enter into profitable leases or sale transactions upon the acquisition of such aviation related assets. The aircraft related assets leasing and sales industry can experience periods of undersupply and oversupply. Regional One may not be able to enter into profitable leases or sales transactions upon the acquisition of the new aircraft. An acquisition of one or more aircraft may not be profitable and may not generate sufficient cash flow to justify those acquisitions. If Regional One experiences significant delays in the implementation of its business strategies, including delays in the acquisition and leasing or sale of the aviation related assets, its fleet management strategy and long-term results of operations could be adversely affected.

The other entities within the Aviation segment also are exposed to changes in demand and availability of aviation related assets mainly when these entities are looking to replace or grow their aircraft fleet and to a lesser degree when disposing of aircraft from their fleets.

Financial Risks

Availability of Future Financing

The Company's ability to sustain continued growth depends on its ability to identify, evaluate and contribute financing to its Subsidiaries where an initial source is from the cash generated from its Subsidiaries. The Company may require additional equity or debt financing to meet its capital and operating expenditure 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, lack of those funds could limit or delay future growth of the Subsidiaries, and the amount of cash available for dividends to Shareholders may be reduced.

Laws, Regulations and Standards

The Company and its Subsidiaries are subject to a variety of federal, provincial, state and local laws, regulations, and guidelines including but not limited to income, health and safety, competition, employment standards, securities laws (disclosure and insider trading), privacy laws, and airline safety. New, or changes in, accounting standards and pronouncements may also impact the Company's financial results. Failure by the Company to comply with applicable laws, regulations and standards could result in financial penalties, assessments or legal action that could have an adverse effect on the reputation and financial results of the Company and its Subsidiaries. Furthermore, the financial and managerial resources necessary to ensure such compliance could escalate significantly in the future which could have an adverse effect on the Company's business, results from operations and financial condition.

The airline industry in Canada, the United States and elsewhere in the world is subject to strict government standards and regulations. Government entities such as Transport Canada, the Competition Bureau, the Canadian Transportation Agency, the Federal Aviation Administration (FAA) 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. With respect to Regional One, its products that are to be installed in an aircraft, such as engines, engine parts, components and airframe and accessory parts and components, must meet certain standards of airworthiness established by the FAA or other regulatory agencies. New and more stringent governmental regulations may be adopted in the future that, if enacted, could have an adverse impact on the aviation Subsidiaries of the Company.

While management believes that Perimeter, Keewatin, Calm Air, Bearskin, Custom Helicopters and Regional One are currently in compliance with all applicable government standards and regulations, there can be no assurance that the Subsidiaries 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 operating certificate of the applicable Subsidiary and a temporary or permanent cessation of flight operations or the inability to sell its products and carry on business in the case of Regional One.

Certain of the 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 Subsidiaries.

Income Tax Matters

The business and operations of the Company and its Subsidiaries are complex and the Company has, over the course of its history, undertaken a number of significant financings, reorganizations, acquisitions and other material transactions, including the arrangement where the Company converted to a corporation from an income trust ("Arrangement"). 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 IFRS

and applicable legislation and regulations, tax filing positions are subject to review and adjustment 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, certain requests 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 adversely affect the Company's tax position.

Commodity Risk

Certain Subsidiaries are vulnerable to price fluctuations in select commodities required to conduct business. Some of the products manufactured by the Subsidiaries require specialized raw materials. If such raw materials are not available or not available under satisfactory terms, the applicable Subsidiary may not be able to manufacture and fulfill customer orders. Sales levels and relationships with customers could be negatively affected as a result.

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 were to change, and the aviation Subsidiaries 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. When 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.

The Aviation segment's entities providing scheduled and charter services are impacted by mineral commodity pricing as the service requirements of several major customers are impacted by mineral commodity pricing levels.

Foreign Exchange

The Company's financial results are sensitive to the changing value of the Canadian dollar. In particular, the Company's Canadian Subsidiaries have significant annual net outflow of US dollars and is affected by fluctuations in the Canada/US dollar exchange rate. Outflows for expenses include items such as aircraft related maintenance costs and related parts purchased for the Aviation segment, capital purchased aircraft, 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, Regional One and Stainless, which acts as a natural hedge and mitigates the foreign exchange risk of the Company. The Company's short exposure to the US dollar will be lessened as these entities operations grow and generate additional free cash flow in US dollars. The Company does not regularly use derivative instruments to mitigate this risk beyond this level but for certain circumstances the Company may utilize short-term forward contracts or other similar derivative instruments to lock in a currency position for an upcoming transaction. The Company also applies hedge accounting for its exposure on the US dollar debt outstanding in the Canadian portion of its credit facility.

The Company reports in Canadian dollars and therefore a strengthening of the Canadian dollar will result in a decline in the Canadian equivalent reported from the Company's US Subsidiaries in its consolidated financial statements.

Interest Rates

As at December 31, 2013, the 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 $2.1 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 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 convertible debentures have fixed interest rates which are not affected by changes in rates.

Credit Facility and the Trust Indentures

The Company has significant debt service obligations pursuant to the financing agreements relating to the credit facility and the convertible debenture 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 and trust indentures that govern the convertible debentures 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 that govern the convertible debentures could result in an event of default under such agreements, as the case may be, which, if not cured or waived, could permit acceleration of indebtedness. If the indebtedness under such agreements were to be accelerated, there can be no assurance that the assets of the Company and its Subsidiaries under such agreements would be sufficient to repay that indebtedness in full.

Dividends

Although the Company intends to continue to declare and pay monthly dividends on Shares, there can be no assurance that dividends will continue in the future at the same frequency and in the same amounts, or at all. The actual amount of dividends declared and paid by the Company in respect of the Shares will depend upon numerous factors, including profitability, fluctuations in working capital, and the sustainability of margins and capital expenditures of its Subsidiaries.

Unpredictability and Volatility of Share Prices

The market price of the Common Shares could be subject to significant fluctuations in response to variations in operating results, monthly distributions, and other factors. In addition, industry specific fluctuations in the stock market may adversely affect the market price of Common Shares regardless of the operating performance of the Company. There can be no assurance of the price at which the Common Shares will trade. The annual dividend yield on the Common Shares as compared to the annual yield on other financial instruments may also influence the price of Common Shares in the public trading markets. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the Common Shares.

Dilution Risk

The authorized share capital of the Company is comprised of an unlimited number of Common Shares. The Company may issue additional Common Shares, or securities which are convertible, exchangeable or exercisable into Common Shares, for consideration and on those terms and conditions as are established by the Company without the approval of Shareholders. The Company intends to pursue further acquisitions which will likely require the issuance of additional Common Shares.

Credit Risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations and the Company is exposed to credit risk from its customers or parties where the Company has advanced funds under a promissory note or loan arrangement. This includes lease arrangements for Regional One where long-term receivables are recognized with aviation companies in finance lease arrangements, as well as the loan arrangement the Company has with the Tribal Council Investment Group ("TCIG").

Human Capital Risks

Management and Operations

The Board of Directors has the following sub-committees that relate to the Subsidiaries: the Manufacturing Sector Committee and the Aviation Sector Committee. Each sub-committee oversees the management and operation of the particular 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 Subsidiaries and, if 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.

Reliance on 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 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 and could have an adverse effect on the Company's business, results from operations and financial condition. There can be no assurance that the Company will be able to retain its existing senior management, attract additional qualified executives or adequately fill new senior management positions or vacancies created by expansion or turnover at either the head-office level or Subsidiary level.

Employees and Labour Relations

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 an adverse effect on the Company's business, results from operations and financial condition.

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 an 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.

Conflicts of Interest

The Company may be subject to various conflicts of interest due to 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 organizations 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 Canada Business Corporations Act (CBCA) relating to conflicts of interest.

13. Outlook

Acquisition strategy

During the 2013 period, the Company completed the acquisition of Regional One. It is the largest acquisition in the history of the Company and is part of the consolidated group of companies within the Aviation segment, commencing the second quarter of 2013 when the deal closed.

At the time of closing the Regional One acquisition, the Company amended its credit facility. Based on the debt drawn as of December 31, 2013, the Company has approximately $126 million of available capital under its $335 million senior credit facility (ignoring foreign currency).

The Company continues to develop and expand its network of referral sources that regularly present it with potential acquisitions. The Company also independently assesses certain markets and regions to identify potential targets. 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 identified.

The diversity and balance of the Company among its subsidiaries and between its operating segments have served the Company well over its history with the exception of the recent growth in the WesTower US operations. The Company continues to focus on restoring that balance over ensuing periods, both organically and by disciplined acquisition.

Aviation Segment

Throughout 2013, the Company operated five aviation companies providing fixed and rotary wing, scheduled, charter, cargo, and medevac services within Alberta, Manitoba, Ontario, and Nunavut. In April 2013, the Company added to its Aviation segment by acquiring Regional One, a Miami, Florida based company that provides aircraft, engines and related aftermarket aircraft parts to regional airline operators in the global economy. This acquisition creates further diversification of the Company's revenue streams by expanding into new products and geographical markets. The addition of Regional One also provides a proxy for vertical integration into one of the Aviation segment's major expense categories.

As discussed in Section 4 – Analysis of Operations, the Aviation segment's pre-existing entities experienced a decline in revenue in 2013. The decrease is primarily the result of reduced passenger volumes in Calm Air's market combined with increased competition in the Ontario market serviced by Bearskin. The third quarter of 2013 was impacted by a weak charter season, but this was merely a short-term anomaly. The fourth quarter of 2013 stabilized, resulting in an increase in charter operations on an annualized basis. Going forward, further material reductions in passenger services are not anticipated. Management is confident that the business foundation of the segment remains strong and intact, and is well positioned for 2014.

The Company continues to diligently assess market conditions in all areas of its operation and is focused on identifying growth opportunities in new markets and geographical regions. As discussed above, the Ontario market experienced a reduction in volumes, resulting in reduced scheduled service operations. The Company has been responding to these changes in demand by re-evaluating where its assets will best be utilized in the Ontario market, as well as other markets. The rotary wing operation was negatively impacted by reduced work in the mineral exploration market leading to soft revenues in the third quarter; however, the quarter ended strong with increased fire evacuation work and the fourth quarter remained consistent with the comparable period in 2012. The Alberta market continues to be strong increasing growth opportunities in charter services while the segment also continues to grow its service capabilities in its traditional market.

The Company's aviation transportation subsidiaries act as lifelines by supplying critical medical, cargo, and transportation services into communities that have limited access by ground. The remoteness of many of the communities serviced by the Aviation segment makes demand relatively inelastic, mitigating the impact of changes in the economic climate. There are multiple years left on two key contracts with the Government of Nunavut, and it is currently anticipated that a third contract will be renewed at the end of its initial term in the third quarter of 2014. The first two contracts provide medevac services to the central and eastern regions as a sole service provider while the third contract provides passenger transportation to medical patients and government workers. These contracts provide the Company with a strong base level of service in the North. Non-contracted services represent the majority of revenues in the aviation transportation subsidiaries, of which there are no new significant competitors expected in key markets.

The Company monitors its expenses and costs structure on an ongoing basis. Volatility or increases in fuel prices are beyond the Company's control and may have a significant short-term impact on the profitability of aviation transportation operations. In the long term, 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 transportation 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 and other contract customers have provisions whereby fuel is a flow through cost, mitigating the exposure from fuel cost changes.

The Company continues to invest in technology to increase efficiencies and operational performance. This is evidenced by the investment that began in late 2012 to introduce enhanced GPS technology for its 19 seat aircraft, including glass cockpits. This technology, which is now in the test phase 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, leading to improved safety and customer service, and reduced costs from the redirection of flights due to weather. The capital expenditures related to this upgrade will continue into 2014.

Throughout 2013, the Company also invested in its aviation infrastructure to provide enhanced productivity and customer service. The most significant investment was the construction of a new hangar in Winnipeg for Calm Air. Calm Air moved into this new facility in late June 2013. This hangar will include a heavy maintenance facility to support the maintenance of larger aircraft currently being serviced by third parties. The heavy maintenance facility, which is scheduled to be operational by the end of 2014, will not only lead to reduced costs, but more importantly, will enhance the availability of aircraft. Infrastructure has also been added in the North, including warehouses and a medevac hangar, to support, streamline and extend hours of service to the segment's customers. The extended operating hours will improve operational efficiencies and also support higher service levels to key cargo customers. A Dash 8-300 aircraft was added to Perimeter's fleet and became operational in the fourth quarter, allowing the Company to capitalize on additional growth opportunities.

The positive impacts of Calm Air's fleet and operational rationalization program began to materialize throughout 2013. The fleet rationalization reduced the aircraft type, positively impacting results by lowering operating costs driven by greater efficiency in labour, maintenance, and inventory. The Company added one more ATR-42 to Calm Air's fleet, which came on line early in the third quarter of 2013, and added a third ATR-72 in the fourth quarter of 2013, which will come on line in mid-2014. The Company will enhance the cargo capability of one of its ATR aircraft by adding a large door to accommodate larger freight. This conversion, originally targeted for the fourth quarter of 2013, has been postponed until the second quarter of 2014. This will enable Calm Air to retire its sole Hawker, leading to further efficiencies from reduced aircraft types.

Adding to the strength of the segment is the diversity and growth potential of Regional One. Regional One continually monitors its inventory and lease portfolios to ensure a proper sales complement and to diversify and grow its sales portfolio. It continues to have a strong pipeline of inventory and capital asset acquisition opportunities that will ensure the continued flow of assets available in the market and contribute to the growth of its operations. Regional One's management is at different stages of due diligence and procurement for additional assets, closing multiple parts and aircraft deals throughout 2013 with a value of approximately US$26 million. Regional One is focused on growing its next generation of products such as Bombardier Q400 and CRJ700/900 products, and this constituted approximately 80% of the total investment in 2013. The Q400 and CRJ700/900 series are larger variants of the earlier models. There is a strong demand for serviceable engines for these aircraft models as well as CRJ700/900 rotable components based on the lifespan of this aircraft type. Management is optimistic that the asset base will continue to grow in 2014. Regional One performed to management's expectations in 2013.

Consistent with past disclosure, the Aviation segment experiences seasonality. The first quarter is the seasonally slowest quarter of the year, followed by the fourth. The Aviation segment's financial performance in the winter months, particularly in the 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

The Manufacturing segment continued to experience significant revenue growth in the fourth quarter driven primarily by WesTower. Also, all manufacturing entities increased EBITDA over the comparative period in 2012 other than WesTower's US operations which continued to experience financial challenges of significant and rapid growth.

The continued demand for increased network capacity across the telecommunication industry shows no sign of decreasing in the immediate future. This has continued to place a high demand for the services of WesTower US, driving revenues to a run rate of approximately US $500 million. The majority of this growth has occurred over the last two years, and as previously stated, is primarily the result of the addition of the AT&T turf contract. WesTower's US operations also continue to have significant amounts of work with a variety of other telecom carriers across the nation outside of AT&T and tower owners.

The turf contract for WesTower's US operations took effect in late 2011 with the bulk of the ramp up starting in mid-2012 and throughout 2013. As a result of this contract, WesTower's US operations have evolved from a subcontractor to a self-performing general contractor for AT&T. The increase in the scope of services provided to AT&T, the geography of operations, and the absolute size of operations have had a profound impact on WesTower's capabilities to adapt their operations. The focus of WesTower management throughout this growth was to service the customer while maintaining a strong focus on stringent safety and quality values. This has resulted in a continued strong relationship with AT&T, leading to additional work and markets being awarded to WesTower US as part of the turf contract. However, the speed at which the growth occurred and the heightened customer focus has come at the expense of profitability in certain markets.

The margin decline came to a forefront in the third quarter of 2013, when expected revenue scope increases at WesTower US did not materialize and cost overruns were greater than expected. This performance is a result of both the inevitable cost inefficiencies tied to growth of this magnitude and the need to strengthen the foundation of the company by enhancing our management structure and processes to operate at this heightened level. Over the past several quarters, the Company took significant steps to address the required management structure and process changes needed. This included reengineering processes and tools for the front line management to help them manage the projects with a renewed focus on profitability, while still supporting WesTower's core values of quality and safety. This process was started by utilizing external advisors and has now been passed on to WesTower's

team members to carry out. Management believes the right focus has been placed on developing the right organizational structure and management tools to support WesTower at its current size and scope, as well as to build a foundation that can be scalable for further growth of the turf contract and all of WesTower's customers.

Throughout the next series of quarters, management will continue to develop and implement these systems, processes and tools to increase the margins and profitability of the company. As part of the evolution of WesTower, a new CEO joined WesTower near the end of the fourth quarter to replace the retiring CEO. Steven Pickett, the new CEO, has a proven track record as a CEO in the telecommunications field with almost 30 years of experience in the telecommunications industry. For a number of those years he has held a multitude of senior executive roles for Alcatel-Lucent. Most recently he held the position of CEO for a network equipment solutions company which also provides network services globally. In addition to the new CEO, WesTower has added individuals to its senior management team with significant construction and project management experience at large national and international firms. This leadership group will continue to ensure that the management processes, systems and tools are adapted to drive improved efficiencies and profitability.

The telecommunication industry in Canada continues to be a vibrant market driven by increased demand for services. WesTower Canada continues to capitalize on opportunities and generate strong margins as it supports the increased activity levels of the three national telecom carriers as well as regional telecom carriers in all regions. With engineering, design, manufacturing, install and support services being provided nationally, WesTower remains focused on being a national turn-key supplier. WesTower's Canadian operation is one of only a few national service providers in this industry for Canada. The expectation for 2014 is to have continued strong demand across the country as activity in eastern Canada is expected to increase from that of 2013, but with no material change to the western regions. The spectrum auction in Canada recently completed and was awarded to a number of telecommunication carriers. While there is no way of predicting the exact impact the auction may have on WesTower Canada, management is not anticipating any material adverse effects to result from the spectrum awarded across Canada.

Looking at the telecommunication industry and regions as a whole, management does not expect to see any slowdown in demand for the services provided by WesTower for the foreseeable future. As a result of the increasing demand to satisfy the data needs being driven by products such as smart phones, tablets and other mobile devices, as well as new technologies all needing wireless spectrum to operate, the telecom service industry in North America will continue to experience demands in infrastructure related projects as carriers roll out build schedules to upgrade their networks to meet the demand.

Stainless has experienced strong demand for its products and continues to see opportunities in multiple geographic and industry markets. There are numerous clients who have projects in the early stages for quotation, as well as clients expected to release new bids early in 2014. Stainless continues to look for one or two larger field projects to complete each year as has been the experience over the past several years. The market for its products remains competitive with customers demanding lower pricing and shorter cycle times especially while the US economy continues to recover. In response, management at Stainless is continuing to focus on maintaining its strong customer relationships and implementing best practices in order to improve efficiencies which have helped it build a strong order book in a challenged economy.

The business activity in Alberta, southern Saskatchewan and North Dakota remains robust, but is not as strong as it has been previously. This was in part caused by less industry activity in southern Saskatchewan and North Dakota along with slower oil based activity in Alberta. The implementation of best practices used in the other locations continues in the newer regions of Saskatchewan and North Dakota as those regions grow the Water Blast customer manufacturing and servicing brand.

The precision metal business in British Columbia continues to focus on maintaining its strong customer relationships and continue its efforts to expand its customer base in British Columbia's lower mainland. With overcapacity in this market still remaining an issue, the company expects to continue to see competition from competitors. The company sees vertical integration as a way to help support its needed market advantage and is thus in the process of expanding its product offering to include powder coating. The added production process is expected to be a way for the business to be more efficient, manage quality and become a complete turn-key supplier. The company continues to build its order book by providing customers with solutions through engineering, quality control and timely delivery.

14. Selected Annual Information

The following table provides selected annual information for the Company for the years ended 2011 through to 2013.

	2013	2012	2011
Revenues	$ 1,030,079	$ 800,573	$ 510,303
Expenses[1]	949,580	706,075	435,464
EBITDA	$ 80,499	$ 94,498	$ 74,839
Total non-operating income (expense)	71,515	69,147	54,094
Net income	$ 8,984	$ 25,351	$ 20,745
Earnings per share			
Basic	$ 0.42	$ 1.26	$ 1.24
Diluted	0.42	1.25	1.21
Dividends declared	$ 35,889	$ 32,717	$ 27,100
Per share	1.68	1.63	1.605
Free cash flow	$ 65,133	$ 76,776	$ 64,109
Per share basic	3.03	3.83	3.82
Per share fully diluted	2.68	3.02	3.18
Free cash flow less maintenance capital expenditures	$ 27,126	$ 46,005	$ 34,469
Per share basic	1.26	2.30	2.05
Per share fully diluted	1.26	2.05	1.82
Financial Position			
Working capital	$ 256,646	$ 156,561	$ 67,277
Total assets	961,372	709,370	478,401
Total long-term liabilities[2]	435,799	229,450	163,391
Total liabilities	655,546	414,828	252,764
Share Information			
Common shares outstanding as at December 31,	21,752,400	20,636,593	17,399,182

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, convertible debentures, and other long-term liabilities.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Exchange Income Corporation for the years ended December 31, 2013 and 2012, 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, PricewaterhouseCoopers 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
Chief Financial Officer

Michael C. Pyle
President & Chief Executive Officer

February 26, 2014

INDEPENDENT AUDITORS REPORT

February 26, 2014

Independent Auditor's Report

To the Shareholders of Exchange Income Corporation

We have audited the accompanying consolidated financial statements of Exchange Income Corporation and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2013 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and the related notes, which comprise 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 audit. We conducted our audit 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 audit 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 and its subsidiaries as at December 31, 2013 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matters

The financial statements of Exchange Income Corporation for the year ended December 31, 2012, were audited by another auditor who expressed an unmodified opinion on those statements on February 27, 2013.

PricewaterhouseCoopers LLP

Chartered Accountants

PricewaterhouseCoopers LLP
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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(audited, in thousands of Canadian dollars)	As at December 31, 2013	As at December 31, 2012
Assets		
Current		
Cash and cash equivalents	$ 23,168	$ 4,166
Accounts receivable	141,947	134,508
Costs incurred plus recognized profits in excess of billings (Note 15)	176,971	120,968
Inventory (Note 7)	109,195	63,865
Prepaid expenses and deposits	10,375	6,219
Income taxes receivable	4,496	—
	466,152	329,726
Other Assets (Note 8)	8,717	—
Capital Assets (Note 9)	331,351	269,036
Intangible Assets (Note 10)	46,415	28,393
Deferred Income Tax Assets (Note 24)	1,302	8,699
Goodwill (Note 10)	107,435	73,516
	$ 961,372	$ 709,370
Liabilities		
Current		
Accounts payable and accrued expenses	$ 151,191	$ 125,614
Income taxes payable	—	7,218
Deferred revenue	9,063	8,582
Billings in excess of costs incurred plus recognized profits (Note 15)	43,602	30,346
Current portion of long-term debt and finance leases (Note 11)	1,326	1,405
Current portion of convertible debentures (Note 12)	4,324	—
	209,506	173,165
Long-Term Debt and Finance Leases (Note 11)	218,921	68,404
Other Long-Term Liabilities (Note 3)	1,296	—
Convertible Debentures (Note 12)	215,582	161,046
Deferred Income Tax Liability (Note 24)	10,241	12,213
	655,546	414,828
Equity		
Share Capital (Note 13)	295,939	268,494
Convertible Debentures - Equity Component (Note 12)	12,216	9,304
Contributed Surplus - Matured Debentures	102	102
Deferred Share Plan (Note 18)	2,619	1,575
Reserved Shares	623	1,234
Retained Earnings		
Cumulative Earnings	138,002	129,018
Cumulative Dividends (Note 14)	(151,649)	(115,760)
	(13,647)	13,258
Accumulated Other Comprehensive Income	7,974	575
	305,826	294,542
	$ 961,372	$ 709,370

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, 2013	2012
Revenue		
Aviation	$ 313,214	$ 280,407
Manufacturing	716,865	520,166
	1,030,079	800,573
Expenses		
Direct operating - excluding depreciation and amortization	208,898	195,797
Cost of goods sold - excluding depreciation and amortization	637,932	434,171
General and administrative	102,750	76,107
	949,580	706,075
Operating Profit Before Depreciation, Amortization, Finance Costs and Other (Note 4)	80,499	94,498
Depreciation and amortization	48,216	38,355
Finance costs - interest	21,315	14,149
Acquisition costs	1,669	1,358
Consideration fair value adjustment	(1,051)	—
Impairment Loss (Note 9)	—	2,032
Earnings Before Income Taxes	10,350	38,604
Income Tax Expense (Note 24)		
Current	(1,747)	6,904
Deferred	3,113	6,349
	1,366	13,253
Net Earnings for the Year	$ 8,984	$ 25,351
Earnings Per Share (Note 16)		
Basic	$ 0.42	$ 1.26
Diluted	$ 0.42	$ 1.25

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Attributable to common shareholders (audited, in thousands of Canadian dollars)	For the years ended December 31, 2013	2012
Net Earnings For The Year	$ 8,984	$ 25,351
Other Comprehensive Income (Loss)		
Items that are or may be reclassified to the Statement of Income		
Cumulative translation adjustment, net of tax	11,701	(485)
Net gain (loss) on hedge of net investment in foreign operation	(4,302)	—
	7,399	(485)
Comprehensive Income For The Year	$ 16,383	$ 24,866

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	Convertible Debentures – Equity Component	Contributed Surplus – Matured Debentures
Balance, January 1, 2012	$ 194,049	$ 6,516	$ 102
Shares issued to acquisition vendors	4,476	—	—
Prospectus offering	55,689	—	—
Convertible debentures			
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	—	—	—
Deferred share plan issuance	492	—	—
Shares issued under ESPP	1,463	—	—
Shares issued under vesting of reserved shares	617	—	—
Comprehensive income	—	—	—
Dividends declared	—	—	—
Balance, December 31, 2012	$ 268,494	$ 9,304	$ 102
Balance, January 1, 2013	$268,494	$9,304	$102
Shares issued to acquisition vendors (Note 6)	18,592	—	—
Convertible debentures			
Converted into shares (Note 13)	2,577	(151)	—
Issued (Note 12)	—	3,063	—
Shares issued under dividend reinvestment plan (Note 13)	4,174	—	—
Deferred share plan issuance	—	—	—
Shares issued under ESPP (Note 17)	1,491	—	—
Shares issued under vesting of reserved shares	611	—	—
Comprehensive income	—	—	—
Dividends declared (Note 14)	—	—	—
Balance, December 31, 2013	$ 295,939	$ 12,216	$ 102

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

Deferred Share Plan	Reserved Shares	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total
		Cumulative Earnings	Cumulative Dividends		
$ 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)
$ 1,575	$ 1,234	$ 129,018	$ (115,760)	$ 575	$ 294,542
$ 1,575	$ 1,234	$ 129,018	$ (115,760)	$ 575	$ 294,542
—	—	—	—	—	18,592
—	—	—	—	—	2,426
—	—	—	—	—	3,063
—	—	—	—	—	4,174
1,044	—	—	—	—	1,044
—	—	—	—	—	1,491
—	(611)	—	—	—	—
—	—	8,984	—	7,399	16,383
—	—	—	(35,889)	—	(35,889)
$ 2,619	$ 623	$ 138,002	$ (151,649)	$ 7,974	$ 305,826

CONSOLIDATED STATEMENTS OF CASH FLOWS

(audited, in thousands of Canadian dollars)	For the years ended December 31, 2013	2012
Operating Activities		
Net earnings for the year	$8,984	$25,351
Items not affecting cash:		
Depreciation and amortization	48,216	38,355
Accretion of interest	4,533	2,689
Long-term debt discount (paid) accretion	(65)	58
Foreign exchange loss on debt (unrealized)	(38)	(41)
(Gain) on sale of disposal of capital assets	(1,310)	(7)
Deferred income tax	3,113	6,349
Deferred share program share-based vesting	1,044	632
Impairment loss	—	2,032
Consideration fair value adjustment	(1,013)	—
	63,464	75,418
Changes in non-cash operating working capital items (Note 22)	(69,829)	(96,361)
	(6,365)	(20,943)
Financing Activities		
Proceeds from (repayment of) long-term debt & finance leases, net of issuance costs	139,678	20,057
Proceeds from issuance of debentures, net of issuance costs (Note 12)	61,809	54,647
Proceeds from issuance of shares, net of issuance costs	6,276	60,871
Cash dividends (Note 14)	(35,889)	(32,717)
	171,874	102,858
Investing Activities		
Purchase of capital assets, net of disposals	(80,331)	(63,256)
Purchase of intangible assets	(188)	(2,494)
Investment in other assets	(5,632)	—
Cash outflow for acquisitions, net of cash acquired	(58,071)	(23,474)
Finance lease receivable (payments), net of reserves	(2,285)	—
	(146,507)	(89,224)
Net Increase (Decrease) in Cash and Cash Equivalents	19,002	(7,309)
Cash and Cash Equivalents, Beginning of Year	4,166	11,475
Cash and Cash Equivalents, End of Year	$23,168	$4,166
Supplementary cash flow information		
Interest paid	$16,344	$10,870
Income taxes paid	$10,131	$4,417

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013 and 2012
(in thousands of Canadian dollars, except per share information and share data)

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, 2013, 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"), Dallas Sailer Enterprises, Inc. ("Water Blast Dakota"), and Regional One, Inc. ("Regional One") are wholly owned subsidiaries of EIIF USA. Through the Company's subsidiaries, products and services are provided in two business segments: Aviation and Manufacturing. During 2013 the Company created EIC USA LLC ("EIC USA") for a short-term structuring associated with the acquisition of Regional One and on September 20, 2013, EIC USA was liquidated and dissolved into the Company.

2. Basis of Preparation

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") – Part I as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). Part I of the CICA Handbook incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements are presented in thousands of Canadian dollars, except per share information and share data.

The consolidated financial statements were approved by the Board of Directors of the Company for issue on February 26, 2014.

3. Significant Accounting Policies

The significant accounting policies used in the preparation of these consolidated financial statements, which have been consistently applied to all the years presented, unless otherwise stated, 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 and derivative 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, Custom, 4873999 Manitoba Ltd., 7328010 Canada Ltd., Overlanders, Water Blast, WesTower CDA, EIIF USA and their respective subsidiaries, including Stainless, WesTower US, Water Blast Dakota and Regional One. All significant inter-company transactions have been eliminated for purposes of these consolidated financial statements.

Subsidiaries are all entities (including structured entities) which the Company controls. The Company controls an entity when it is exposed to, or has the rights to, variable returns from its investment with the entity and has the ability to effect those returns through its power over those entities. 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 on various types of transactions. The Aviation segment recognizes revenue on the provision of flight, flight ancillary services, and the sale and/or lease of aircraft and aftermarket parts. The Manufacturing segment recognizes revenue on the sales of manufacturing products and services.

Aviation Revenues

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. The award points are recognized as a separately identifiable component of the initial sale of the ticket, by allocating the fair value of the consideration received between the award points and the sale of the ticket. The fair value of the award points 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 aviation part sales 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. Payments received in advance are recorded as deferred revenue until the product has been delivered to the customer. In addition, the Company recognizes revenue from consignment sales in the same manner as discussed above. These sales have the characteristics of principal sales and are therefore recorded at the gross amount in revenue, with the payment to the consignor recorded as cost of sales.

Revenue from leasing of aircraft and aircraft equipment is recognized as revenue straight-line over the terms of the applicable lease agreements. Certain of the Company's lease contracts call for billings in advance. Rentals received, but unearned are deferred and recorded as deferred revenue on the statement of financial position. As part of terms of applicable lease agreements, customers are often required to make security deposits. These deposits are recorded as a liability on the statement of financial position within "Other Long-Term Liabilities".

The Company, as a dealer of certain aircraft and related components, may enter into a finance lease with customers. In such circumstances, the Company records a gross profit from the lease equivalent to the present value of the lease payments reduced by any down payments less the cost basis of the related asset. Discounted interest is earned over the term of the lease and recognized using the effective interest method. Long-term lease receivables relating to sales-type leases are recorded on the statement of financial position within "Other Assets".

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.

Manufacturing Revenues

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.

Revenues from long-term contracts associated with manufacturing products are recognized on a percentage-of-completion basis. The operations of Stainless and WesTower 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.

d) Expenses

Aviation expenses – excluding depreciation and amortization

The fixed and variable costs along with cost of sales incurred in the operations of the Company's Aviation segment are included in this line item. This includes costs related to shipping and handling and the cost of inventory. Depreciation and amortization are presented separately on a consolidated basis.

Manufacturing expenses – 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 EIC's functional and presentation 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 Regional One, 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, 2013, cash equivalents was nil (December 31, 2012 – nil).

g) Financial Instruments

Financial assets and liabilities are recognized on a trade date basis for regular way purchases and sales and 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. In the normal course of business, the Company may enter into master netting agreements of other similar agreements that do not meet the criteria for offsetting in the consolidated statement of financial position but still allow for the related amounts to be offset in certain circumstances, such as bankruptcy or the termination of the contracts.

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 in derivative financial instruments).

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of income. 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 after twelve months, which is classified as non-current.

(ii) 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, certain other assets and cash and cash equivalents. Loans and receivables are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method less a provision for impairment.

(iii) Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade payables, long-term debt and finance leases and convertible debentures. Trade payables are initially recognized at fair value, net of any transaction costs incurred, and are subsequently measured 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.

(iv) 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 or accounts payable and accrued expenses, as applicable, 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 in the case of interest rate swaps and other gains and losses within general and administrative costs in the case of forward contracts.

The Company has used derivatives in the form of foreign exchange forward contracts to manage risks related to fluctuations in foreign currencies and/or net investments in foreign operations.

Hedges of a net investment in foreign operation

The Company applies hedge accounting to certain foreign currency differences arising between the functional currency of the foreign operation and the Company's presentation currency, regardless of whether the net investment is held directly or through an intermediate parent. The Company designates either financial liabilities and/or derivative financial instruments as hedging items of the net investments in a foreign operation.

Financial Liabilities

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in other comprehensive income to the extent that the hedge is effective.

Derivative financial instruments

The Company holds derivative financial instruments to hedge its foreign currency exposure associated with its net investment in a foreign operation. Gains and losses on such derivative instruments are recognized in other comprehensive income to the extent the hedge is effective.

On initial designation of the derivative or financial liability as a hedging instrument, the Company formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk. To the extent that the hedge is ineffective, such differences are recognized in the statement of income. When the hedged net investment is disposed of, the relevant amount in the translation reserve is transferred to the statement of income as part of the gain or loss on disposal.

(v) 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 expected 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 expected life of the convertible debentures (the equity component) 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. Transaction costs incurred are proportionately allocated to the debt and equity components. 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.

h) 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.

For 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.

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.

i) 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. Cost is determined using the average cost method and net realizable value is computed as the actual selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. 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 and items purchased for resale, as applicable.
- 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.

Cost for aviation parts and components is established based upon the price paid for the inventory, including any costs of purchase, costs of conversion and other costs to bring such inventories to their present location and condition. Inventory carrying value is determined using the average cost to sales percentage to Regional One inventory at expected selling prices. The average cost to sales percentage is based on historical profitability or from contracted rates under certain procurement arrangements. Remanufactured inventory cost is based upon the price paid for the cores and also includes expenses incurred for freight, direct manufacturing costs and overhead, as applicable.

j) 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 statement of income 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.

k) 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	Straight line based on contract term
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 aviation related capital assets of Regional One have useful lives that range between 1 – 7 years and depend on the condition and expectancy of use of the asset in leasing arrangements. The depreciation method and estimates of useful lives ascribed to other identifiable intangible assets are reviewed at least each financial year end and if necessary amortization is adjusted for on a prospective basis.

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. The assessment of indefinite life is reviewed each period to determine whether the indefinite life assumption continues to be supportable. If it is deemed unsupportable the change in the useful life from indefinite to finite life is made and amortization is recognized on a prospective basis.

l) 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. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

m) 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 included in their related CGU and are tested annually for impairment or when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The recoverable amount is the higher of an asset or CGU's fair value less costs of disposal and value in use. An impairment loss is recognized for the amount by which the asset or CGU's carrying amount exceeds its recoverable amount. The Company determines the fair value less costs of disposal 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 more frequently if an indicator of impairment exists. For purposes of impairment testing, goodwill is allocated to each CGU (or group of CGUs) based on the level at which management monitors goodwill, however not higher than an operating segment. Accordingly, management has allocated its goodwill to its two operating segments which represents the lowest level at which goodwill is monitored.

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

n) 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. Tax related amounts are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and deferred income tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

o) 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 18). The plan consists of individuals being granted "deferred shares" which are essentially phantom shares The deferred shares granted to the Company's non-management 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 deferred shares are redeemable upon certain events and the Company will issue from treasury common shares equal to the number of deferred shares that have vested.

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 valued at the grant date when the grant is approved by the Company's board. The grant date value 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 model, including an estimate of forfeitures. 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.

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 net of estimated forfeitures. 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.

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 2013, the Company recorded pension plan costs of $1,211 (2012 – $1,222).

p) 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.

q) 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.

r) 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 a straight line 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.

s) Share Capital

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

t) Reserved Shares

As part of the acquisition of WesTower in 2011, 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.

u) 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.

v) 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 and employee share purchase plan 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 Company's potential dilutive common shares comprise of convertible debentures, and the dilutive impact of convertible debentures is calculated using the "if converted" method.

w) Changes in accounting policies

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

IFRS 10, Consolidated Financial Statements

IFRS 10, Consolidated Financial Statements, replaces the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation – Special Purpose Entities. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27.

The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

IFRS 12, Disclosure of Interests in Other Entities

IFRS 12, Disclosure in Other Entities, establishes disclosure requirements for interests in other entities such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and the risks associated with, an entity's interest in other entities. IFRS 12 replaces the previous disclosure requirements included in IAS 27 – Consolidated and Separate Financial Statements, IAS 31 – Joint Ventures and IAS 28 – Investment in Associates. The adoption of this standard affected disclosures but did not have an impact on the recognized amounts or measurements in the consolidated financial statements.

IFRS 11, Joint Arrangements and IAS 28R, Investments in Associates and Joint Ventures

IFRS 11, Joint Arrangements, supersedes IAS 31, Interests in Joint Ventures, and requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in IAS 28, Investments in Associates and Joint Ventures (amended in 2011). The standards did not affect the Company as it did not have any investment in associates or joint arrangements.

IFRS 13, Fair Value Measurement

IFRS 13, Fair Value Measurement, provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. EIC adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments.

IAS 1 Amendment, Presentation of Items of Other Comprehensive Income

These amendments required EIC to group other comprehensive income items by those that will be reclassified subsequently to net earnings and those that will not be reclassified. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

IAS 36, Impairment of Assets

The Company early adopted IAS 36, Impairment of Assets, which was amended to limit the requirement to disclose the recoverable amount to non-financial assets for which an impairment loss has been recognized or reversed during the year. The amendments also enhance and clarify the disclosures required when the recoverable amount is determined based on the fair value less costs of disposal.

x) Accounting standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2013 and have not been applied in preparing these consolidated financial statements. Those which are relevant to the Company are set out below. The Company does not plan to adopt these standards early and is continuing to evaluate the impact of such standards.

IFRS 9 – Financial Instruments

IFRS 9 – Financial Instruments introduces new requirements for classifying and measuring financial assets and financial liabilities. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 also introduced additional changes related to financial liabilities. The IASB also recently introduced amendments to IFRS related to hedge accounting. The Standard is not applicable until annual periods beginning on or after January 1, 2015, but is available for early adoption.

In November 2013, the IASB issued three amendments affecting IFRS 9, IAS 7 and IAS 39. The first amendment sets out new hedge accounting requirements. The second amendment allows entities to apply the accounting for changes from own credit risk in isolation without applying the other requirements of IFRS 9. The third amendment removes the mandatory effective date of IFRS 9 from January 1, 2015 to a new date that will be determined when IFRS 9 is closer to completion.

IAS 39 – Financial Instruments: Recognition and Measurement

IAS 39, Financial Instruments: Recognition and Measurement, was amended to clarify that hedge accounting should be continued when a derivative financial instrument designated as a hedging instrument is replaced from one counterparty to a central counterparty or an entity acting in that capacity and certain conditions are met. The amendment is effective for annual periods beginning on or after January 1, 2014 with early application permitted.

IFRIC 21 – Levies

IFRIC 21, Levies, sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognized. The interpretation is effective for annual periods beginning on or after January 1, 2014 with earlier application permitted.

4. Operating Profit Before Depreciation, Amortization, Finance Costs and Other

The Company presents operating profit in the consolidated statement of income to assist users in assessing financial performance. The Company's management and the Board use this measure to evaluate consolidated operating results and assess the ability of the Company to incur and service debt. In addition, this measure is used to make operating decisions as it is an indicator of how much cash is being generated by the Company and assists in determining the need for additional cost reductions, evaluation of personnel and resource allocation decisions. Operating profit is referred to as an additional IFRS measure and may not be comparable to similar measures presented by other companies.

5. Critical Accounting Estimates and Judgements

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.

Accounting Estimates

Business Combination

The Company's acquisitions have been accounted for using the acquisition method of accounting. Under the acquisition method, the acquiring company adds to its statement of financial position the estimated fair values of the acquired company's assets and assumed liabilities. There are various assumptions made when determining the fair values of the acquired company's assets and assumed liabilities. The most significant assumptions and those requiring the most judgment involve the estimated fair values of intangible assets.

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Any contingent consideration to be transferred by the Company is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The initial recognition of intangible assets acquired that require critical accounting estimates are customer contracts, customer relationships, customer lists, certifications and trade names. To determine the fair value of these customer based intangible assets (excluding trade names), 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. Significant assumptions include, among others, the determination of projected revenues, cash flows, customer retention rates, discount rates and anticipated average income tax rates. To determine the fair value of the trade name intangible asset, the Company adopted the royalty relief method. This valuation technique values the intangible assets based on the present value of the expected after-tax royalty cash flow stream using a hypothetical licensing arrangement. Significant assumptions include, among others, the determination of projected revenues, royalty rate, discount rates and anticipated average income tax rates.

Long-term Contract Revenue Recognition

Stainless and WesTower operate under long-term contracts with customers 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.

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, 2013 would result in an increase of approximately $3.5 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 of disposal 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 the Company's weighted average cost of capital at the assessment date which incorporates the Company's existing capital items (Note 23). 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, 2013 the Company has recognized uncertain tax positions in the amount of $2,212 (including accrued interest of $206). 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 $2,212.

Critical Accounting Judgments

Measurement and Presentation of Capital Assets and Inventory

The Company may purchase certain aircraft and aircraft components in the normal course of the operations at Regional One. The Company must assess whether the aircraft and engines should be recognized as either inventory or capital assets depending on the anticipated use of such assets, including the ability to lease these tangible assets to customers. The determination is based on available cycle times related to aviation components and whether such assets are expected to be used in more than one period, in which case they would be classified as capital assets and amortized over their useful lives. The Company reviews its tangible assets on a regular basis to assess whether reclassifications are required between capital assets and inventory and the related accounting implications.

6. Acquisitions

Acquisition of Regional One

The Company announced on February 28, 2013 that it had signed a stock purchase agreement to acquire all outstanding shares of Regional One and closed the acquisition on April 12, 2013. Regional One is a leading provider of aircraft and engine aftermarket parts to regional airline operators around the world. The operations of Regional One include the direct sale and leasing to regional airline operators and performing consignment sales transactions. Its specialty is based around regional turbo-prop and turbo-jet aircraft, engines and rotable parts. This acquisition creates further diversification of the Company's revenue streams by expanding into new product and geographical markets. Secondly, the addition of Regional One provides a proxy for vertical integration into one of the major expense categories of our aviation segment.

The acquisition price was US$88.8 million ($89.9 million) and was funded through a combination of cash, the issuance of Shares and the recognition of consideration liabilities for future payments. At the time of closing, the Company paid US$45.1 million in cash ($45.8 million). Additionally the Company paid US$15.7 million ($15.9 million) to an escrow agent for contingent consideration associated with future results being attained by Regional One and this is treated as a consideration liability on the Statement of Financial Position. The Company issued 494,656 Shares with a value of US$13.6 million ($13.8 million) and the recognized consideration liabilities associated with future cash and Share payments of US$14.4 million ($14.5 million). The Company also assumed debt within Regional One of US$1.6 million and paid it off at the time of closing.

The consideration liabilities are presented within Accounts Payable and Accrued Liabilities on the Statement of Financial Position. These liabilities include certain contingent payments and future payments of both cash and issuance of shares within the share purchase agreement. The price of the shares used for both the shares issued at the time of closing and in the future was negotiated between the Company and the vendors. However, IFRS requires that shares issued be valued at the share price at the time of issuance and as a result certain differences exist. As well, subsequent to closing any change in the Company's share price impacts the value of the liability and will be recorded through the Company's statement of income in the period of the change even though there is no impact on the maximum number of shares to be issued in accordance with the share purchase agreement.

Included in the cash consideration paid, US$15.7 million was paid to an escrow agent and the terms of that escrow agreement are based on certain financial results being achieved. Under IFRS this contingent consideration is not considered to settle the contingent liability and therefore the cash held in escrow remains as the cash of the Company until those funds are released to the vendors or returned to the Company.

During the second quarter and subsequent to the closing date, the Company released US$9.1 million ($9.4 million) of the cash held in escrow, paid US$0.5 million in cash ($0.5 million), and issued 178,552 of Shares with a value of US$4.7 million ($4.9 million) as partial settlement of certain contingent consideration liabilities that were recognized on closing. As at December 31, 2013 the Company's cash position on the balance sheet included US$6.6 million of cash held in escrow which is expected to be released to the vendors within the first anniversary of the closing date. As a result of this payment and the adjustment to fair value the remaining consideration liabilities associated with the Company's share price, the Company recorded a gain of $1,051 during 2013 in the Statement of Income.

During the fourth quarter of 2013 the working capital settlement was finalized with the vendor. As a result the Company paid US$3.2 million ($3.3 million) as partial settlement of certain consideration liabilities that were recognized on closing. The tables below have been adjusted to reflect the final working capital settlement.

Consideration given	
Cash	$ 45,770
Issue of 494,656 Shares of the Company at a price of $27.80 per share	13,751
Contingent consideration liabilities	30,423
Total purchase consideration	$ 89,944

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	$ 731
Accounts receivable	5,670
Inventory	14,934
Prepaid expenses and deposits	1,558
Capital assets	22,664
Other assets	806
Intangible assets	18,868
	65,231
Less fair value of liabilities assumed:	
Accounts payable and accrued liabilities	2,108
Long-term debt	1,612
Deferred revenue	903
Other long-term liabilities	1,172
Fair value of identifiable net assets acquired	59,436
Goodwill	30,508
Total purchase consideration	$ 89,944

Of the $18,868 acquired intangible assets, $12,465 was assigned to trade name and $6,403 was assigned to customer relationships. All the intangibles acquired are subject to amortization with the exception of the trade name which is considered to have indefinite life.

The goodwill is attributable mainly to the assembled workforce of Regional One and the synergy opportunities that will be derived on sourcing and pricing through Regional One for aircraft, engines and parts requirements of the existing Aviation segment entities. All of the goodwill and intangible assets acquired are deductible for tax purposes.

The results of operations are included in the Company's consolidated statement of income since the date of acquisition and Regional One is part of the Aviation segment. For the approximate eight and a half months of operations during the 2013 period since Regional One was acquired, it contributed revenues of approximately $38.5 million, earnings before income taxes $4.5 million (including inter-company costs of $5.3 million) and has total assets of approximately $128.7 million as at December 31, 2013.

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 contingently returnable 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
Deferred revenue	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. Dallas Sailer Enterprises, Inc., operated a Hotsy retail operation in North Dakota. The aggregate consideration of US$1,586, (or $1,572) consisting 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 ($473).

7. Inventories

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

	December 31, 2013	December 31, 2012
Parts and other consumables	$ 47,954	$ 20,188
Raw materials	53,336	38,607
Work in process	1,266	1,278
Finished goods	6,639	3,792
Total inventory	$ 109,195	$ 63,865

During 2013, inventory from the Aviation segment with a value of $28,197 (2012 – $22,966) was recorded as a direct operating expense and inventory from the Manufacturing segment with a value of $138,227 (2012 – $103,524) was recorded as a cost of goods sold expense.

8. Other Assets

The other assets of the Company consist of the following:

	December 31, 2013	December 31, 2012
Long term loan to Tribal Council Investment Group ("TCIG")	$ 5,775	$ —
Long term security deposits and long term receivables	2,942	—
Total other assets	$ 8,717	$ —

During 2013 the Company advanced funds to TCIG. The loan is secured against the net assets of TCIG and is subordinate to TCIG's senior credit facility. Interest is earned and paid monthly based on the Canadian prime rate plus an applicable margin. The term of the loan includes quarterly principal payments and is structured to be paid out by February 2019 or earlier without penalty. The Company earned interest income of $197 during 2013.

9. Capital Assets

The Company's capital assets consist of the following:

			December 31, 2013
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 7,073	$ —	$ 7,073
Buildings	79,375	11,810	67,565
Aircraft frames	148,403	40,297	108,106
Aircraft engines	107,360	34,396	72,964
Aircraft propellers and rotors	19,938	7,353	12,585
Aircraft landing gear	12,646	2,546	10,100
Aircraft rotable parts	24,035	3,616	20,419
Equipment	67,585	39,182	28,403
Other	5,819	4,094	1,725
Leasehold improvements	4,137	1,726	2,411
Total	$ 476,371	$ 145,020	$ 331,351

								Year Ended December 31, 2013
Net Book Value	Opening	Acquisition	Additions	Disposals	Depreciation	Exchange Differences	Impairment	Ending
Land	$ 7,061	$ —	$ —	$ —	$ —	$ 12	$ —	$ 7,073
Buildings	62,324	—	7,337	—	(2,105)	9	—	67,565
Aircraft frames	84,991	10,134	28,300	(1,707)	(14,145)	533	—	108,106
Aircraft engines	50,966	11,903	28,657	(5,472)	(13,851)	761	—	72,964
Aircraft propellers and rotors	11,541	—	3,853	(163)	(2,646)	—	—	12,585
Aircraft landing gear	9,118	—	2,111	—	(1,129)	—	—	10,100
Aircraft rotable parts	15,422	—	7,346	(321)	(2,028)	—	—	20,419
Equipment	24,651	528	12,009	(366)	(9,077)	658	—	28,403
Other	1,021	98	1,167	(51)	(531)	21	—	1,725
Leasehold improvements	1,940	—	840	—	(432)	63	—	2,411
Total	$ 269,035	$ 22,663	$ 91,620	$ (8,080)	$ (45,944)	$ 2,057	$ —	$ 331,351

During 2013, $240 of borrowing costs were capitalized in the cost of qualifying assets within property, plant, and equipment (primarily buildings). The borrowing costs were calculated by based on the weighted average rate of its general borrowings of 5.0 per cent to the expenditures on such qualifying assets.

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, 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

10. Intangible Assets & Goodwill

The following summarizes the Company's intangible assets as at December 31, 2013 and 2012:

			December 31, 2013
	Cost	Accumulated Amortization	Net Book Value
Indefinite Life Assets			
Brand name	$ 34,389	$ —	$ 34,389
Finite Life Assets			
Customer contracts	1,367	884	483
Customer relationships	13,819	6,337	7,482
Non-compete agreements	1,364	792	572
Certifications	1,592	668	924
Information technology systems	1,412	1,087	325
Other	2,938	698	2,240
Total	$ 56,881	$ 10,466	$ 46,415

							Year Ended December 31, 2013
Net Book Value	Opening	Acquisition	Additions	Disposals	Amortization	Exchange Differences	Ending
Indefinite Life Assets							
Brand name	$ 21,071	$ 12,465	$ —	$ —	$ —	$ 853	$ 34,389
Finite Life Assets							
Customer contracts	623	—	—	—	(140)	—	483
Customer relationships	2,390	6,403	—	—	(1,672)	361	7,482
Non-compete agreements	796	—	—	—	(240)	16	572
Certifications	1,024	—	—	—	(106)	5	923
Information technology systems	190	—	188	—	(52)	—	326
Other	2,299	—	—	—	(59)	—	2,240
Total	$ 28,393	$ 18,868	$ 188	$ —	$ (2,269)	$ 1,235	$ 46,415

			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

Net Book Value	Opening	Acquisition	Additions	Disposals	Amortization	Exchange Differences	Ending
							Year Ended December 31, 2012
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

The Company has brand name indefinite life assets for the operations of Bearskin, Calm Air, Custom, Water Blast, Water Blast Dakota, WesTower and Regional One. 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.

Regional One has a trade name intangible recorded of US $12,465. Regional One is a leading provider of aircraft and engine aftermarket parts to regional airline operators around the world. Its specialty is based around regional turbo-prop and turbo-jet aircraft, engines, and rotable parts. The Regional One trade name is internationally recognized in the aviation industry, specifically in the regions in which the company currently operates, including the United States, Canada, Germany, Antigua, France, Russia and Israel. Regional One has built brand recognition within the industry for quality and customer service. This trade name intangible was recognized in 2013 with the acquisition of Regional One (Note 5).

	2013	2012
Balance, beginning of year	$ 73,516	$ 68,427
Goodwill from business acquisitions (Note 5)	30,508	5,686
Change in goodwill of foreign operations (Stainless, WesTower, Regional One, and Water Blast Dakota)	3,411	(597)
Balance, end of year	$ 107,435	$ 73,516

The Company completed its annual impairment testing for goodwill and indefinite life intangible assets as at December 31, 2013 based on management's best estimates of market participant assumptions including weighted average cost of capital. The recoverable amounts, determine based on fair value less costs of disposal for goodwill and indefinite life intangible asset CGUs, were determined using EBITDA multiples based on financial forecasts prepared by management (Level III inputs from the fair value hierarchy). The forecasts are based on management's best estimate using market participant assumptions considering historical and expected operating plans, current strategies, economic conditions, and the general outlook for the industry and markets in which the CGU's operate.

As at December 31, 2013, there was no impairment of goodwill or indefinite life intangible assets based on management's assessment. Furthermore, there were no reasonably possible changes in key assumptions which would cause the recoverable amounts to be less than the carrying value.

As a result of the foreign currency accounting policy for the consolidation of Stainless, Water Blast Dakota, WesTower US and Regional One as described in Note 3e), the goodwill recorded in Stainless (US $14,751), in Water Blast Dakota (US $476), WesTower US (US $12,415), and Regional One (US $30,105) 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.

11. Long-Term Debt and Finance Leases

The following summarizes the Company's long-term debt and finance leases as at December 31, 2013 and December 31, 2012:

	December 31, 2013	December 31, 2012
Revolving term facility		
Canadian dollar amounts drawn	$ 51,150	$ 750
United States dollar amounts drawn (US$157,197 and US$67,150, respectively)	167,195	66,808
Total credit facility debt outstanding, principal value	218,345	67,558
less: unamortized transaction costs	(932)	(616)
less: unamortized discount on outstanding Banker's Acceptances	(65)	—
Net credit facility debt	217,348	66,942
Finance leases	2,899	2,867
Total net credit facility debt and finance leases	220,247	69,809
less: current portion of finance leases	(1,326)	(1,405)
Long-term debt and finance leases	$ 218,921	$ 68,404

Interest expense recorded during the year ended December 31, 2013 for the long-term debt and finance leases was $4,240 (2012–$3,285).

Credit Facility

The following is the continuity of long-term debt for the year ended December 31, 2013:

	Year Ended December 31, 2013				
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar portion	$ 750	$ 56,700	$ (6,300)	$ —	$ 51,150
United States dollar portion	66,808	169,983	(76,498)	6,902	167,195
	$ 67,558	$ 226,683	$ (82,798)	$ 6,902	$ 218,345

	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

During the year ended December 31, 2013, the Company's senior credit facility was amended in association with the closing of the acquisition of Regional One (Note 5). The total credit available under the facility was amended. The total credit available is allocated between both EIC head office and EIIF USA. The total credit available under the facility is $335,000, with $258,000 allocated to EIC and $77,000 allocated to EIIF USA (prior to the amendment the total credit available was $235,000 consisting of $160,000 allocated to EIC and $75,000 to EIIF USA). The facility allows for borrowings to be denominated in either Canadian or US funds. The credit facility includes a revolving operating line of credit up to a maximum of $15,000. Also at the time of the amendment the term of the credit facility was extended two years, to April 2017, as part of the revolving four year credit facility.

The Company's credit facility is secured by a general security agreement over the assets of the Company, subject to customary terms, conditions, covenants and other provisions for a corporation, and includes both financial and negative covenants. The Company has been in compliance with all of the financial and negative covenants during the 2013 year.

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 for the year ended December 31, 2013:

					2013
	Opening	Assumed/ Entered Into	Repayments	Exchange Differences	Ending
Finance leases					
Canadian dollar leases	$ 1,911	$ 1,165	$ (1,003)	$ —	$ 2,073
US dollar leases	956	784	(973)	59	826
	$ 2,867	$ 1,949	$ (1,976)	$ 59	$ 2,899

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, 2013 are as follows:

	Less than 1 year	Between 1 year and 5 years	More than 5 years	Total
Total future minimum lease payments	$ 1,449	$ 1,661	$ —	$ 3,110
less: amount representing interest	(123)	(88)	—	(211)
Present value of future minimum lease payments	$ 1,326	$ 1,573	$ —	$ 2,899

The cost and accumulated depreciation of the finance leased equipment consists of the following as at December 31, 2013:

	December 31, 2013
Vehicles under finance leases	$ 9,743
less: accumulated depreciation	(6,735)
	$ 3,008

12. Convertible Debentures

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Series F - 2009	N/A	April 8, 2014	10.0%	$ 10.75
Series G - 2009	EIF.DB.A	September 30, 2014	7.5%	$ 14.50
Series H - 2010	EIF.DB.B	May 31, 2017	6.5%	$ 20.00
Series I - 2011	EIF.DB.C	January 31, 2016	5.75%	$ 26.00
Series J - 2011	EIF.DB.D	May 31, 2018	6.25%	$ 30.60
Unsecured Debentures - 2012	EIF.DB.E	September 30, 2019	5.5%	$ 36.80
Unsecured Debentures - 2013	EIF.DB.F	March 31, 2020	5.35%	$ 41.60

Summary of the debt component of the convertible debentures:

	2013 Balance, Beginning of Year	Debentures Issued	Accretion Charges	Debentures Converted	Repaid on Maturity	2013 Balance, End of Year	December 31, 2012 Balance
Series F	$ 1,162	$ —	$ 20	$ (54)	$ —	$ 1,128	$ 1,162
Series G	4,665	—	47	(1,498)	—	3,214	4,665
Series H	21,787	—	208	(853)	—	21,142	21,787
Series I	33,534	—	424	(17)	—	33,941	33,534
Series J	53,706	—	581	(2)	—	54,285	53,706
Unsecured - 2012	52,933	—	544	—	—	53,477	52,933
Unsecured - 2013	—	60,504	392	—	—	60,896	—
						228,083	167,787
less: unamortized transaction costs						(8,177)	(6,741)
Convertible Debentures - Debt Component, end of year						219,906	161,046
less: current portion						(4,324)	—
Convertible Debentures - Debt Component (long-term portion)						$ 215,582	$ 161,046

	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

During the 2013 year convertible debentures totaling a face value of $2,573 were converted by the holders at various times into 160,231 Shares of the Company (2012 – $7,560 face value into 437,304 Shares). Interest expense recorded during the 2013 year for the convertible debentures was $17,008 (2012 – $10,864).

Series F Convertible Debenture Offering

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 $1,134 of principal outstanding as at December 31, 2013 and mature in April 2014.

Series G Convertible Debenture Offering

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 $3,260 of principal outstanding as at December 31, 2013 and mature in September 2014.

Series H Convertible Debenture Offering

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.

The Series H convertible debentures have $22,116 of principal outstanding as at December 31, 2013 and mature in May 2017.

Series I Convertible Debenture Offering

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.

The Series I convertible debentures have $34,944 of principal outstanding as at December 31, 2013 and mature in January 2016.

Series J Convertible Debenture Offering

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.

The Series J convertible debentures have $57,477 of principal outstanding as at December 31, 2013 and mature in May 2018.

September 2012 Unsecured Convertible Debenture Offering

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.

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, 2013 and mature in September 2019.

March 2013 Unsecured Convertible Debenture Offering

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 $41.60.

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 March 31, 2016, but prior to March 31, 2018, 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 March 31, 2018 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 $3,191 were incurred during the nine months ended September 30, 2013 in relation to the issuance of these debentures.

The March 2013 Unsecured convertible debentures have $65,000 of principal outstanding as at December 31, 2013 and mature in March 2020.

The two most recent convertible debenture offerings (seven year 5.50% Convertible Unsecured Subordinated Debentures due September 30, 2019 and seven year 5.35% Convertible Unsecured Subordinated Debentures due March 31, 2020) contained a cash conversion option that would have allowed the Company to pay cash to the holder in lieu of Shares of the Company. Effective July 26, 2013, the Company amended the terms of these debentures to remove the Company's cash conversion option. The Company determined that the embedded derivative associated with such instruments was immaterial.

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, 2013	December 31, 2012
Series F - 2009	$ 56	$ 61
Series G - 2009	78	176
Series H - 2010	1,190	1,238
Series I - 2011	1,489	1,489
Series J - 2011	3,136	3,136
Unsecured Debentures - 2012	3,204	3,204
Unsecured Debentures - 2013	3,063	—
Convertible Debentures - Equity Component, end of year	$ 12,216	$ 9,304

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 and March 2013 convertible debenture offerings represent direct unsecured debt obligations of the Company.

On February 11, 2014, the Company completed an offering of Subordinated Debentures – March 2014 in the principal amounts of $40 million. The Subordinated Debentures – March 2014 bear interest at the rate of 6.00% per annum payable semi-monthly in arrears in cash on March 31 and September 30 of each year, with the first payment occurring on September 30, 2014. The maturity date of the Subordinated Debentures – March 2014 is March 31, 2021. Each Subordinated Debenture – March 2014 is convertible, at the holder's option, into Common Shares at any time prior to the close of business the day prior to the maturity date at a conversion price of $31.70 per Common Share.

13. Share Capital

Changes in the Shares issued and outstanding during the year ended December 31, 2013 are as follows:

	Number of Shares	2013 Amount
Share capital, beginning of year	20,636,593	$ 268,494
Issued for Regional One vendors on closing (Note 5)	494,656	13,751
Issued for Regional One vendors on contingent liability payment (Note 5)	178,552	4,841
Issued under vesting of reserved shares	28,746	611
Issued upon conversion of convertible debentures	160,231	2,577
Issued under dividend reinvestment plan	177,474	4,174
Issued under employee share purchase plan	76,148	1,491
Share capital, end of year	21,752,400	$ 295,939

Changes in the Shares issued and outstanding during the 2012 year are as follows:

	Number of Shares	2012 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	155,777	3,818
Issued under employee share purchase plan	54,309	1,463
Issued under First Nations community partnership agreements	27,000	495
Share capital, end of year	20,636,593	$ 268,494

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).

14. Dividends Declared

The Company's policy is to make dividends to shareholders from 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 2013 year and the comparative 2012 year are as follows:

Year Ended December 31	2013	2012
Cumulative dividends, beginning of year	$ 115,760	$ 83,043
Dividends during the year	35,889	32,717
Cumulative dividends, end of year	$ 151,649	$ 115,760

The amounts and record dates of the dividends during the 2013 year and the comparative 2012 year are as follows:

			2013 Dividends			2012 Dividends
Month	Record Date	Per Share	Amount	Record Date	Per Share	Amount
January	January 31, 2013	$ 0.14	$ 2,901	January 31, 2012	$ 0.135	$ 2,390
February	February 28, 2013	0.14	2,905	February 29, 2012	0.135	2,423
March	March 29, 2013	0.14	2,911	March 30, 2012	0.135	2,740
April	April 30, 2013	0.14	2,985	April 30, 2012	0.135	2,749
May	May 31, 2013	0.14	3,011	May 31, 2012	0.135	2,753
June	June 28, 2013	0.14	3,016	June 29, 2012	0.135	2,756
July	July 31, 2013	0.14	3,019	July 31, 2012	0.135	2,781
August	August 30, 2013	0.14	3,023	August 31, 2012	0.135	2,783
September	September 30, 2013	0.14	3,026	September 28, 2012	0.135	2,787
October	October 31, 2013	0.14	3,030	October 31, 2012	0.135	2,790
November	November 29, 2013	0.14	3,031	November 30, 2012	0.14	2,868
December	December 31, 2013	0.14	3,031	December 31, 2012	0.14	2,897
Total		$ 1.68	$ 35,889		$ 1.63	$ 32,717

Subsequent to December 31, 2013 and before these consolidated financial statements were authorized, the Company declared a dividend of $0.14 per Share for January 2014 and February 2014.

15. Segmented and Supplemental Information

Operating segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified and the Chief Executive Officer.

The Company's reportable business segments include strategic business units that offer different products and services. The Company has two operating business segments: Aviation and Manufacturing. The Aviation segment provides airline services to communities in Manitoba, Ontario and Nunavut. In addition, with the acquisition of Regional One, the segment is a provider of aircraft and engine aftermarket parts to regional airline operators around the world. The Manufacturing segment consists of niche specialty metal manufacturers in markets throughout Canada and the United States.

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, goodwill and capital asset additions. It includes expenses incurred at head office of the Company.

	Year Ended December 31, 2013				Year Ended December 31, 2012			
	Aviation	Manufacturing	Company	Consolidated	Aviation	Manufacturing	Company	Consolidated
Revenue	$ 313,214	$ 716,865	$ —	$ 1,030,079	$ 280,407	$ 520,166	$ —	$ 800,573
EBITDA	64,722	24,475	(8,698)	80,499	52,065	51,043	(8,610)	94,498
Depreciation and amortization				48,216				38,355
Finance costs - interest				21,315				14,149
Acquisition costs				1,669				1,358
Consideration liability fair value adjustment				(1,051)				—
Impairment loss				—				2,032
Earnings before tax				$ 10,350				$ 38,604

	December 31, 2013				December 31, 2012			
	Aviation	Manufacturing	Company	Consolidated	Aviation	Manufacturing	Company	Consolidated
Total assets	$ 365,750	$ 467,598	$ 128,024	$ 961,372	$ 267,443	$ 331,526	$ 110,401	$ 709,370
Net capital asset additions	72,141	8,171	19	80,331	56,965	6,150	141	63,256
Indefinite lived intangible assets	21,840	12,549	—	34,389	8,758	12,313	—	21,071
Goodwill	58,016	49,419	—	107,435	25,996	47,520	—	73,516

The following is the geographic breakdown of revenues for the year ended December 31, 2013 and the 2012 comparative year, based on location of the customer, and the capital assets and goodwill as at the balance sheet dates:

Year Ended December 31	2013	2012
Canada	$ 427,101	$ 439,494
United States	602,978	361,079
Total revenue for the year	$ 1,030,079	$ 800,573

	As at December 31, 2013		As at December 31, 2012	
	Capital Assets	Goodwill	Capital Assets	Goodwill
Canada	$ 288,704	$ 46,013	$ 260,547	$ 46,013
United States	42,647	61,422	8,489	27,503
	$ 331,351	$ 107,435	$ 269,036	$ 73,516

During the year ended December 31, 2013, the entity reported revenues of US$381,200 (2012 - $233,482) 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 above, based on location of the customer. The revenues from this customer for the 2013 year were 38% of total revenues (2012 – 29%).

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, 2013, the Company recognized revenue on these types of long-term contracts totaling $669,918 (2012 – $473,569).

The following summarizes the costs and estimated earnings on uncompleted contracts as of December 31, 2013:

As at December 31,	2013	2012
Costs incurred on uncompleted contracts	$ 543,658	$ 308,489
Estimated earnings	194,666	112,532
	$ 738,324	$ 421,021
less: Billings to date	(604,955)	(330,399)
Total	$ 133,369	$ 90,622
Costs incurred plus recognized profits in excess of billings	$ 176,971	$ 120,968
Billings in excess of costs incurred plus recognized profits	(43,602)	(30,346)
Total	$ 133,369	$ 90,622

Aviation Segment Supplemental Disclosure

The Aviation segment's revenues and expenses combine services provided and the sale and lease of goods. The following summarizes the breakdown of the significant categories for the year ended December 31, 2013 and the 2012 comparative periods:

Year ended December 31,	2013	2012
Sale of services	$ 269,094	$ 274,086
Sale and lease of goods	44,120	6,321
	313,214	280,407
Direct operating expenses - sale of services	200,521	191,481
Cost of goods sold and lease expenses	8,377	4,316
	$ 208,898	$ 195,797

16. 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 one category of dilutive potential common shares: convertible debentures. 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.

The computation for basic and diluted earnings per share for the year ended December 31, 2013 and comparative in 2012 year are as follows:

Year Ended December 31,	2013	2012
Net earnings for the year, available to common shareholders	$ 8,984	$ 25,351
Effect of dilutive securities		
Convertible debentures	—	1,854
Diluted earnings for the year	$ 8,984	$ 27,205
Basic weighted average number of shares	21,463,733	20,043,731
Effect of dilutive securities		
Convertible debentures	—	1,737,745
Diluted basis average number of shares	21,463,733	21,781,476
Earnings per share:		
Basic	$ 0.42	$ 1.26
Diluted	$ 0.42	$ 1.25

17. 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.

	2013	2012
Salaries, wages & benefits	$ 231,490	$ 183,877
Aircraft operating expenses	120,894	109,048
Materials	491,066	337,627
General and administrative - not allocated	73,063	45,175
Building rent & maintenance	6,888	8,731
Communication & information technology	3,782	3,462
Advertising	3,899	3,585
Sub-contracting services	11,831	10,121
Other	6,667	4,449
	$ 949,580	$ 706,075

18. Employee Benefits

Deferred Share Plan

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

	2013	2012
Deferred shares outstanding, beginning of year	134,513	112,596
Granted during the year	55,847	45,351
Granted through dividends/distributions declared during the year	11,616	9,481
Redeemed during the year	—	(31,517)
Forfeited during the year	—	(1,398)
Deferred shares outstanding, end of year	201,976	134,513
Vested portion of deferred shares outstanding, end of year	126,642	66,103

The fair value of the deferred shares granted during the 2013 year was $1,550 at the time of the grant (weighted average grant price of $28.02 per share) and was based on the market price of the Company's shares at that time (2012 – $1,113, weighted average grant price of $24.54 per share). During the 2013 year, the Company recorded net compensation expense of $1,044 for the Deferred Share Plan within the general and administrative expenses of head-office (2012 – net compensation expense of $632).

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. The cost of the award is recognized in head-office expenses of the Company over the 18 month 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 2013, 76,148 Shares were issued out of Treasury at a weighted average price of $19.58 per share, effective November 18, 2013 for the 2013 program that will vest in 18 months (Quarter 2 of 2015). The grant date fair value of the shares that will be awarded upon the vesting conditions of the plan being attained is estimated at $1,109 based on the share price and monthly dividend rate as at that time.

During 2012, 54,309 Shares were issued out of Treasury at a weighted average price of $26.91 per share, effective November 20, 2012 for the 2012 program that will vest in 18 months (Quarter 2 of 2014). The grant date fair value of the 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 ESPP plan is adjusted for changes in the Company's share price at the period-end, any changes in the Company's dividend rate and any estimated forfeitures. During 2013, total expenses recorded in head-office expenses was $514 (2012 – $545).

19. 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, 2013	December 31, 2012
Less than 1 year	$ 10,410	$ 9,169
Between 1 year and 5 years	21,906	15,676
More than 5 years	12,863	12,212
	$ 45,179	$ 37,057

Included in the table above are commitments obligated to related parties in association with leased property used in the operations of the Manufacturing and Aviation segments which are described further in Note 19.

During the year the Company expensed $15,834 (2012 - 12,958) of operating lease costs.

20. Related Party Transactions

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

Property Leases

Various entities lease several buildings from related parties who were vendors of the 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 2013 under these leases was $2,145 (2012 – $1,553) and the lease term maturities range from 2014 to 2018. 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 (2012 – nil).

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 2013 year and the comparative 2012 year is as follows:

	2013	2012
Salaries and short-term benefits	$ 2,872	$ 3,974
Share-based payments	1,118	600
	$ 3,990	$ 4,574

21. 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 $157,197 (167,195) outstanding on its credit facility. The outstanding funds in USD results in currency risk that the future cash flows will fluctuate with the changes in market currency rates. The exposure for the USD portion of its credit facility outstanding is offset by the cash generated through the operations of its Manufacturing and Aviation segment subsidiaries, in particular, the operations of WesTower US, Stainless and Regional One throughout the United States.

The Company`s investment in EIIF USA is hedged partially by US$97,300 of the secured bank loan which mitigates the foreign currency translation risk arising from the subsidiary`s net assets. The loan is designated as a net investment hedge and no ineffectiveness was recognized from the net investment hedge.

During the period, the Company also entered into a currency swap in order to hedge a portion of the net investment in its subsidiary's net assets. The hedge contracted the Company to convert US$60,000 into $61,398 Canadian equivalent. The swap was settled on September 20, 2013. As a result, a $474 loss on the hedge was recorded within other comprehensive income.

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, 2013 would have a $nil impact on net earnings and decrease the foreign currency translation adjustment in Other Comprehensive Income by approximately $1.7 million.

Interest Rates

The Company is subject to the risk that future cash flows associated with the credit facility outstanding (Note 10) 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, 2013, US $148,400 was outstanding under US LIBOR, US $8,797 was outstanding under USD Prime, $6,000 was outstanding under Prime and $45,150 was outstanding under Bankers Acceptances.

Based on the outstanding credit facility throughout 2013, net of cash and cash equivalents, a 1% increase in interest rates for the Company would decrease net earnings by approximately $1.4 million ($1.0 million after-tax).

The interest rates of the convertible debentures (Note 11) have fixed interest rates.

Credit Risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The maximum credit exposure to credit risk at the reporting date is the carrying value of cash and cash equivalents, accounts receivable and other assets. Unless otherwise specified, the Company does not hold any collateral from counterparties related to such financial assets.

The Company is exposed to credit risk arising from deposits of cash and cash equivalents with financial institutions. The Company maintains its cash and cash equivalents with highly rated financial institutions within Canada and the US.

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, 2013, $10.4 million of the outstanding receivables were greater than 90 days outstanding. Approximately $3.6 million of this relates to the Manufacturing segment and the $6.8 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.

The Company has credit risk exposure on the amounts advanced under any promissory note or loan arrangement. This includes the items within Other Assets on the Company's consolidated statement of financial position, in particular, the lease arrangements for Regional One where long-term receivables are recognized with aviation companies in finance lease arrangements, as well as the loan arrangement the Company has with TCIG. The security the Company has from these arrangements is considered adequate to cover the carrying value of these items.

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). As at December 31, 2013, the Company had $126 million available under its senior credit facility.

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	$ 151,191	$ 151,191	$ —	$ —
Long-term debt	218,345	—	218,345	—
Convertible debentures	241,431	4,394	114,537	122,500
Total	$ 610,967	$ 155,585	$ 332,882	$ 122,500

Fair Value of Financial Instruments

The following table provides information about financial assets and liabilities measured at fair value in the consolidated balance sheet and categorized by level according to the significance of the inputs used in making the measurements and their related classifications:

Recurring measurements	Carrying Value December 31, 2013	Quoted prices in an active market Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Financial Liabilities				
Consideration liabilities - Other financial liabilities	$ (12,582)	$ —	$ —	$ (12,582)
Fair Value Disclosures				
Other assets - Loans and receivables	(8,717)	—	(2,942)	(5,775)
Long term debt - Other financial liabilities	(217,348)	—	—	(218,345)
Convertible debt - Other financial liabilities	(219,906)	—	(231,661)	—
	$ (458,553)	$ —	$ (234,603)	$ (236,702)

Fair Value Disclosures	Carrying Value December 31, 2012	Quoted prices in an active market Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Financial Liabilities				
Long term debt - Other financial liabilities	$ (66,942)	$ —	$ (67,558)	$ —
Convertible debt - Other financial liabilities	(161,046)	—	—	(168,600)
	$ (227,988)	$ —	$ (67,558)	$ (168,600)

The Company valued the level 3 consideration liabilities based on the present value of estimated cash outflows using probability weighted calculations, discount rates and the observable fair market value of its equity, as applicable. The initial fair value of the consideration liability recorded on acquisition was US$30,521. During the year, US$17,950 of consideration liabilities were settled through the payment of cash or issuance of equity, as applicable, resulting in a gain on consideration liabilities of US$216. During the year ended December 31, 2013, an unrealized gain on consideration liabilities of US$798 and accretion of US$273 was recognized.

The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses which are classified as loans and receivables or other financial liabilities, as applicable, approximate their carrying values due to their short term nature.

As at December 31, 2013, management had determined that the fair value of its long term debt approximates its carrying value as such debt is subject to floating interest rates and current market conditions as it was recently amended (Note 10). Furthermore, management had determined that the fair value of its other long-term liabilities approximates carrying value as such was recorded at fair value on acquisition date.

As at December 31, 2013, management estimated the fair value of the convertible debentures based on valuation techniques taking into account trading values where available, market rates of interest, the condition of any related collateral, the current conditions in credit markets and the current estimated credit margins applicable to the Company based on recent transactions. The estimated fair value of its convertible debentures is $231,661 (December 31, 2012 $168,600) and a carrying value of $219,906 (December 31, 2012 $161,046).

The Company's policy is to recognize transfers in and out of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfer. During the year ended December 31, 2013 there were no such transfers.

22. Changes In Working Capital Items

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

	December 31, 2013	December 31, 2012
Accounts receivable	$ (1,769)	$ (63,576)
Costs incurred plus recognized profits in excess of billings	(56,003)	(94,785)
Inventory	(30,397)	(22,422)
Prepaid expenses	(2,598)	(1,101)
Accounts payable and accrued charges	10,605	67,139
Income taxes payable	(11,714)	2,993
Deferred revenue	(422)	(327)
Billings in excess of costs incurred plus recognized profits	13,256	16,857
Foreign currency adjustments	9,213	(1,139)
Net change in working capital items	$ (69,829)	$ (96,361)

23. 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, 2013	December 31, 2012
Total senior debt outstanding, principal value	$ 218,345	$ 67,558
Convertible debentures outstanding, face value	241,431	179,004
Shares	295,939	268,494
Reserved shares	623	1,234
Total capital	$ 756,338	$ 516,290

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 2013 year.

Changes in the capital of the Company over the year ended December 31, 2013 are mainly attributed to the issuance of the March 2013 convertible debenture offering and the use of the senior debt to fund working capital requirements of the business and the acquisition of Regional One.

24. 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:

	2013	2012
Earnings before provision for income taxes	$ 10,350	$ 38,604
Combined Canadian federal and provincial tax rates	27.0%	27.0%
Income tax expense at statutory rates	2,795	10,423
Increase (decrease) in taxes resulting from:		
Permanent differences	429	1,376
Non taxable dividend income and capital gains	(873)	(423)
Impact of foreign tax rate differences	(947)	1,760
Other	(39)	117
Provision (recovery) for income taxes	$ 1,365	$ 13,253

Unrecognized Deferred Tax Liabilities

At December 31, 2013 a deferred tax liability of $1,424 (2012 - $483) for temporary differences of $10,548 (2012 - $9,665) 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 reverse in the foreseeable future.

Movement in Deferred Tax Balances during the Year

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

	December 31, 2012	Acquisition through business combination	Credited / (charged) through statement of income	Credited / (charged) to other comprehensive income	Credited / (charged) through equity	Reclass	December 31, 2013
Deferred income tax assets							
Capital assets	$ (18,781)	$ —	$ (1,398)	$ —	$ —	$ —	$ (20,179)
Intangible assets	(3,257)	—	(158)	—	—	—	(3,415)
Financing costs	324	—	(579)	—	—	—	(255)
Accruals - deductible when paid	581	—	7	—	—	—	588
Capital and non-capital loss carryforwards	32,980	—	(3,636)	—	—	—	29,344
Other comprehensive income	(117)	—	—	(1,048)	—	—	(1,165)
Convertible debentures	(3,023)	—	581	—	(1,162)	—	(3,604)
Other	(8)	—	(4)	—	—	—	(12)
Total deferred income tax asset	$ 8,699	$ —	$ (5,187)	$ (1,048)	$ (1,162)	$ —	$ 1,302
Deferred income tax liability							
Capital assets	$ (7,710)	$ —	$ 643	$ (102)	$ —	$ —	$ (7,169)
Intangible assets	(4,411)	—	225	—	—	—	(4,186)
Accruals - deductible when paid	1,195	—	1,063	—	—	—	2,258
Non-deductible reserves	(2,232)	—	171	—	—	—	(2,061)
Capital and non-capital loss carryforwards	941	—	(26)	—	—	—	915
Other	4	—	(2)	—	—	—	2
Total deferred income tax liability	(12,213)	—	2,074	(102)	—	—	(10,241)
Net	$ (3,514)	$ —	$ (3,113)	$ (1,150)	$ (1,162)	$ —	$ (8,939)

	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)

Non-capital Loss Carry-forwards

As at December 31, 2013, 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	$ 111,898
	$ 111,898

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

Jeffrey Olin

Senior Management

Michael Pyle
President & Chief Executive Officer

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

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

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

Darwin Sparrow
Vice-President & Chief Operating Officer, Manufacturing

Gary Beaurivage
Vice-President & Chief Operating Officer, Aviation

Michael Swistun
Director of Acquisitions

CORPORATE INFORMATION

OFFICERS

Michael Pyle
President & Chief Executive Officer

Carmele Peter
Chief Administrative Officer

Adam Terwin
Chief Financial Officer

Darwin Sparrow
Vice-President & Chief Operating Officer, Manufacturing

Gary Beaurivage
Vice-President & Chief Operating Officer, Aviation

Dianne Spencer
Corporate Secretary

LEGAL COUNSEL

Aikins, MacAulay & Thorvaldson LLP
Winnipeg, Manitoba

AUDITORS

PricewaterhouseCoopers LLP
Winnipeg, Manitoba

BANKERS

The Toronto-Dominion Bank
Roynat Inc.
Canadian Imperial Bank of Commerce
Alberta Treasury Branches
National Bank of Canada

TRANSFER AGENT

CST Trust Company
Calgary, Alberta

STOCK EXCHANGE LISTING & SYMBOL

TSX: EIF

ANNUAL GENERAL & SPECIAL MEETING

Calm Air Hangar & Maintenance Facility
930 Ferry Road
Winnipeg, Manitoba R3H 0Y8
Date: May 15, 2014
Time: 10:30 AM CST

CORPORATE OFFICE

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

WEBSITE LISTINGS FOR SUBSIDIARY COMPANIES

Bearskin Airlines
bearskinairlines.com

Calm Air
calmair.com

Custom Helicopters
customheli.com

Keewatin Air
keewatinair.com

Perimeter Aviation
perimeter.ca

Regional One
regionalone.com

Jaspar Tank Manufacturing
jaspertank.com

Overlanders Manufacturing
overlanders.com

Stainless Fabrication
stainlessfab.com

Water Blast Manufacturing
hotsyab.com

WesTower Communications
westower.com

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