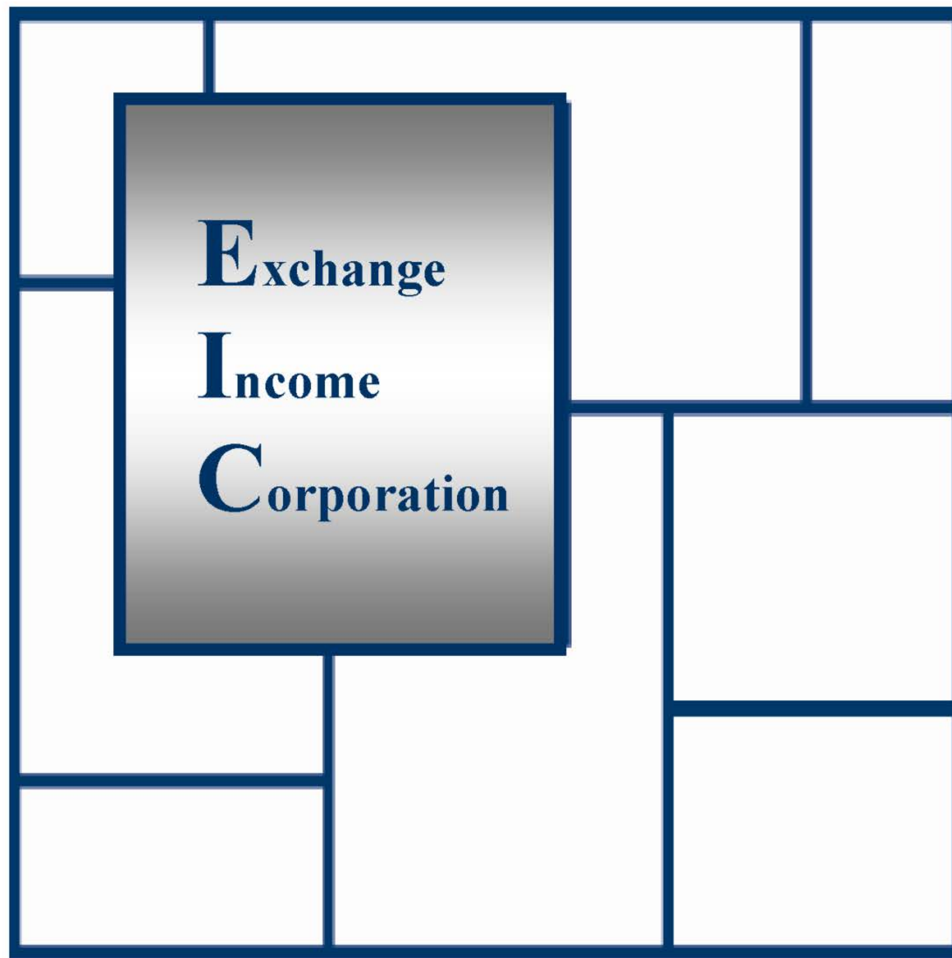


Second Quarter Report

For the three and six months ended June 30, 2014

CEO's Message

Since our inception in 2004, we have been a diversified, dividend paying company that pursues accretive acquisitions on a disciplined basis that are a strong strategic fit. This model has proven to be very effective as we have grown our dividend by 56% over the last decade despite the various challenges faced by our operating subsidiaries at various points in time. The recent explosive growth at WesTower US has challenged this model as the business has grown to a size where it makes up a large proportion of EIC revenues and created some imbalance to the diversification of the Company. Growth has also caused challenges in generating acceptable margins at WesTower US. To address this, we brought in a new senior management team at WesTower, led by CEO Steve Pickett and invested several million dollars to facilitate a more rapid installation of processes and systems to better manage the heightened volume of work being completed. Our stated goal was to consistently grow margins and profitability through the 2014 fiscal year. I am very pleased to inform you that the Q2 2014 results demonstrate the significant progress we have made. While we still have a lot of work to do, we are well on our way to meeting our goal:

While revenues generated by WesTower decreased marginally by 3% compared to the second quarter of 2013, the improvements in EBITDA and margins are a direct result of the work done to improve its operations over the last 18 months.

- EBITDA increased to $8.2 million, an increase of approximately 150% over the second quarter of 2013 and grew approximately 220% over the first quarter of 2014
- EBITDA margin increased to 4.9% from 1.9% in the second quarter of 2014 and from 1.6% in the first quarter of 2014

The Canadian operations of WesTower have been a consistent performer since being acquired and as such the results of WesTower's US operations are the main driver of the improvement. WesTower US EBITDA was $5.5 million (4.0% margin), up from $1.3 million (0.9% margin) in the comparative period, and up from $1.5 million (1.1% margin) over the previous quarter in 2014.

Despite the positive improvements, WesTower's Q2 contributions were impacted by a tornado that demolished one of its buildings, resulting in an expense of $0.6 million for the insurance deductible. Excluding this loss, EBITDA increases by an additional $0.6 million and the margin increases by an additional 0.4% to 5.3%.

The profitability improvement at WesTower US is of equal significance as the reduction in the capital employed in the operation. In fact, we are pleased to report that for the first time since the award of the AT&T contract, we did not advance any funds to WesTower US in the first quarter of 2014. In the second quarter of 2014, WesTower US began to return EIC's investment. In addition to fully paying all management fees and interest to EIC, WesTower US returned approximately US$15 million of invested capital in the second quarter.

This quarter's good news is not limited to the Infrastructure segment. In the Aviation segment, Calm Air and Regional One both showed strong improvement over the preceding year after being the recipients of significant investments in recent periods. Calm Air's EBITDA rose by 46% to $4.9 million and Regional One rose by 60% to $5.8 million. The Aviation segment as a whole experienced a 3% decline in EBITDA of $0.5 million to $18.8 million, but this decline was largely the result of an exceptionally long winter road season and a very wet spring and summer. The adverse weather conditions reduced demand for freight and charter services, resulting in reduced EBITDA of approximately $3 million in the second quarter. As indicated in our first quarter reporting, we proactively advanced the restructuring of Bearskin in the second quarter and incurred a charge of $1.3 million and $0.7 million of additional depreciation. This one-time charge is due to the costs incurred in eliminating certain unprofitable portions of the company's operations, thereby increasing profitability. While we are disappointed by the reduced profitability driven by the unseasonable weather, we are very encouraged by the continued improvements management has made in the performance at all our Aviation segment subsidiaries. Challenges from the weather are short term in nature and do not reflect a change to the basic profitability of these businesses or our competitive position.

We have always proudly and strategically partnered with our First Nation customers. The Company's subsidiaries currently work with the Tribal Council Investment Group ("TCIG") on a contract servicing Hydro One in northwestern Ontario. As a result of this contract, the Company made an advance to TCIG which totaled $5.8 million at December 31, 2013. TCIG retired this advance in full during the second quarter. Exchange is proud of our relationship with our First Nation customers and it is a substantial value add component to our northern aviation brands.

Overall, we are pleased with the progress made in the second quarter of the year:

- Revenue was essentially flat, down less than 1% at $274.5 million;
- EBITDA was up 11% to $27.8 million and when the impact of the insurance loss is removed EBITDA rises to $28.4 million, up 14% over the preceding year; and

- Free Cash Flow was up 10% to $21.5 million. Free cash flow less maintenance capital expenditures was up 3% to $11.4 million or $0.52 per share ($0.49 fully diluted).

The payout ratio was 81% or 86% fully diluted compared to 81% and 91% respectively last year. While further improvement will be required before we can consider an increase to our dividend, we are confident in our ability to maintain the dividend at its current level.

We are actively looking for investment opportunities to grow our very successful Regional One platform. Other growth capital expenditures in the balance of the company are expected to be modest in the second half of 2014.

We are excited about the future. Investments made in our operating subsidiaries have begun to bear fruit and margins are improving. We have always been focused on accretive acquisitions. The recent personnel changes we have announced will expand the capabilities of our corporate development team and increase our ability to improve the balance in our portfolio, making us more effectively diversified. With approximately $140 million in deployable funds available in our credit facility, we continue to seek quality companies that match our stringent acquisition criteria and will allow us to further diversify our cash flows.

Mike Pyle
Chief Executive Officer

Management's Discussion and Analysis

August 12, 2014

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") supplements the unaudited interim condensed consolidated financial statements and related notes for the three and six months ended June 30, 2014 ("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 interim condensed consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of financial statements. This MD&A should be read in conjunction with the Consolidated Financial Statements of the Company for the three and six months ended June 30, 2014 and its annual MD&A for the year ended December 31, 2013.

FORWARD-LOOKING STATEMENTS

This interim 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 interim report. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. Readers of this interim 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 interim report described in *Section 11 – Risk Factors* of the MD&A. We caution that the list of risk factors set out herein is not exhaustive and that when relying on forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this interim 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: 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, asset impairment and restructuring costs, 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: is defined as net earnings adjusted for acquisition costs expensed, asset impairment and restructuring costs, 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: 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: 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.

The Company's maintenance capital expenditures include aircraft engine overhauls and airframe heavy checks that are recognized when these events occur and can be significant. 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.

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.

1. FINANCIAL HIGHLIGHTS

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

FINANCIAL PERFORMANCE	2014	per share basic	per share fully diluted	2013	per share basic	per share fully diluted
For the three months ended June 30						
Revenue	$ 274,500			$ 275,680		
EBITDA	27,812			24,968		
Net earnings (loss)	4,122	$ 0.19	$ 0.19	5,732	$ 0.27	$ 0.27
Adjusted net earnings	5,866	0.27	0.26	6,579	0.31	0.31
Free cash flow	21,530	0.98	0.81	19,636	0.92	0.76
Free cash flow less maintenance capital expenditures	11,355	0.52	0.49	11,061	0.52	0.46
Dividends declared	9,277	0.42		9,012	0.42	
For the six months ended June 30						
Revenue	$ 531,979			$ 495,252		
EBITDA	47,269			42,561		
Net earnings	4,289	$ 0.20	$ 0.19	7,318	$ 0.35	$ 0.35
Adjusted net earnings	6,251	0.29	0.28	9,234	0.44	0.44
Free cash flow	35,792	1.63	1.40	33,048	1.56	1.33
Free cash flow less maintenance capital expenditures	13,930	0.64	0.63	16,518	0.78	0.74
Dividends declared	18,413	0.84		17,729	0.84	
FINANCIAL POSITION	June 30, 2014			December 31, 2013		
Working capital	$ 267,231			$ 256,646		
Capital assets	341,421			331,351		
Total assets	1,004,052			961,372		
Senior debt	199,045			220,247		
Equity	300,994			305,826		
SHARE INFORMATION	June 30, 2014			December 31, 2013		
Common shares outstanding	22,143,670			21,752,400		

2. OVERVIEW

EXCHANGE INCOME CORPORATION

The Company is a diversified, acquisition-oriented corporation focused on opportunities in three sectors: aviation services and equipment, metal manufacturing, and infrastructure services. In particular the Company focuses on 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. 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 three reportable business segments: Aviation, Manufacturing and Infrastructure:

(a) Aviation – providing scheduled airline and charter service and emergency medical services to communities located in Manitoba, Ontario, Nunavut and Alberta, operated by **Calm Air**, **Keewatin**, **Perimeter**, **Bearskin, Custom Helicopters,** and other aviation supporting businesses. **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;

(b) Manufacturing – providing a variety of metal manufacturing goods and metal related services in a variety of industries and geographic markets throughout North America. **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, the Northwest Territories, 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; and

(c) Infrastructure – consists of the operations of **WesTower** which is a manufacturer, installer, and maintenance service provider of communication towers and sites in both Canada and the United States. The US operations of WesTower ("WesTower US") are focused more on being a "Turn Key" self-performing general contractor, including providing professional and technical services to its customers that range from site identification and acquisition to installation, equipment testing and maintenance. The Canadian operations of WesTower ("WesTower CDA") are focused more on the engineering, design, manufacturing and construction of these towers.

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.

During 2014, the Company changed to three reporting segments from two and in the prior periods the WesTower operations were part of the Manufacturing segment. See *Section 5 – Summary of Quarterly Results* for a discussion on the 2013 results had the Company reported with these three segments. There is no difference in the Company's consolidated results from reporting three segments versus two segments.

Prior Year's Acquisitions

The following acquisitions were made by the Company during the year ended December 31, 2013:

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.

During the second quarter of 2014, the Company settled the majority of the outstanding consideration liabilities with the vendors of Regional One. In April 2014, the Company released US$6.6 million ($7.3 million) of the cash in escrow, paid US$0.6 million ($0.7 million) in cash, and issued 130,175 of Shares with a value of US$2.2 million ($2.4 million). The remaining consideration liability outstanding at June 30, 2014 consists of certain tax related liabilities owing to the vendors. Additionally, there are 350,567 Shares of the Company that were issued into escrow at the time of acquisition and relate to the retention of the vendor as CEO. These remaining Shares are anticipated to be settled and released from escrow evenly each of the next four anniversaries of closing the acquisition.

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 fiscal 2013, of which a large portion was associated with the acquisition of Regional One.

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*.

EBITDA	Three Months Ended		Six Months Ended	
periods ending June 30	2014	2013	2014	2013
Earnings before income taxes	$ 6,027	$ 7,858	$ 6,214	$ 10,641
Depreciation and amortization	13,853	11,519	27,015	21,512
Finance costs - interest	6,869	5,315	13,332	9,302
Acquisition costs	19	838	59	1,668
Consideration liability fair value adjustment	(256)	(562)	(651)	(562)
Impairment and restructuring	1,300	-	1,300	-
	$ 27,812	$ 24,968	$ 47,269	$ 42,561

Three Month EBITDA

The EBITDA generated by the Company increased by $2.8 million or 11% in the second quarter of 2014 over the comparative period. The increase is mainly a result of the improvement at WesTower and generated by its improving margins. Also contributing to the increase is Regional One, which was owned and operated by the Company for only a portion of the comparative period. In addition, since the acquisition, Regional One has continued to grow its portfolio of available assets to grow its operations. There also have been increases in EBITDA generated at Calm Air as a result of changes made to its infrastructure and fleet rationalization plan. Offsetting these factors was a decrease in EBITDA as a result of weather related factors experienced by our Aviation segment.

Six Month EBITDA

The EBITDA generated by the Company increased by $4.7 million or 11% in the current period over the comparative period. The main factor impacting the increase in EBITDA is the addition of Regional One with operations for only a portion of the comparative period. The six month comparative period in 2013 includes less than three months of results from Regional One after the acquisition closing date of April 12, 2013.

FREE CASH FLOW

FREE CASH FLOW	Three Months Ended		Six Months Ended	
periods ending June 30	2014	2013	2014	2013
Cash flows from operations	$ 15,832	$ (16,320)	$ 19,379	$ (9,492)
Change in non-cash working capital items	4,379	35,118	15,054	40,872
Acquisition costs	19	838	59	1,668
Impairment and restructuring	1,300	-	1,300	-
	$ 21,530	$ 19,636	$ 35,792	$ 33,048
per share - Basic	$ 0.98	$ 0.92	$ 1.63	$ 1.56
per share - Fully Diluted	$ 0.81	$ 0.76	$ 1.40	$ 1.33

Three Month Free Cash Flow

The Free Cash Flow generated by the Company for the second quarter of 2014 was $21.5 million, an increase of $1.9 million or 10% over the comparative period. The change in Free Cash Flow is primarily a result of the increase in EBITDA generated by the Company.

Included in EBITDA, but excluded from Free Cash Flow, is $0.2 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 comparative period included net losses of $0.1 million.

The Company excludes the restructuring costs of $1.3 million relating to the Bearskin operations in deriving free cash flow. This is included as part of the cash flows from operating activities and is therefore an add-back within the Free Cash Flow calculation. As well, the Company excludes acquisition costs which decreased by $0.8 million as the comparative period included significant acquisition costs related to the closing of the Regional One acquisition.

On a basic per share basis, the increase in absolute Free Cash Flow contributed to the increase in per share amounts and was partially offset by the higher base of the Company's shares outstanding. The combined impact resulted in Free Cash Flow of $0.98 per share for the current period, an increase of $0.06 per share or 7% over the comparative period. The average number of Shares outstanding for the current period was 3% higher than the comparable period. Details around the increase in Shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*. For similar reasons, the Company's fully diluted Free Cash Flow per share was $0.81, an increase of $0.05 per share or 7% compared to the same period in 2013. There is additional downward impact coming from the additional convertible debentures outstanding in 2014. The $40.0 million of principal from the March 2014 unsecured convertible debentures were not outstanding during the comparative period.

Six Month Free Cash Flow

The Free Cash Flow generated by the Company for the six months ended June 30, 2014 was $35.8 million, an increase of $2.7 million or 8% over the comparative period. The change in Free Cash Flow is the result of a number of factors but primarily as a result of the increase in EBITDA generated by the Company.

Included in EBITDA, but excluded from Free Cash Flow, is $1.5 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 comparative period included net gains of $0.2 million, a change of $1.3 million.

The Company excludes the restructuring costs of $1.3 million relating to the Bearskin operations in deriving free cash flow. This is included as part of the cash flows from operating activities and is therefore an add-back within the Free Cash Flow calculation. As well, the Company excludes acquisition costs, which decreased by $1.6 million in the current period as the comparative period included significant acquisition costs related to the closing of the Regional One acquisition.

The Company's debt levels have increased in the current period and as a result cash interest costs have increased. The level of credit facility debt, the March 2013 convertible debenture offering only being outstanding for a portion of the comparative period, and the most recent convertible debenture offering from March 2014 being outstanding have all resulted in an increase in cash interest of $3.3 million in the current period. Offsetting this is a cash tax recovery in the current period and the change from the comparative period's cash tax expense contributes to an increase in Free Cash Flow of $1.9 million.

On a basic per share basis, the increase in absolute Free Cash Flow contributed to the increase in per share amounts and was partially offset by the higher base of the Company's shares outstanding. The combined impact resulted in Free Cash Flow of $1.63 per share for the six months ended June 30, 2014, an increase of $0.07 per share or 4% over the comparable period. Details around the increase in Shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*. For similar reasons, the Company's fully diluted Free Cash Flow per share was $1.40 for the six months ended June 30, 2014, an increase of $0.07 per share or 5% compared to the same period in 2013. There is additional downward impact coming from recently issued and outstanding convertible debentures. The March 2013 convertible debentures were issued part way through the comparative period and convertible debentures issued in March 2014 have no comparative.

FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENDITURES

FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENDITURES	Three Months Ended		Six Months Ended	
periods ending June 30	2014	2013	2014	2013
Free Cash Flow	$ 21,530	$ 19,636	$ 35,792	$ 33,048
Maintenance Capital Expenditures	10,175	8,575	21,862	16,530
	$ 11,355	$ 11,061	$ 13,930	$ 16,518
per share - Basic	$ 0.52	$ 0.52	$ 0.64	$ 0.78
per share - Fully Diluted	$ 0.49	$ 0.46	$ 0.63	$ 0.74

Three Month Free Cash Flow Less Maintenance Capital Expenditures

The Free Cash Flow less maintenance capital expenditures generated by the Company for the second quarter of 2014 was $11.4 million, an increase of $0.3 million or 3% over the comparative period. The small increase is due to the increase in Free Cash Flow as described above offset by the increase in maintenance capital expenditures of $1.6 million (or 19%), which is 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. 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 2014 was consistent with the comparative period at $0.52 per share (fully diluted $0.49, increase of $0.03 or 7%). The absolute higher Free Cash Flow less maintenance capital expenditures generated by the Company was offset by an increased base number of Shares outstanding for the Company during 2014. The maintenance capital expenditure component of this metric is described further below and accounted for the $0.46 per share decrease from Free Cash Flow. The maintenance capital expenditures impact for the comparable period in 2013 was $0.40 per share.

Six Month Free Cash Flow Less Maintenance Capital Expenditures

The Free Cash Flow less maintenance capital expenditures generated by the Company for the six months ended June 30, 2014 was $13.9 million, a decrease of $2.6 million or 16% over the comparative period. Based on the discussion above for the second quarter, the decrease came from the first quarter period. The decrease is due to the increase in maintenance capital expenditures of $5.3 million or 32%, as described in the Capital Expenditures section, offset by the increase in Free Cash Flow as described above.

On a basic per share basis, Free Cash Flow less maintenance capital expenditures for the six months ended June 30, 2014 decreased to $0.64 per share ($0.63 fully diluted) in comparison to $0.78 per share ($0.74 fully diluted). The decrease of 18% (15% fully diluted) is attributed to the decrease in the absolute Free Cash Flow less maintenance capital expenditures generated by the Company compounded by an increased base number of Shares outstanding for the Company during the first six months in 2014. The maintenance capital expenditure component of this metric is described further below and accounted for the $0.99 per share decrease from Free Cash Flow. The maintenance capital expenditures impact for the comparable period in 2013 was $0.78 per share.

CAPITAL EXPENDITURES

CAPITAL EXPENDITURES	Three Months Ended		Six Months Ended	
periods ending June 30	2014	2013	2014	2013
Cash maintenance capital expenditures	$ 9,793	$ 8,169	$ 21,090	$ 15,763
add: finance lease principal payments	382	406	772	767
Maintenance capital expenditures	10,175	8,575	21,862	16,530
Growth capital expenditures	10,479	8,583	12,893	13,843
	$ 20,654	$ 17,158	$ 34,755	$ 30,373
Maintenance capital expenditures per share - Basic	$ 0.46	$ 0.40	$ 0.99	$ 0.78
Growth capital expenditures per share - Basic	0.48	0.40	0.59	0.65
Total capital expenditures per share - Basic	$ 0.94	$ 0.80	$ 1.58	$ 1.43

Maintenance Capital Expenditures

For the second quarter of 2014 the Company spent $10.2 million on maintenance capital expenditures, an increase of $1.6 million to the comparative period. The majority of the increase relates to the Aviation segment as it spent $9.6 million versus the $0.2 million spent by the Manufacturing segment and the $0.4 million spent by the Infrastructure segment.

The Aviation segment's maintenance capital expenditures are $1.9 million higher than the comparative period. Regional One's maintenance capital expenditures increased by $1.2 million, which were low in the comparable period as Regional One was acquired in April 2013. Regional One's maintenance capital expenditures consist of the additions required in order to maintain the lease portfolio at its existing operating level. The remaining increase of $0.7 million is within the expected range of variability for a quarter for the operating airlines. In addition, a large portion of this segment's maintenance capital expenditures are denominated in US dollars, being the common currency for the airline industry. Consistent with the prior quarter, the weakening of the Canadian dollar has caused the costs associated with these maintenance events to increase.

The Infrastructure segment's net maintenance capital expenditures of $0.4 million during the period were $0.3 million lower than the comparative period. Outside of finance lease payments of $0.4 million, the net impact of capital expenditures was nil as the $0.2 million cost of capital expenditures was offset by disposal proceeds associated with the sale of certain excess capital assets.

Total maintenance capital expenditures for the six months ended June 30, 2014 totaled $21.9 million, an increase of $5.3 million over the comparative period. The Aviation segment spent $20.4 million, the Manufacturing segment spent $0.5 million and the Infrastructure segment spent $1.0 million. The majority of the increase is associated with Regional One, which increased by $2.7 million, and is a result of Regional One being acquired part way through the comparative period. The remaining increase was due to the timing of maintenance events, primarily engine overhauls in the first three months of 2014 that increased based on the volume of events and also as a result of the weaker Canadian dollar experienced during that period.

Growth Capital Expenditures

For the second quarter of 2014, the Company spent $10.5 million, an increase of $1.9 million over the comparable period. The majority of the growth capital expenditures were in the Aviation segment, which accounted for $9.3 million of the growth capital expenditures and essentially were all incurred by Calm Air. As previously disclosed, during the first quarter there was a damaged ATR-42 and during the second quarter Calm Air replaced the loss of this aircraft with an ATR-72. The growth capital expenditures in

the second quarter related to this purchase totaled $5.8 million. Further expenditures will be made in future quarters to bring this new aircraft up to the Company's operational standards.

The Manufacturing segment's growth capital expenditures were $0.4 million, which was almost entirely related to a new powder coating facility to develop in-house paint capabilities to support Overlanders' precision metal business.

The Infrastructure segment's growth capital expenditures were $0.8 million, which primarily relate to the purchase of land in Canada that was previously leased by WesTower. The remaining growth capital expenditure relates to purchases of equipment to support the expanding WesTower US operations and new technology to enable them to successfully build Long-Term Evolution ("LTE") sites.

Growth capital expenditures for the six months ended June 30, 2014 totaled $12.9 million, a decrease of $0.9 million over the comparable period. The Aviation segment spent $11.0 million, the Manufacturing segment spent $0.9 million and the Infrastructure segment spent $1.0 million. These growth capital expenditures were primarily Regional One's purchase of a CRJ-700 aircraft for $7.2 million through the acquisition of EIC Ireland Leasing and Calm Air's expenditures on the ATR-72 that went on line into operations in the second quarter and spare engines to support recent aircraft additions. As well, there has been $5.8 million spent on the ATR-72 aircraft purchase during the second quarter to replace the damaged ATR-42, which is offset by $5.7 million of insurance proceeds from the first quarter, resulting in a net year to date capital expenditure of $0.1 million.

DIVIDENDS & PAYOUT RATIO

The amounts and record dates of the dividends declared during the six months ended June 30, 2014 and the comparative period in 2013 were as follows:

Month	Record date	Per Share	2014 Dividends Amount	Record date	Per Share	2013 Dividends Amount
January	January 31, 2014	$ 0.14	$ 3,039	January 31, 2013	$ 0.14	$ 2,901
February	February 28, 2014	0.14	3,043	February 28, 2013	0.14	2,905
March	March 31, 2014	0.14	3,054	March 29, 2013	0.14	2,911
April	April 30, 2014	0.14	3,080	April 30, 2013	0.14	2,985
May	May 30, 2014	0.14	3,097	May 31, 2013	0.14	3,011
June	June 30, 2014	0.14	3,100	June 28, 2013	0.14	3,016
Total		$ 0.84	$ 18,413		$ 0.84	$ 17,729

Actual dividends for the three and six months ended June 30, 2014 totaled $9.3 million and $18.4 million, respectively. For the second quarter of 2014, this is an increase of $0.3 million or 3% from the comparative period. For the six month period of 2014, this is an increase of $0.7 million or 4% from the comparative period. The increase in 2014 for both periods is a result of the increase in the number of Shares outstanding during the periods. The dividends per share for the three and six month periods were consistent between 2014 and the comparative periods at $0.42 and $0.84 per share, respectively.

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	2014	Per share basic	Per share fully diluted	2013	Per share basic	Per share fully diluted
For the three months ended June 30						
Free Cash Flows		*43%*	*52%*		*46%*	*55%*
Free Cash Flows less maintenance capital expenditures		*81%*	*86%*		*81%*	*91%*
For the six months ended June 30						
Free Cash Flows		*52%*	*60%*		*54%*	*63%*
Free Cash Flows less maintenance capital expenditures		*131%*	*133%*		*108%*	*114%*

The payout ratios for the second quarter of 2014 are relatively consistent with the comparable period and historically the second quarter shows improvement over the seasonally weak first quarter. During the first quarter of 2014, the increase in the maintenance capital expenditures of the Company more than offset the increase in Free Cash Flow generated and negatively impacted the Company's Free Cash Flow less maintenance capital expenditures payout ratio. As a result, the payout ratios for the six months

ended June 30, 2014 continued to show that impact from the first quarter. Consistent with prior years, the payout ratios of the Company are anticipated to be considerably stronger in the remaining quarters beyond the seasonally weak first quarter.

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

4. ANALYSIS OF OPERATIONS

Three Month Results

The following section analyzes the financial results of the Company's operations for the three months ended June 30, 2014 and the comparative 2013 period.

	Three Months Ended June 30, 2014				
	Aviation	Manufacturing	Infrastructure[2]	Head Office[3]	Consolidated
Revenue	$ 83,317	$ 23,535	$ 167,648	$ -	$ 274,500
Expenses[1]	64,487	19,644	159,477	3,080	246,688
EBITDA	18,830	3,891	8,171	(3,080)	27,812
Depreciation and amortization					13,853
Finance costs - interest					6,869
Acquisition costs					19
Consideration liability fair value adjustment					(256)
Impairment and restructuring					1,300
Earnings before tax					6,027
Current income tax expense					702
Deferred income tax expense					1,203
Net earnings for the period					$ 4,122

	Three Months Ended June 30, 2013				
	Aviation	Manufacturing	Infrastructure[2]	Head Office[3]	Consolidated
Revenue	$ 80,967	$ 22,211	$ 172,502	$ -	$ 275,680
Expenses[1]	61,632	18,118	169,217	1,745	250,712
EBITDA	19,335	4,093	3,285	(1,745)	24,968
Depreciation and amortization					11,519
Finance costs - interest					5,315
Acquisition costs					838
Consideration liability fair value adjustment					(562)
Earnings before tax					7,858
Current income tax expense					517
Deferred income tax expense					1,609
Net earnings for the period					$ 5,732

Note 1): Expenses include aviation expenses (excluding depreciation and amortization), manufacturing expenses (excluding depreciation and amortization), infrastructure expenses (excluding depreciation and amortization) and general and administrative expenses, but it excludes any unusual non-operating one-time items.

Note 2): Historically the WesTower operations making up the Infrastructure segment were reported within the Manufacturing segment. The Company changed to three segments beginning in the first quarter of 2014. See *Section 5 – Summary of Quarterly Results* for the restated comparative periods.

Note 3): 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 period were relatively flat at $274.5 million. In prior quarters, Calm Air has invested in infrastructure and fleet rationalization. These investments are now showing significant improvements to both volume and profitability. Regional One's revenue and profitability experienced significant increases in the quarter as it continues to grow its business through strategic investment. Bearskin was restructured in order to improve profitability by removing certain routes in the highly competitive eastern Canadian market. The route cancellation reduced revenues this quarter, but will ultimately improve profitability going forward. Although WesTower's revenues were slightly behind the comparative period, it was still its second highest quarter ever. The operational changes at WesTower have resulted in a significant improvement in profitability. The revenues for the Aviation segment increased by 3% to $83.3 million, the revenues for the Manufacturing segment increased by 6% to $23.5 million, and the revenues for the Infrastructure segment decreased by 3% to $167.7 million.

On a consolidated basis, EBITDA generated by the Company for the current period was $27.8 million, an increase of $2.8 million or 11% over the comparative period. The main factors impacting the increase in EBITDA is the improved margin performance at WesTower in the Infrastructure segment, growth at Regional One as a result of further investment, and improvements at Calm Air as a result of its infrastructure changes and fleet rationalization. Offsetting these is a decrease in EBITDA as a result of weather related impacted within the Aviation segment. The EBITDA for the Aviation segment decreased by 3% to $18.8 million, the EBITDA for the Manufacturing segment decreased by 5% to $3.9 million, and the EBITDA for the Infrastructure segment increased by 149% to $8.2 million. Costs incurred at the head-office of the Company increased by 77% to $3.1 million. Included in the comparative period's EBITDA are short-term external advisory costs incurred in WesTower totaling $2.0 million.

During 2014, the Company changed to three reporting segments from two. In the prior periods the WesTower operations were part of the Manufacturing segment. See *Section 5 – Summary of Quarterly Results* for a discussion on the 2013 results had the Company reported with these three segments. There is no difference in the Company's consolidated results from reporting three segments versus two segments.

AVIATION SEGMENT

Aviation Segment Three Months Ended June 30,	2014	2013	Variance	Variance %
Revenue	83,317	80,967	2,350	3%
Expenses	64,487	61,632	2,855	5%
EBITDA	18,830	19,335	(505)	-3%

The revenue of the Aviation segment for the current period was $83.3 million, an increase of $2.4 million or 3% over the comparative period. The growth in revenue was achieved notwithstanding downward pressure on revenues from unfavourable weather conditions and the reduction in Bearskin's passenger service resulting from its rightsizing into profitability. The extended winter road season carried over into the second quarter, combined with other weather factors resulted in reduced demand for certain transportation services including reductions in fire suppression and evacuation services, cargo services and also negatively impacted passenger volumes. The other significant reduction in revenue in the quarter was from the restructuring of Bearskin's operations that was referenced in last quarter's MD&A. In response to the continued intense competition in the eastern market, the Company implemented a restructuring plan in the second quarter to realign Bearskin's operation. The plan included the reduction of scheduled services in certain market segments combined with the elimination of unprofitable routes. Although this resulted in a $5.2 million reduction in Bearskin's passenger services over the comparable period in 2013, the realignment improved EBITDA by $1.0 million over the first quarter of 2014. These negative impacts were offset by strong results from both Calm Air and Regional One. Calm Air is now seeing the benefits of infrastructure and growth capital expenditures made over the past few years. Regional One was purchased last April and continues to grow and perform well.

The EBITDA generated by the Aviation segment for the current period was $18.8 million, a decrease of $0.5 million or 3% from the comparative period. The entities most significantly impacted by weather, Perimeter and Custom, experienced a $2.6 million EBITDA decrease compared to the prior year comparative quarter. Also negatively impacting EBITDA were increased maintenance costs associated with the timing of scheduled maintenance events. These reductions in EBITDA were offset by strong results at Calm Air and Regional One. Past investment in our northern infrastructure and the fleet rationalization plan at Calm Air in response to changing competitive conditions in the far north continue to strengthen its performance and results.

MANUFACTURING SEGMENT

Manufacturing Segment	Three Months Ended June 30,	2014	2013	Variance	Variance %
Revenue		$ 23,535	$ 22,211	$ 1,324	6%
Expenses		19,644	18,118	1,526	8%
EBITDA		$ 3,891	$ 4,093	$ (202)	-5%

The revenue of the Manufacturing segment for the current period was $23.5 million, an increase of $1.3 million or 6% over the comparative period. Stainless was able to run high volumes through their shop operations during the quarter, resulting in revenue increasing by $0.6 million without the added benefit of any large field projects which they have had in the previous years. The Alberta operations also contributed to the increase as a result of increased volume in its retail operations, offset by a decrease in tank trailers volumes. The retail operations increased customized product volumes and increased parts and service revenues coming from the northern Alberta oilfield industry.

The EBITDA generated by the Manufacturing segment for the current period was $3.9 million, a decrease of $0.2 million or 5% over the comparative period. The small decrease came mainly as a result of the lower margin work that Stainless processed during the current period. With the softer booked sales that it has been experiencing since the fourth quarter of 2013 and for most of 2014, the orders booked and processed were done at below average margins as a result of increased pricing pressure and a higher percentage of shop work, which traditionally have lower margins for Stainless than field jobs. The decrease in EBITDA at Stainless was offset by increases at the other entities in the segment coming from increased revenue volumes. The precision metal business continues to have steady strong performance and was able to increase its margins on the revenues it generated.

INFRASTRUCTURE SEGMENT

Infrastructure Segment	Three Months Ended June 30,	2014	2013	Variance	Variance %
Revenue		$ 167,648	$ 172,502	$ (4,854)	-3%
Expenses		159,477	169,217	(9,740)	-6%
EBITDA		$ 8,171	$ 3,285	$ 4,886	149%

The revenue generated by the Infrastructure segment for the current period was $167.6 million, of which approximately 84% was earned by the US operations of WesTower. The continued strong revenue is driven by demand in both the Canadian and US markets, as both markets were up substantially from the first quarter of 2014. Combined, the revenue for the segment is up 7% from the first quarter of 2014. The second quarter of 2014 revenue represents the second highest quarterly revenue generated by this segment, only trailing the second quarter of 2013. The slight 3% revenue decrease from the comparative period in 2013 is as a result of higher material revenues in the second quarter of 2013 dictated by program mix. WesTower's US market continues to see strong demand from both their AT&T turf markets as well as other customers. WesTower continues to increase its ability to services these customers as it right-sizes the organization to restore margins to historical levels.

The EBITDA produced by the Infrastructure segment for the second quarter of 2014 was $8.2 million, a substantial increase over both the first quarter of 2014 and the prior year comparative period. WesTower's US operations accounted for 67% of this total, with the Canadian operations accounting for the remaining 33%. Included in the second quarter of 2014 EBITDA is a one-time insurance deductible of $0.6 million relating to a tornado insurance claim from WesTower's warehouse in Mississippi. Excluding this extraneous event, normalized EBITDA for the segment is $8.8 million. This represents a $6.2 million improvement over the first quarter of 2014, an increase of 243%. More importantly, EBITDA margins, normalized for the extraneous event, increased to 5.3% for the quarter. This is 3.7 percentage points higher than the 1.6% EBITDA margins generated in the first quarter of 2014. This is the third quarter in a row where margins have increased and the second quarter of 2014 margins more than tripled (231% increase) the first quarter of 2014 margin. The strong sequential improvement in margins is driven by improvements in the WesTower US business. The initiatives implemented and discussed in MD&A's over the last three quarters are starting to show empirical results evident by the EBITDA margins generated in the second quarter. Management has focused on improving project management processes that are more focused on managing indirect costs. This has resulted in improvements in profitability across the markets, but most notably in some of the underperforming markets which had previously experienced losses. In Canada, WesTower's performance continues to be consistent with past performance, as their established management team and workforce manage their moderate growth in a structured and profitable manner.

The current period's EBITDA of $8.2 million, including the $0.6 million tornado insurance deductible, increased by $4.9 million or 149% over the comparative period. Included in the comparative period's results are $2.0 million of short-term external advisory costs.

HEAD-OFFICE

Head-office Costs	Three Months Ended June 30,	2014	2013	Variance	Variance %
Expenses		$ 3,080	$ 1,745	$ 1,335	77%

The head-office costs increased in the current period by $1.3 million or 77% over the comparative period. The increase can be attributed mainly to certain unrealized foreign exchange gains on US foreign currency balances recognized in the comparative period while the current period had minimal unrealized foreign exchange losses with the strengthening of the Canadian dollar. The net change associated with foreign exchange is $0.7 million. In addition, personnel costs increased by $0.2 million as a result of the increase in the number of personnel at head-office and higher participation levels in the consolidated entity's employee share purchase plans.

OTHER NON-EBITDA ITEMS

The following analyzes the changes in the other non-EBITDA income statement items that impacted net earnings for the three months ended June 30, 2014 in comparison to the same period in 2013. Consolidated net earnings for the three months ended June 30, 2014 was $4.1 million, a decrease of $1.6 million over the comparative period in 2013.

	Three Months Ended June 30,	2014	2013	Variance	Variance %
Depreciation and amortization		$ 13,853	$ 11,519	2,334	20%

The Company's depreciation and amortization for the current period was $13.9 million, an increase of $2.3 million or 20% over the comparative period. The change is attributable to the increase in capital asset depreciation of $2.3 million recorded by the Company, in particular in the Aviation segment. The expansion of Regional One's lease portfolio and the capital expenditures made by the Aviation segment throughout the 2013 fiscal period have contributed to higher depreciation in 2014. In addition, as part of the restructuring at Bearskin, approximately $0.7 million of additional depreciation was recorded during the quarter as the residual value and remaining useful lives of some assets were amended as part of the restructuring. Amortization of intangible assets remained flat compared to the same period in 2013.

	Three Months Ended June 30,	2014	2013	Variance	Variance %
Finance costs - interest		$ 6,869	$ 5,315	$ 1,554	29%

The Company's interest incurred for the current period was $6.9 million, an increase of $1.6 million or 29% over the comparative period. The increase in 2014 is mainly a result of additional interest costs on the Company's March 2014 convertible debenture issuance which was not in the comparable period. The interest from the other series of convertible debentures was relatively flat between both periods.

The Company's interest on long-term debt and finance leases increased by $0.8 million and is mainly a result of higher amounts of debt outstanding during the current period. The Company incurred less than $0.1 million of non-cash interest accretion on certain consideration liabilities associated with the acquisition of Regional One. The comparative period included $0.1 million of interest capitalized by the Company as part of the maintenance facility and buildings being constructed by Calm Air, which reduced the comparative period expense.

	Three Months Ended June 30,	2014	2013	Variance	Variance %
Acquisition Costs		$ 19	$ 838	$ (819)	-98%

The acquisition costs incurred by the Company for the current period were less than $0.1 million, a decrease of $0.8 million or 98% over the comparative period. The Company incurred minimal external costs during the second quarter of 2014. The costs expensed in the comparative period relate almost solely to the external costs incurred for the Regional One acquisition, which closed early in the second quarter of 2013.

Three Months Ended June 30,	2014	2013	Variance	Variance %
Consideration liability fair value adjustment	$ (256)	$ (562)	$ 306	-54%

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 were to 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 2014, the Company settled this liability through the issuance of Shares to the Regional One vendors. The change in the Company's share price up to the date of the settlement resulted in the Company recognizing a gain in the second quarter of $0.3 million. With the settlement of the liability, there will be no further impact on the Company's net earnings from fair value adjustments relating to the Regional One acquisition.

In the comparative period, the change in the share price from the April closing date to the end of the second quarter also resulted in a net gain of $0.6 million.

Three Months Ended June 30,	2014	2013	Variance	Variance %
Impairment and restructuring	$ 1,300	$ -	$ 1,300	-

During the second quarter of 2014, the Company began restructuring Bearskin's operations to eliminate certain unprofitable routes. Management accrued total restructuring costs of approximately $1.3 million, which has been expensed during the quarter. Total payments during the quarter by Bearskin for restructuring costs were $0.4 million, with the remaining $0.9 million accrued in accounts payable and accrued expenses. The expenditures relate mainly to severance costs for reducing personnel levels.

Three Months Ended June 30,	2014	2013	Variance	Variance %
Current income tax expense	$ 702	517	185	36%
Deferred income tax expense	1,203	1,609	(406)	-25%
Income tax expense	$ 1,905	$ 2,126	$ (221)	-10%

Income tax expense for the second quarter of 2014 period was $0.7 million, representing an increase of $0.2 million over the comparative period in 2013. The primary reason for the increase in tax expense is due to a change in the composition of income from other jurisdictions.

Current tax expense is the expected tax payable on income for tax purposes incurred within Canadian and US subsidiaries that are corporations. During the period the taxable income of these entities was $1.3 million resulting in an income tax expense of $0.7 million.

The Company has the ability to offset some of the taxable income it generates with non-capital losses. During the 2014 period the Company used $6.0 million of non-capital losses and has approximately $105 million of non-capital losses available to offset future taxable income. See *Section 11 – Risk Factors* on Income Tax Matters.

Six Month Results

The following section analyzes the financial results of the Company's operations for the six months ended June 30, 2014 and the comparative 2013 period.

					Six Months Ended June 30, 2014
	Aviation	Manufacturing	Infrastructure(2)	Head Office(3)	Consolidated
Revenue	$ 161,666	$ 46,301	$ 324,012	$ -	$ 531,979
Expenses(1)	127,917	38,227	313,273	5,293	484,710
EBITDA	33,749	8,074	10,739	(5,293)	47,269
Depreciation and amortization					27,015
Finance costs - interest					13,332
Acquisition costs					59
Consideration liability fair value adjustment					(651)
Impairment and restructuring					1,300
Earnings before tax					6,214
Current income tax expense (recovery)					(322)
Deferred income tax expense					2,247
Net earnings for the period					$ 4,289

					Six Months Ended June 30, 2013
	Aviation	Manufacturing	Infrastructure(2)	Head Office(3)	Consolidated
Revenue	$ 143,789	$ 43,848	$ 307,615	$ -	$ 495,252
Expenses(1)	117,326	35,890	295,594	3,881	452,691
EBITDA	26,463	7,958	12,021	(3,881)	42,561
Depreciation and amortization					21,512
Finance costs - interest					9,302
Acquisition costs					1,668
Consideration liability fair value adjustment					(562)
Earnings before tax					10,641
Current income tax expense					1,574
Deferred income tax expense					1,749
Net earnings for the period					$ 7,318

Note 1): Expenses include aviation expenses (excluding depreciation and amortization), manufacturing expenses (excluding depreciation and amortization), infrastructure expenses (excluding depreciation and amortization) and general and administrative expenses, but it excludes any unusual non-operating one-time items.

Note 2): Historically the WesTower operations making up the Infrastructure segment were reported within the Manufacturing segment. The Company changed to three segments beginning in the first quarter of 2014. See *Section 5 – Summary of Quarterly Results* for the restated comparative periods.

Note 3): 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 six months ended June 30, 2014 was $532.0 million, an increase of $36.7 million over the comparative period. The main factors impacting the increase in consolidated revenue is the organic growth in the Infrastructure segment, the addition of Regional One with only a partial comparative as it was acquired in the second quarter of 2013, and the increase at Calm Air benefiting from the implementation of its fleet rationalization plan. The revenues for the Aviation segment increased by 12% to $161.7 million, the revenues for the Manufacturing segment increased by 6% to $46.3 million, and the revenues for the Infrastructure segment increased by 5% to $324.0 million.

On a consolidated basis, EBITDA generated by the Company for the current period was $47.3 million, an increase of $4.7 million or 11% over the comparative period. The main factors impacting the increase in EBITDA is the addition of Regional One with only a partial comparative, Calm Air benefiting from the implementation of its fleet rationalization plan, offset by the net decrease in the other Aviation segment businesses. The EBITDA for the Aviation segment increased by 28% to $33.7 million, the EBITDA for the Manufacturing segment increased by 1% to $8.1 million, and the EBITDA for the Infrastructure segment decreased by 11% to $10.7

million. Costs incurred at the head-office of the Company increased by 36% to $5.3 million. Included in the comparative period's EBITDA are short-term external advisory costs incurred in WesTower totaling $3.3 million.

During 2014, the Company changed to three reporting segments from two. In the prior periods the WesTower operations were part of the Manufacturing segment. See *Section 5 – Summary of Quarterly Results* for a discussion on the 2013 results had the Company reported with these three segments. There is no difference in the Company's consolidated results from reporting three segments versus two segments.

AVIATION SEGMENT

Aviation Segment	Six Months Ended June 30,		2014		2013		Variance	Variance %
Revenue		$	161,666	$	143,789	$	17,877	12%
Expenses			127,917		117,326		10,591	9%
EBITDA		$	33,749	$	26,463	$	7,286	28%

The revenue of the Aviation segment for the current period was $161.7 million, an increase of $17.9 million or 12% over the comparative period. This includes a net gain of approximately $1.3 million on asset disposals, an increase of $1.2 million over the comparative period. Consistent with the discussion in the quarterly analysis above, the growth in revenue was achieved despite downward pressure on revenues from unfavourable weather conditions, and the substantial reduction in Bearskin's passenger service. Although the Aviation segment airlines are accustomed to dealing with harsh winter conditions, the winter of 2014 was one of the most severe on record for the areas we service. A prolonged winter road season, together with other weather factors, resulted in reduced demand for certain aviation transportation services in both quarters. The aviation services affected include: fire suppression and evacuation services; cargo services, including reduced demand for transportation of fuel and other commodities. Passenger volumes were also negatively impacted. Although the unfavourable weather conditions were felt across all aviation transportation entities, Perimeter and Custom Helicopters were the most significantly impacted as well as Calm Air's cargo operation. As discussed in the quarterly commentary, and in the prior quarter's MD&A, the other significant revenue reduction was the direct result of the restructuring of Bearskin's operations, which resulted in a $7.1 million decrease from the comparable period.

Offsetting the challenges of the first half of the year were the strong performances of both Calm Air and Regional One, which as discussed in the quarterly commentary above, is predominantly the direct result of the significant growth capital expenditure invested in both of these entities. Calm Air's cargo operation was negatively impacted by the harsh winter; however, overall revenue increased by 17% over the comparable period. The past investment in infrastructure in the North and the fleet rationalization plan allowed Calm Air to effectively respond to changing competitive conditions. The acquisition of Regional One in 2013, with no comparable for the first quarter, combined with the capital investment in Regional One throughout 2013 and 2014 also positively impacted revenue.

The EBITDA generated by the Aviation segment for the current period was $33.7 million, an increase of $7.3 million, or 28% over the comparable period. EBITDA margins were 20.9% in 2014 compared to 18.4% in 2013. The growth in EBITDA and EBITDA margin was achieved notwithstanding the downward pressures as discussed above. The reduction in fire suppression and evacuation services, which typically have higher margins than other aviation transportation services, negatively impacted EBITDA. Additionally, the segment experienced increased fuel and labour costs as a result of rate increases. The delay in the implementation of fuel surcharges to customers had a negative impact on margins in the second quarter; however, fuel surcharges were implemented in most regions at the end of the first quarter thereby offsetting the impact of rising fuel prices in the second quarter. Labour cost increases resulted from contractual rate increases and training costs. Offsetting these costs were cost reductions in other areas, most notably resulting from the implementation of Calm Air's fleet rationalization plan as outlined in previous reports. The segment also benefited in cost reductions experienced from the realignment of certain northern Manitoba scheduled services between different airlines within the segment thereby reducing flight hours with no corresponding reduction in revenue. The EBITDA margin improvement is also attributable to Regional One's revenue growth, which yields higher margins than those historically experienced in the Aviation transportation entities.

MANUFACTURING SEGMENT

Manufacturing Segment	Six Months Ended June 30,	2014	2013	Variance	Variance %
Revenue		$ 46,301	$ 43,848	$ 2,453	6%
Expenses		38,227	35,890	2,337	7%
EBITDA		$ 8,074	$ 7,958	$ 116	1%

The revenue of the Manufacturing segment for the current period was $46.3 million, an increase of $2.5 million or 6% over the comparative period. The Alberta operations contributed the majority of the increase as a result of increased volume in both the retail operations and tank trailers. The comparative period included unseasonable weather conditions that reduced volumes while the current period experienced above normal volumes. The increase in the Alberta operations was offset by a decrease in field revenues at Stainless. Booking sales for field work has been soft for Stainless since the fourth quarter of 2013 and for most of 2014. In the comparative period, Stainless included the completion of some larger field jobs, while the current period didn't have any large size field work jobs.

The EBITDA generated by the Manufacturing segment for the current period was $8.1 million, an increase of $0.1 million or 1% over the comparative period. The small increase came as a result of an increase generated at the Alberta operations from its higher sales volumes, offset by a decrease at Stainless as a result of its reduced revenues and a decline in its margins. With the softer booked sales that it was experiencing for most of 2014, the orders booked and processed were done at below average margins as a result of increased pricing pressure and a higher percentage of shop work, which traditionally has lower margins than the field work. The precision metal business continues to have steady strong performance and was able to increase its margins on the revenues it generated.

INFRASTRUCTURE SEGMENT

Infrastructure Segment	Six Months Ended June 30,	2014	2013	Variance	Variance %
Revenue		$ 324,012	$ 307,615	$ 16,397	5%
Expenses		313,273	295,594	17,679	6%
EBITDA		$ 10,739	$ 12,021	$ (1,282)	-11%

The revenue generated by the Infrastructure segment for the current period was $324.0 million, an increase of $16.4 million or 5% over the comparative period. Approximately 84% of total revenue was earned by WesTowers' US operations, with the Canadian operations accounting for the remaining portion. Consistent with the second quarter, the six month results are driven by continued strong demand in both the Canadian and US markets. The first three months of 2014 generated higher revenue than the comparative period as the result of a multitude of factors, including more geographic coverage under the AT&T contract compared to the prior period, increased demand by other carriers, increased demand in eastern Canada, and a positive foreign exchange impact.

The EBITDA produced by the Infrastructure segment for the current period was $10.7 million. The US operations of WesTower accounted for approximately 65% of total EBITDA for the segment, with the Canadian operations accounting for the remaining 35%. Excluding the extraneous event related to the Mississippi tornado, normalized EBITDA for the period is $11.4 million. This represents a small decrease of $0.6 million from the $12.0 million generated in the comparative period. As discussed in the second quarter analysis there were considerable increases in EBITDA and EBITDA margins in the second quarter of 2014. The Canadian operations realized higher EBITDA margins for the six months ended June 30, 2014 in comparison to the same period in 2013 despite difficult weather conditions impacting margins in the first quarter of 2014. The decrease in the US operations was the result of lower margins compared to the first quarter of 2013. As discussed in the 2013 third quarter results, the realized margins on the projects were lower than expected in the first and second quarters of 2013. This resulted in a negative adjustment to the estimated margins in the third quarter of 2013, which was largely attributed to higher than realized margins recognized in the first and second quarters of 2013. When such adjustments are taken into account, the 2014 six month results are considerably higher than the comparable period.

HEAD-OFFICE

Head-office Costs	Six Months Ended June 30,	2014	2013	Variance	Variance %
Expenses		$ 5,293	$ 3,881	$ 1,412	36%

The head-office costs increased in the current period by $1.4 million or 36% over the comparative period. The majority of the increase comes from the second quarter period. The increase can be attributed mainly to certain unrealized foreign exchange gains on US

foreign currency balances recognized in the comparative period while the current period had minimal unrealized foreign exchange losses with the strengthening of the Canadian dollar. The net change associated with foreign exchange is $0.4 million. In addition, personnel costs increased by $0.5 million as a result of the increase in the number of personnel at head-office and higher participation levels in the consolidated entity's employee share purchase plans.

OTHER NON-EBITDA ITEMS

The following analyzes the changes in the other non-EBITDA income statement items that impacted net earnings for the six months ended June 30, 2014 compared to the same period in 2013. Consolidated net earnings for the six months ended June 30, 2014 were $4.3 million, a decrease of $3.0 million over the comparative period in 2013.

Six Months Ended June 30,		2014		2013		Variance	Variance %
Depreciation and amortization	$	27,015	$	21,512	$	5,503	26%

The Company's depreciation and amortization for the current period was $27.0 million, an increase of $5.5 million or 26% over the comparative period. The change is mainly attributable to the increase in capital asset depreciation of $5.2 million recorded by the Company, in particular in the Aviation segment. The addition of Regional One and the capital expenditures made by the Aviation segment throughout the 2013 fiscal period contributed to higher depreciation in 2014. The depreciation at WesTower also increased as a result of the growth in capital assets to support its expansion. Amortization of intangible assets increased $0.3 million due to the additional amortization on the intangible assets recognized on the Regional One acquisition.

Six Months Ended June 30,		2014		2013		Variance	Variance %
Finance costs - interest	$	13,332	$	9,302	$	4,030	43%

The Company's interest incurred for the current period was $13.3 million, an increase of $4.0 million or 43% over the comparative period. The increase in 2014 is mainly a result of additional interest costs on the Company's March 2013 convertible debentures outstanding for only a portion of the comparative period and the Company's March 2014 convertible debenture issuance which was not in the comparative period. The interest from the other series of convertible debentures was relatively flat between both periods.

The Company's interest on long-term debt and finance leases increased by $1.8 million and is mainly a result of higher amounts of debt outstanding during the current period. The Company incurred $0.1 million of non-cash interest accretion on certain consideration liabilities associated with the acquisition of Regional One. The comparative period included $0.2 million of interest capitalized by the Company as part of the maintenance facility and buildings being constructed by Calm Air, which reduced the comparative period expense.

Six Months Ended June 30,		2014		2013		Variance	Variance %
Acquisition Costs	$	59	$	1,668	$	(1,609)	-96%

The acquisition costs incurred by the Company for the current period were $0.1 million, a decrease of $1.6 million or 96% over the comparative period. The Company incurred minimal external costs during the six months ended June 30, 2014. The costs expensed in the comparative period relate almost solely to the external costs incurred for the Regional One acquisition, which closed early in the second quarter of 2013.

Six Months Ended June 30,		2014		2013		Variance	Variance %
Consideration liability fair value adjustment	$	(651)	$	(562)	$	(89)	16%

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 would 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 2014, the Company settled this liability through the issuances of Shares to the Regional One vendors. The consideration liability decreased as a result of the Company's share price decreasing from what it was at the end of fiscal 2013.

As a result, the Company recorded a consideration fair value adjustment that was a gain of $0.7 million during the 2014 period. With the settlement of the liability, there will be no further impact on the Company's net earnings from fair value adjustments relating to the Regional One acquisition.

In the comparative period, the change in the share price from the April closing date to the end of the second quarter also resulted in a net gain of $0.6 million.

Six Months Ended June 30,	2014	2013	Variance	Variance %
Impairment and restructuring	$ 1,300	$ -	$ 1,300	-

As discussed in the three month discussion above, during the second quarter of 2014, the Company began restructuring Bearskin's operations to eliminate certain unprofitable routes. Management accrued total restructuring costs of approximately $1.3 million, which has been expensed during the quarter. Total payments during the quarter by Bearskin for restructuring costs were $0.4 million, with the remaining $0.9 million accrued in accounts payable and accrued expenses. The expenditures relate mainly to severance costs for reducing personnel levels.

Six Months Ended June 30,	2014	2013	Variance	Variance %
Current income tax expense (recovery)	$ (322)	$ 1,574	$ (1,896)	-120%
Deferred income tax expense	2,247	1,749	498	28%
Income tax expense	$ 1,925	$ 3,323	$ (1,398)	-42%

The Company's income tax expense for the six months ended June 30, 2014 was $1.9 million, a decrease of $1.4 million or 42% over the comparative period in 2013. The main reason for the decrease in tax expense is due to a decrease in net income before tax of 42%.

Current tax recovery is the expected tax receivable on losses for tax purposes incurred within Canadian and US subsidiaries that are corporations. During the period the taxable loss of these entities was $1.5 million resulting in an income tax recovery of $0.3 million.

The Company has the ability to offset some of the taxable income it generates with non-capital losses. During the 2014 period the Company used $6.9 million of non-capital losses and has approximately $105 million of non-capital losses available to offset future taxable income. See *Section 11 – Risk Factors* on Income Tax Matters.

5. SUMMARY OF QUARTERLY RESULTS

		2014				2013		2012
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total revenue	$ **274,500**	$ **257,479**	$ 267,500	$ 267,327	$ 275,680	$ 219,572	$ 231,447	$ 220,807
EBITDA	**27,812**	**19,457**	22,326	15,612	24,968	17,593	25,642	30,332
Net earnings (loss)	**4,122**	**167**	1,871	(205)	5,732	1,586	6,710	9,972
Basic	**0.19**	**0.01**	0.09	(0.01)	0.27	0.08	0.32	0.49
Diluted	**0.19**	**0.01**	0.09	(0.01)	0.27	0.08	0.32	0.46
Free cash flow (FCF)	**21,530**	**14,262**	16,651	15,434	19,636	13,412	20,729	24,059
Basic	**0.98**	**0.65**	0.76	0.71	0.92	0.65	1.00	1.17
Diluted	**0.81**	**0.58**	0.67	0.68	0.76	0.56	0.76	0.94
FCF less maintenance capital expenditures	**11,355**	**2,575**	5,246	5,362	11,061	5,457	13,432	16,199
Basic	**0.52**	**0.12**	0.24	0.25	0.52	0.26	0.65	0.79
Diluted	**0.49**	**0.12**	0.24	0.25	0.46	0.26	0.57	0.69

During the first quarter of 2014, the Company's structure of its reporting segments changed from two segments to three segments with the addition of the Infrastructure segment. In prior periods, the Company included the WesTower operations within the Manufacturing segment and going forward it will be reported within the Infrastructure segment. This change better reflects the nature of the operations at WesTower and eliminates WesTower's dominance over the Manufacturing segment's results, thus allowing better

visibility into WesTower and our core manufacturing entities. Certain internal structural and reporting changes have occurred as a result of the decision. There is no impact on the consolidated results of the Company or its key performance indicators as a result of changing to three segments and there are no changes to the Company's accounting policies. Now for 2014 reporting, the new Infrastructure segment's revenues and expenses are presented on separate lines in the consolidated statement of income, which make it consistent with the lines reported on for the other two segments.

The following information provides the 2013 quarterly periods and fiscal results up to EBITDA as if the Company reported its results at that time with three segments.

					Three Months Ended March 31, 2013
	Aviation	Manufacturing	Infrastructure	Head office	Consolidated
Revenue	$ 62,822	$ 21,637	$ 135,113	$ -	$ 219,572
Expenses	55,694	17,772	126,377	2,136	201,979
EBITDA	$ 7,128	$ 3,865	$ 8,736	$ (2,136)	$ 17,593

					Three Months Ended June 30, 2013
	Aviation	Manufacturing	Infrastructure	Head office	Consolidated
Revenue	$ 80,967	$ 22,211	$ 172,502	$ -	$ 275,680
Expenses	61,632	18,118	169,217	1,745	250,712
EBITDA	$ 19,335	$ 4,093	$ 3,285	$ (1,745)	$ 24,968

					Three Months Ended September 30, 2013
	Aviation	Manufacturing	Infrastructure	Head office	Consolidated
Revenue	$ 82,806	$ 21,389	$ 163,132	$ -	$ 267,327
Expenses	64,026	17,800	167,849	2,040	251,715
EBITDA	$ 18,780	$ 3,589	$ (4,717)	$ (2,040)	$ 15,612

					Three Months Ended December 31, 2013
	Aviation	Manufacturing	Infrastructure	Head office	Consolidated
Revenue	$ 86,619	$ 23,708	$ 157,173	$ -	$ 267,500
Expenses	67,140	19,676	155,581	2,777	245,174
EBITDA	$ 19,479	$ 4,032	$ 1,592	$ (2,777)	$ 22,326

					Year Ended December 31, 2013
	Aviation	Manufacturing	Infrastructure	Head office	Consolidated
Revenue	$ 313,214	$ 88,945	$ 627,920	$ -	$ 1,030,079
Expenses	248,492	73,366	619,024	8,698	949,580
EBITDA	$ 64,722	$ 15,579	$ 8,896	$ (8,698)	$ 80,499

6. LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2014, the Company had a net cash position of $16.4 million (December 31, 2013 of $23.2 million) and net working capital of $267.2 million (December 31, 2013 of $256.6 million), which represents a current ratio of 2.11 to 1 (December 31, 2013 of 2.23 to 1).

	June 30, 2014	December 31, 2013	Change
Cash and cash equivalents	$ 16,403	$ 23,168	$ (6,765)
Accounts receivable	166,524	141,947	24,577
Costs incurred plus recognized profits in excess of billings	190,632	176,971	13,661
Inventory	116,576	109,195	7,381
Prepaid expenses and deposits	11,809	10,375	1,434
Income taxes receivable	5,454	4,496	958
Accounts payable and accrued expenses	(155,992)	(151,191)	(4,801)
Deferred revenue	(9,570)	(9,063)	(507)
Billings in excess of costs incurred plus recognized profits	(70,785)	(43,602)	(27,183)
Current portion of long-term debt and finance leases	(1,056)	(1,326)	270
Current portion of convertible debentures	(2,764)	(4,324)	1,560
Net working capital	$ 267,231	$ 256,646	$ 10,585

The Company's working capital as at June 30, 2014 increased by $10.6 million from the 2013 year-end. Working capital has increased as a result of growth investments made at Regional One. Regional One's working capital has increased by $13.6 million from December 31, 2013. In addition, increased preprocessing of field work at Stainless at the end of the quarter and normal seasonal changes within the Aviation segment have also resulted in increased working capital. These increases have been offset by a working capital decrease at WesTower US, which has reduced non-cash working capital by approximately US$15 million.

During the first quarter, the Company closed the offering of its March 2014 Unsecured Series 6.0% seven year convertible debentures with a par value of $40 million and generated net proceeds of $37.7 million. The majority of the funds generated were used by the Company as a payment against its outstanding credit facility balance and increased the liquidity of the Company for additional growth and expansion. The debentures have a seven year term with a 6.0% fixed interest rate paid semi-annually. The conversion price for these debentures is $31.70 and will mature in March 2021.

On April 8, 2014, the Company's Series F convertible debentures matured. All but $0.1 million of par value was converted into Shares of the company at the option of the debentureholders. At maturity, the Company paid cash to settle the debentures outstanding. The Company's Series G convertible debentures will mature on September 30, 2014. As at June 30, 2014, there was $2.8 million of par value still outstanding. The strike price of the conversion option for the debentureholders on the Series G convertible debentures is $14.50.

During the first six months of 2014, the Company made several payments and draws on its credit facility, including the payment of $36.4 million from the net proceeds of the March convertible debenture offering. The Company made draws during the quarter for growth opportunities at Regional One and general working capital requirements within its Canadian operations. Overall, the Company has had a net decrease in the amount outstanding on its credit facility coming from a net repayment of $30.7 million in Canadian funds and a net draw of US$8.8 million.

The Company's credit facility has a maximum of $335 million credit available, with $258 million allocated to EIC and $77 million allocated to EIIF Management USA Inc. ("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 June 30, 2014, the Company has drawn $186.4 million, excluding the effect of foreign exchange, leaving approximately $150 million of credit available to the Company. During the second quarter, the Company's credit facility was extended to have a maturity of May 2018. No other significant changes were made to the terms included within the credit facility. The Company is in compliance with all financial and negative covenants as at June 30, 2014. Subsequent to June 30, 2014 but before the issuance of this report, the Company made several draws from the credit facility resulting in approximately $140 million of credit available to the Company at the date of this report.

During the second quarter, the Company received the repayment of its advanced funds for the loan agreement with Tribal Council Investment Group ("TCIG"). The Company received in total $8.5 million from TCIG, including $6.9 million relating to the principal of the funds advanced with the remainder relating to other professional fee cost reimbursements and outstanding receivables. Interest

on the advanced funds were earned and paid monthly based on the Canadian prime rate plus an applicable margin. The funds received were applied against the outstanding credit facility of the Company.

During the second quarter, the Company settled the majority of the outstanding consideration liabilities with the vendors of Regional One. In April, the Company released US$6.6 million ($7.3 million) of the cash in escrow, paid US$0.6 million ($0.7 million) in cash, and issued 130,175 of Shares with a value of US$2.2 million ($2.4 million). The remaining consideration liability outstanding at June 30, 2014 consists of certain tax related liabilities owing to the vendors. Additionally, there are 350,567 Shares of the Company that were issued into escrow at the time of acquisition and relate to the retention of the vendor as CEO. These remaining Shares are anticipated to be settled and released from escrow evenly each of the next four anniversaries of closing the acquisition.

The finance leases of WesTower's operations continue and during the first six months of 2014 the Company made principal payments of $0.8 million. Also during this period, WesTower entered into new finance leases with a capital asset value and principal amount of $0.5 million and returned several leased assets resulting in the removal of $0.1 million of the liability. 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 during the first six months of 2014 and the Company received $2.2 million for 105,277 Shares being issued in accordance with the DRIP.

The Company obtained additional cash through the means described above and also generated $35.8 million of Free Cash Flow during the first six months of 2014. The Company used these funds for 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 the first six months of 2014, the Company declared dividends totaling $18.4 million in comparison to $17.7 million during the comparative period in 2013. This was a result of an increased number of Shares outstanding as the monthly dividend rate between the two periods remained constant. 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 six months ended June 30, 2014:

	Date issued	Number of shares
Shares outstanding, beginning of period		21,752,400
Issued upon conversion of convertible debentures	various	127,072
Issued under dividend reinvestment plan (DRIP)	various	105,277
Issued under vesting of reserved shares	April 1, 2014	28,746
Issued to Regional One vendors on contingent liability payment	May 5, 2014	130,175
Shares outstanding, end of period		22,143,670

The following summarizes the convertible debentures outstanding as at June 30, 2014 and the changes in the amount of convertible debentures outstanding during the six months ended June 30, 2014:

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
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
Unsecured Debentures - 2014	EIF.DB.G	March 31, 2021	6.0%	$31.70

Par value		Balance, beginning of period		Issued		Converted		Matured		Balance, end of period
Series F	$	1,134	$	-	$	(1,008)	$	(126)	$	-
Series G		3,260		-		(483)		-		2,777
Series H		22,116		-		-		-		22,116
Series I		34,944		-		-		-		34,944
Series J		57,477		-		-		-		57,477
Unsecured Debentures - September 2012		57,500		-		-		-		57,500
Unsecured Debentures - March 2013		65,000		-		-		-		65,000
Unsecured Debentures - March 2014		-		40,000		-		-		40,000
Total	$	241,431	$	40,000	$	(1,491)	$	(126)	$	279,814

The Company's Series F convertible debentures matured on April 8, 2014. During the 2014 period up to the maturity date there were a number of conversions totaling $1.0 million of par value that resulted in the Company making a principal repayment of $0.1 million on maturity.

7. RELATED PARTY TRANSACTIONS

The related party transactions that the Company entered into during the six months ended June 30, 2014 are consistent with those described in the Company's MD&A for the year ended December 31, 2013.

8. 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. There were no changes to the Company's critical accounting estimates from those described in the MD&A of the Company for the year ended December 31, 2013.

See *Section 11 – Risk Factors* for an update on the Income Tax Matters as a result of the Company receiving a proposal letter from the Canada Revenue Agency ("CRA") subsequent to the end of the first quarter of 2014. The Company has not changed any of its estimates around Deferred Income Taxes as a result of receiving this letter.

As noted in *Section 4 – Analysis of Operations*, during the second quarter of 2014, the Company began restructuring Bearskin's operations to eliminate certain unprofitable routes in an effort to eliminate the low yield markets in Bearskin's highly competitive eastern region. Total restructuring costs were approximately $1.3 million, which has been expensed during the quarter. Total payments during the quarter by Bearskin for restructuring costs were $0.4 million, with the remaining $0.9 million accrued in accounts payable and accrued expenses. The expenditures relate mainly to severance costs for reducing personnel levels. In addition, as part of the restructuring at Bearskin, $0.7 million of additional depreciation was recorded during the quarter as the residual value and remaining useful lives of certain assets were amended as part of the restructuring.

9. ACCOUNTING POLICIES

The accounting policies of the Company used in the determination of the results for these interim condensed consolidated financial statements for the three and six months ended June 30, 2014 that are discussed and analyzed in this report are described in detail in Note 3 of the Company's 2013 annual consolidated financial statements and Note 3 of the Company's interim condensed consolidated financial statements for the three and six months ended June 30, 2014.

The significant accounting policies and methods of computation used in the preparation of these interim condensed consolidated financial statements are the same as those described in Note 3 – Significant Accounting Policies of the Company's 2013 annual consolidated financial statements, except for the changes noted below:

a) *Principles of Consolidation*

The interim condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Perimeter, Keewatin, Calm Air, Bearskin, Custom Helicopters, 4873999 Manitoba Ltd., 7328010 Canada Ltd., Overlanders, Water Blast, WesTower CDA, EIC Ireland, Regional One Canada, 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 interim condensed consolidated financial statements.

b) 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.

Infrastructure expenses – excluding depreciation and amortization

The cost of sales for the Company's Infrastructure 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. Starting in 2014, WesTower was presented within this segment.

c) Changes in accounting policies

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

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. This change had no impact on the Company as no such transactions took place during the quarter.

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. This standard had no impact on the Company's reporting during the period.

d) Accounting Standards Issued but not yet Effective

IFRS 15 – Revenue

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring them to provide more informative, relevant disclosures. IFRS 15 supersedes IAS 11, Customer Contracts, and IAS 18, Revenue, as well as various IFRIC and SIC interpretations regarding revenue. Adoption of IFRS 15 is mandatory and will be effective for the Company beginning on January 1, 2017, with earlier adoption permitted. The Company is assessing the impact of adopting this standard on its financial statements.

IFRS 9 – Financial Instruments

On July 24, 2014, the IASB issued IFRS 9, "Financial Instruments"("IFRS 9") to replace International Accounting Standard 39, "Financial Instruments: Recognition and Measurement". IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS is adopted in its entirety at the beginning of a fiscal period. The Company is currently evaluating the impact of adopting IFRS on the Consolidated Financial Statements.

e) WesTower US Cost Presentation

During the first quarter of 2014, the Company revised the classification of certain expenses on the statement of operations. This has resulted in some expenses that would have been included in Infrastructure expenses – excluding depreciation and amortization in previous years being recorded in General and administrative expenses. Therefore, for comparative purposes, results for the first quarter of 2013 in the interim consolidated statement of income have been reclassified based on the change in classification. The impact of the change in classification was an increase in General and administrative expenses with a corresponding decrease to Infrastructure expenses – excluding depreciation and amortization. The net impact is nil and

resulted in no change in net income for either period.

The following shows the 2013 quarterly and fiscal impact of the revised classification of expenses for WesTower:

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Fiscal 2013
EXPENSES					
Infrastructure expenses - excluding depreciation and amortization	$ (1,200)	$ (1,487)	$ (2,397)	$ (1,897)	$ (6,981)
General and administrative	1,200	1,487	2,397	1,897	6,981
Net impact of change in accounting policy classification	$ -	$ -	$ -	$ -	$ -

10. CONTROLS AND PROCEDURES

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining internal controls over financial reporting in order to provide reasonable assurance with regards to the reliability of financial reporting and preparation of financial statements in accordance with 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 June 30, 2014, 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 is currently working on the design, evaluation and implementation of information technology controls with anticipation of remediation in 2014.

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. Compensating entity level controls are employed to reduce the exposure for a material misstatement as processes continue to be enhanced. Management continues to take the necessary steps to assess and advance the design and implementation of additional controls in a monitored environment. Due to the interdependencies of such controls with the information technology controls, we anticipate remediation in 2014.

There have been no other material changes to the Company's internal controls during the 2014 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 June 30, 2014 were not effective.

11. RISK FACTORS

The Company and its subsidiaries are subject to a number of business risks. These risks relate to the structure of the Company and to the operations at the subsidiary entities. There were no changes to the Company's principal risks and uncertainties from those reported in the Company's MD&A for the year ended December 31, 2013, except as follows.

Income Tax Matters

Income tax provisions, including current and deferred income tax assets and liabilities, and income tax filing positions require estimates and interpretations of income tax rules and regulations of the various jurisdictions in which the Company operates and judgments as to their interpretation and application to EIC's specific situation. The amount and timing of reversals of temporary differences also depends on the Company's future operating results, acquisitions and dispositions of assets and liabilities.

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 its conversion from an income trust to a corporation (the "Conversion") in July 2009. The computation of income taxes payable as a result of these transactions involves many complex factors as well as the Company's interpretation of and compliance with 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 April 2014, the Company received a proposal letter from the CRA, which advises of the CRA's intention to challenge the ability of the Company to carry forward certain losses related to the Conversion on the basis of acquisition of control and general anti-avoidance rules of the Income Tax Act (Canada). In May 2014 the Company responded to the proposal letter to refute the assessing positions of the CRA. The CRA has not yet provided a response to our submission. Failing resolution of this matter, CRA will proceed to reassess the Company which will require the Company, as a large corporation, to pay 50% of the resultant tax liability and interest for the period from July 2009 to December 2012. The required payment before interest would be approximately $11.5 million. The amount will be recorded as a receivable on the Company's financial statements based on management's assessment of the facts and opinions received from the Company's tax advisors prior to the Conversion. The Company remains confident in the appropriateness of its tax-filing position and the expected tax consequences of the conversion transaction and intends to defend such position vigorously if a notice of reassessment is received from the Canada Revenue Agency. Although the Company is confident in its position, it is possible that additional taxes could be payable by the Company and the ultimate value of the Company's income tax assets and liabilities could change in the future if the CRA's challenge was successful. In such circumstances the changes to these amounts could have a material effect on the Company's consolidated financial statements and financial position. The Company has more than adequate capital resources to fund the tax deposit and ultimately the entire balance if required. This proposed reassessment does not impact the Company's long-term business strategy in any manner. The Company has not changed any of its estimates around Deferred Income Taxes as a result of receiving this letter.

12. OUTLOOK

Acquisition strategy

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 and 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 its standards will be identified.

Recently the Company announced a series of changes to its executive management team designed to position the Company for continued growth and diversification. The dramatic organic growth in WesTower's US operations has seen it grow to be a significant portion of the revenue of the Company. The growth has resulted in a less effective diversification of our revenue and profit streams. The changes to the management team are designed to enable the Company to examine opportunities to rebalance the income streams, not only through acquisition but through the growth and integration of our existing subsidiaries.

As of the date of this report, the Company has approximately $140 million of available credit under its recently extended senior credit facility with total credit of $335 million (ignoring the effect of foreign currency).

Aviation Segment

The Aviation segment operates five aviation companies providing fixed and rotary wing, scheduled, charter, cargo, and medevac services in Manitoba, Ontario, Nunavut and Alberta. The Company's aviation transportation subsidiaries continue to provide services to remote communities where demand is relatively inelastic, mitigating the impact of changes in the economic climate. This provides additional stability in a core part of the segment's business. As of April 2013, this segment includes Regional One, a leading provider of aircraft and engine aftermarket parts to regional airline operators in the global community.

The segment has a few key contracts. Two such contracts are with the Government of Nunavut to provide medevac services to the Central and Eastern Regions of the territory. One of these contracts expires at the end of 2015 and has two-one year extensions while the other ends in 2016 with a 2-year extension available. These contracts provide medevac services to the Central and Eastern regions and give the Company a strong base level of service in the North. A third contract with the Territory provides transportation services to medical patients and government workers and was renewed for a one year extension in the current quarter. Two competitors in Calm Air's marketplace in the far north have announced their intentions to enter into merger discussions. The Company has not yet determined the impact, if any, on our business.

As one of the significant costs, fuel prices and any surrounding volatility can have a short-term impact on profitability. In most cases,

the aviation subsidiaries are able to pass along price increases through surcharges. However, the Company is cognizant of the impact price increases can have on certain communities and takes this factor into account in determining the timing of the implementation of fuel surcharges. The Company implemented fuel surcharges in certain markets at the end of the first quarter of 2014 and in additional markets in the second quarter. The Aviation segment's costs are also is impacted significantly by the fluctuations in foreign currency as a result of the segment's dependency on aircraft, related parts and maintenance service costs for its fleet of aircraft, and these costs are all primarily incurred in U.S. dollars. Fluctuations in the Canada/U.S. dollar exchange rates can impact the segment's profitability and the cost to replace capital. Regional One acts as a natural hedge for the segment thereby reducing the net exposure. Secondly, Regional One creates a proxy for vertical integration into this major expense category.

The Aviation fixed and rotary wing operations were negatively impacted by unfavourable weather conditions in the first half of 2014 through reduced demand in fire suppression and evacuation services, cargo services as well as reduced passenger volumes. If these unfavourable weather conditions continue to exist into the second half of 2014 demand for these services could continue to be negatively impacted. Revenues for the Bearskin operation will also continue to be less than the comparative 2013 period as it continues to implement its restructuring plan to address intense competition in its Eastern markets. Coupled with the route rationalization and corresponding revenue decline is a significant reduction in costs including a reduction in headcount of approximately 30%, with the overall result of increased profitability. The Company has provided $1.3 million in operating costs for this restructuring in the second quarter as well as a further $0.7 million in accelerated depreciation on certain assets utilized by Bearskin. Management continues to closely monitor Bearskin operations but does not anticipate the need for further restructuring costs.

Despite the challenges noted above, the Aviation Segment experienced growth in revenue and EBITDA in the first half of 2014 due primarily to Calm Air and Regional One. This is anticipated to continue into the second half with both these companies being significant contributors. Calm Air is now benefiting from past investment in northern infrastructure and a fleet rationalization plan. This plan includes increased capacity through the addition of ATR-42 and ATR-72 aircraft. Regional One continually monitors its inventory and lease portfolios to ensure a proper sales complement and to grow and diversify its sales portfolio. Regional One also has a strong pipeline of inventory and capital asset acquisition opportunities for 2014 which ensures the continued flow of assets available in the market while contributing to the growth of its operations. Regional One continues to focus on growing its next generation of products such as Bombardier Q400 and CRJ700/900 products where there is a strong demand for serviceable engines and rotable components. Regional One's performance in the most recent three quarters was strong and management is confident that their current asset portfolio and pipeline of opportunities provides a good foundation for continued success, however, given the nature of the business, individual quarters may experience some variability of customer demands, and future quarters could potentially yield lower results than those experienced in the last few quarters.

Further strengthening this segment are current initiatives to partner both among the entities in the segment and with external parties. These partnering initiatives will allow the segment to capitalize on growth opportunities in new markets, while reducing the capital required to generate this growth. For example, the Calm Air hangar that was constructed in 2013 will be used to perform maintenance and reconditioning on an aircraft purchased by Regional One. This will have the impact of reducing maintenance costs associated with maintenance events completed at outside facilities. Once the work is completed, this aircraft can either be absorbed into one of the operations or be leased out by Regional One.

Manufacturing Segment

The Manufacturing segment, which encompasses the Alberta Operations and the operations of Stainless and Overlanders, experienced positive revenue increases and notwithstanding margin pressures in certain of the segment's operations have slightly increased EBITDA in the first half of 2014 over the comparative period in 2013. The challenges impacting margins are considered temporary.

Stainless has commenced each of the prior two years with a backlog of at least two sizeable field projects which is historically higher margin work. Due to slowed activity in the field project area Stainless commenced 2014 without any backlog of large field projects and has not yet been awarded any such field projects. Stainless is actively pursuing such opportunities and remains very confident in its high quality product and pricing for these projects. Stainless anticipates that, in time, the market will see the release of larger project bids and expects to be well positioned to capture its market share. Offsetting the reduced large field project work has been a strong demand for shop work which is expected to continue. With the increase in demand for shop products, ongoing adjustments to production schedules along with innovative manufacturing processes have increased work flow capacity allowing for the ability to capitalize on new opportunities. Stainless has faced these types of challenges before and is experienced in managing through them.

The Alberta Operations continue to experience growth. In the newer markets of southeastern Saskatchewan and North Dakota operations are still striving to build its market presence with customized Water Blast equipment. It is the customized equipment that the Alberta Operations have been successful with in its traditional oil and gas market in Alberta. Those types of customized products are very effective and provide efficiency in the oil and gas industry but are new for the Bakken region and establishing that demand

and market recognition takes time. The original Alberta Operations' markets in western Canada are expecting increased demand with weather conditions improving, the completion of new building construction installations during the summer, increased activity levels in the northern Alberta oil fields and continued improvement in natural gas production.

Overlanders continues to deliver high quality products and consistent returns while operating in a market with some surplus capacity. Its focus on maintaining its strong customer relationships has been a primary reason for its ability to generate those consistent returns. Overlanders has begun to see the results of its prior efforts to work with a key customer in relation to the design and testing of new products which is now resulting in higher margins being generated on those new products. The new powder coating operations experienced some construction and permit delays which has pushed back the commencement of full operations in that new production line till the end of 2014. This is another opportunity for the company to be more efficient, manage quality and become a complete turn-key supplier, which will differentiate it from its competitors.

Infrastructure Segment

The wireless telecommunications industry continues to move forward with their plans to build out their networks to support the high demand for their services. There has been no change within the industry or communication from the major telcos to suggest that there will be any significant alteration to their long-term build out plans. It is important to note that WesTower is impacted by a subset of the telcos total capital spend programs, which are the wireless construction and services components. The larger part of the capital spend programs are often tied to equipment for their networks rather than the construction services. Consistent with prior years, the carriers move their national capital spend between regions as well as programs to respond to fluid market conditions during the year. Depending on the market and the program within the market, this may lead to changes to the original build plan communicated by the telcos to their suppliers. As it relates to the AT&T turf program, based on WesTower's knowledge of the market, it anticipates a revenue decrease in certain markets resulting in an overall decrease in turfing revenue in the second half of the year. However, WesTower believes they remain well positioned to continue to execute on this contract and to increase their capacity to work with AT&T. Negotiations are currently underway with AT&T to enter into Turf 3.0, which is an extension of their current turf contract. These negotiations are likely to conclude within the third quarter of 2014.

WesTower has been selected by another major telco to provide construction and project management services to support a new nationwide wireless deployment initiative. The value of services provided to support this multi-year initiative could be up to US$100 million. An initial one year contract for these services was executed in the second quarter. Management believes that providing quality services while meeting schedules will put WesTower in a good position to extend this contact at the end of its term. The services will be provided over a number of markets across the US further strengthening WesTower's national position in the US.

The telcos in the Canadian market continue to execute their build plans as well. WesTower expects to see continued strong demand throughout the country for the immediate future. This will be bolstered in the second half of 2014 by the start of the build-out plans for the 700 mHz spectrum awarded in the last Canadian government's spectrum auction. WesTower, as the dominant national supplier in Canada, is well positioned to meet the needs of the telcos throughout this build plan.

Based on these varying developments management does expect a small revenue decrease in the second half of 2014, however, management doesn't anticipate that the Infrastructure segment's revenues will be impacted materially when compared to the revenues in the second half of 2013.

As discussed in previous reports and in the Analysis of Operations, WesTower has made considerable changes to their US operations. The primary focus has been on enhancing the project management processes that is more focused on managing indirect costs. These changes enable WesTower to more efficiently service their customer and more effectively respond to challenges in operations, leading to a better service to the customer and increased profitability. This was evident by the increase in normalized EBITDA margins from 1.6% in the first quarter of 2014 to 5.3% in second quarter of 2014 after being normalized for the one-time tornado insurance claim. Despite this improvement, there are more changes to be made, especially in certain markets where performance is still below management's expectations. In the short-term this will mean that management will focus on implementing best practices nationally and diligently measuring each region's performance against key benchmarks. Over the longer term, senior management continues to focus on further automation within the business and enhancing the scope of services. These changes will continue to strengthen relationships with customers and increase efficiencies.

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited, in thousands of Canadian dollars)

As at	June 30 2014	December 31 2013
ASSETS		
CURRENT		
Cash and cash equivalents	$ 16,403	$ 23,168
Accounts receivable	166,524	141,947
Costs incurred plus recognized profits in excess of billings	190,632	176,971
Inventory	116,576	109,195
Prepaid expenses and deposits	11,809	10,375
Income taxes receivable	5,454	4,496
	507,398	466,152
OTHER ASSETS	2,047	8,717
CAPITAL ASSETS	341,421	331,351
INTANGIBLE ASSETS	45,346	46,415
DEFERRED INCOME TAX ASSETS	174	1,302
GOODWILL	107,666	107,435
	$ 1,004,052	$ 961,372
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ 155,992	$ 151,191
Deferred revenue	9,570	9,063
Billings in excess of costs incurred plus recognized profits	70,785	43,602
Current portion of long-term debt and finance leases (Note 6)	1,056	1,326
Current portion of convertible debentures (Note 7)	2,764	4,324
	240,167	209,506
LONG-TERM DEBT AND FINANCE LEASES (Note 6)	197,989	218,921
OTHER LONG-TERM LIABILITIES	369	1,296
CONVERTIBLE DEBENTURES (Note 7)	252,888	215,582
DEFERRED INCOME TAX LIABILITY	11,645	10,241
	703,058	655,546
EQUITY		
SHARE CAPITAL (Note 8)	302,692	295,939
CONVERTIBLE DEBENTURES - Equity Component (Note 7)	13,924	12,216
CONTRIBUTED SURPLUS - Matured Debentures	109	102
DEFERRED SHARE PLAN (Note 13)	3,173	2,619
RESERVED SHARES	-	623
RETAINED EARNINGS		
Cumulative Earnings	142,291	138,002
Cumulative Dividends (Note 9)	(170,062)	(151,649)
	(27,771)	(13,647)
ACCUMULATED OTHER COMPREHENSIVE INCOME	8,867	7,974
	300,994	305,826
	$ 1,004,052	$ 961,372

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

Approved on behalf of the directors by:

Duncan Jessiman, Director
Signed

Donald Streuber, Director
Signed

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited, in thousands of Canadian dollars, except for per share amounts)

	Three Months Ended		Six Months Ended	
For the periods ended June 30	2014	2013	2014	2013
REVENUE				
Aviation	$ 83,317	$ 80,967	$ 161,666	$ 143,789
Manufacturing	23,535	22,211	46,301	43,848
Infrastructure (Note 10)	167,648	172,502	324,012	307,615
	274,500	275,680	531,979	495,252
EXPENSES				
Aviation expenses - excluding depreciation and amortization	53,945	51,874	106,647	98,921
Manufacturing expenses - excluding depreciation and amortization	15,905	14,665	30,854	29,164
Infrastructure expenses - excluding depreciation and amortization (Note 10)	147,090	155,126	289,854	272,638
General and administrative (Note 3)	29,748	29,047	57,355	51,968
	246,688	250,712	484,710	452,691
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER (Note 4)	27,812	24,968	47,269	42,561
Depreciation and amortization	13,853	11,519	27,015	21,512
Finance costs - interest	6,869	5,315	13,332	9,302
Acquisition costs	19	838	59	1,668
Consideration liability fair value adjustment	(256)	(562)	(651)	(562)
Impairment and restructuring (Note 11)	1,300	-	1,300	-
EARNINGS BEFORE INCOME TAXES	6,027	7,858	6,214	10,641
INCOME TAX EXPENSE (RECOVERY) (Note 16)				
Current	702	517	(322)	1,574
Deferred	1,203	1,609	2,247	1,749
	1,905	2,126	1,925	3,323
NET EARNINGS FOR THE PERIOD attributable to common shareholders	$ 4,122	$ 5,732	$ 4,289	$ 7,318
EARNINGS PER SHARE (Note 12)				
Basic	$ 0.19	$ 0.27	$ 0.20	$ 0.35
Diluted	$ 0.19	$ 0.27	$ 0.19	$ 0.35

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands of Canadian dollars)

Attributable to common shareholders	Three Months Ended		Six Months Ended	
For the periods ended June 30	2014	2013	2014	2013
NET EARNINGS (LOSS) FOR THE PERIOD	$ 4,122	$ 5,732	$ 4,289	$ 7,318
OTHER COMPREHENSIVE INCOME (LOSS),				
Items that are or may be reclassified to the Statement of Income				
Cumulative translation adjustment, net of tax	(8,691)	8,074	683	9,356
Net gain (loss) on hedge of net investment in foreign operation	4,271	(4,806)	210	(4,492)
	(4,420)	3,268	893	4,864
COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	$ (298)	$ 9,000	$ 5,182	$ 12,182

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited, in thousands of Canadian dollars)

	Share Capital	Convertible Debentures - Equity Component	Contributed Surplus - Matured Debentures	Deferred Share Plan	Reserved Shares	Retained Earnings: Cumulative Earnings	Retained Earnings: Cumulative Dividends	Accumulated Other Comprehensive Income (Loss)	**Total**
Balance, January 1, 2013	$ 268,494	$ 9,304	$ 102	$ 1,575	$ 1,234	$ 129,018	$ (115,760)	$ 575	$ **294,542**
Shares issued to acquisition vendors	18,592	-	-	-	-	-	-	-	**18,592**
Convertible debentures									
Converted into shares	1,688	(94)	-	-	-	-	-	-	**1,594**
Issued	-	3,067	-	-	-	-	-	-	**3,067**
Shares issued under dividend reinvestment plan	2,094	-	-	-	-	-	-	-	**2,094**
Deferred share plan issuance	-	-	-	472	-	-	-	-	**472**
Shares issued under vesting of reserved shares	611	-	-	-	(611)	-	-	-	**-**
Comprehensive income	-	-	-	-	-	7,318	-	4,864	**12,182**
Dividends declared	-	-	-	-	-	-	(17,729)	-	**(17,729)**
Balance, June 30, 2013	**$ 291,479**	**$ 12,277**	**$ 102**	**$ 2,047**	**$ 623**	**$ 136,336**	**$ (133,489)**	**$ 5,439**	**$ 314,814**
Balance, January 1, 2014	$ 295,939	$ 12,216	$ 102	$ 2,619	$ 623	$ 138,002	$ (151,649)	$ 7,974	$ **305,826**
Shares issued to acquisition vendors (Note 14)	2,411	-	-	-	-	-	-	-	**2,411**
Convertible debentures									
Converted into shares (Note 8)	1,567	(83)	-	-	-	-	-	-	**1,484**
Issued (Note 7)	-	1,798	-	-	-	-	-	-	**1,798**
Matured (Note 7)	-	(7)	7	-	-	-	-	-	**-**
Shares issued under dividend reinvestment plan (Note 8)	2,152	-	-	-	-	-	-	-	**2,152**
Deferred share plan vesting	-	-	-	554	-	-	-	-	**554**
Shares issued under vesting of reserved shares	623	-	-	-	(623)	-	-	-	**-**
Comprehensive income	-	-	-	-	-	4,289	-	893	**5,182**
Dividends declared (Note 9)	-	-	-	-	-	-	(18,413)	-	**(18,413)**
Balance, June 30, 2014	**$ 302,692**	**$ 13,924**	**$ 109**	**$ 3,173**	**$ -**	**$ 142,291**	**$ (170,062)**	**$ 8,867**	**$ 300,994**

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

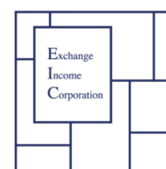
Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of Canadian dollars)

For the periods ended June 30	Three Months Ended 2014	Three Months Ended 2013	Six Months Ended 2014	Six Months Ended 2013
OPERATING ACTIVITIES				
Net earnings for the period	$ 4,122	$ 5,732	$ 4,289	$ 7,318
Items not affecting cash:				
Depreciation and amortization	13,853	11,519	27,015	21,512
Accretion of interest	1,223	907	2,428	1,786
Long-term debt discount (paid) accretion	(5)	(36)	24	(36)
Foreign exchange (gain) / loss on debt (unrealized)	-	(761)	-	(646)
Loss/(gain) on sale of disposal of capital assets	(209)	118	(1,473)	(213)
Deferred income tax	1,203	1,609	2,247	1,749
Deferred share program share-based vesting	280	272	554	472
Consideration fair value adjustment	(256)	(562)	(651)	(562)
	20,211	18,798	34,433	31,380
Changes in non-cash operating working capital items (Note 15)	(4,379)	(35,118)	(15,054)	(40,872)
	15,832	(16,320)	19,379	(9,492)
FINANCING ACTIVITIES				
Proceeds from (repayment of) long-term debt & finance leases, net of issuance costs	(5,490)	107,054	(21,983)	57,491
Proceeds from issuance of debentures, net of issuance costs (Note 7)	(6)	-	37,747	61,886
Payment of matured debentures (Note 7)	(126)	-	(126)	-
Proceeds from issuance of shares, net of issuance costs	4,112	1,053	5,186	2,094
Cash dividends / distributions (Note 9)	(9,277)	(9,012)	(18,413)	(17,729)
	(10,787)	99,095	2,411	103,742
INVESTING ACTIVITIES				
Purchase of capital assets, net of disposals	(20,272)	(16,742)	(33,956)	(29,568)
Purchase of intangible assets	-	(10)	(27)	(38)
Investment in other assets	-	(5,775)	-	(5,775)
Cash outflow for acquisitions	-	(55,411)	-	(55,411)
Cash acquired in acquisitions	-	731	-	731
Investment in other assets	5,270	-	5,775	-
Finance lease investments (payments), net of reserves	(428)	-	(347)	-
	(15,430)	(77,207)	(28,555)	(90,061)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,385)	5,568	(6,765)	4,189
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	26,788	2,787	23,168	4,166
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 16,403	$ 8,355	$ 16,403	$ 8,355
Supplementary cash flow information				
Interest paid	$ 4,020	$ 5,162	$ 10,167	$ 6,869
Income taxes paid	$ 226	$ 3,378	$ 623	$ 8,421

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



(unaudited, in thousands of Canadian dollars unless otherwise noted, except per share information and share data)

1. ORGANIZATION

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

As at June 30, 2014, 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 Helicopters"), 4873999 Manitoba Ltd., 7328010 Canada Ltd., Overlanders Manufacturing LP ("Overlanders"), Water Blast Manufacturing LP ("Water Blast"), WesTower Communications Ltd. ("WesTower CDA"), EIC Ireland Leasing Ltd. ("EIC Ireland" – Note 10), Regional One Canada LP ("Regional One Canada"), 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 three business segments: Aviation, Manufacturing, and Infrastructure (Note 10).

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements are for the six months ended June 30, 2014, and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2013 and the quarterly financial statements for the quarter ending March 31, 2014, which have been prepared in accordance with IFRS as issued by the IASB. These interim condensed consolidated financial statements are presented in thousands of Canadian dollars, except per share information and share data.

These interim condensed consolidated financial statements were approved by the Board of Directors of the Company for issue on August 12, 2014.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and methods of computation used in the preparation of these interim condensed consolidated financial statements are the same as those followed in the most recent annual financial statements, except for the changes noted below:

a) *Principles of Consolidation*

The interim condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Perimeter, Keewatin, Calm Air, Bearskin, Custom Helicopters, 4873999 Manitoba Ltd., 7328010 Canada Ltd., Overlanders, Water Blast, WesTower CDA, EIC Ireland, Regional One Canada, 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 interim condensed consolidated financial statements.

b) *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.

Infrastructure expenses – excluding depreciation and amortization

The cost of sales for the Company's Infrastructure 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. Starting in 2014, WesTower US and WesTower CDA was presented within this segment.

c) *Changes in accounting policies*

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

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. This change had no impact on the Company as no such transactions took place during the quarter.

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. This standard had no impact on the Company's reporting during the period.

d) *Accounting Standards Issued but not yet Effective*

IFRS 15 – Revenue

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring them to provide more informative, relevant disclosures. IFRS 15 supersedes IAS 11, Customer Contracts, and IAS 18, Revenue, as well as various IFRIC and SIC interpretations regarding revenue. Adoption of IFRS 15 is mandatory and will be effective for the Company beginning on January 1, 2017, with earlier adoption permitted. The Company is assessing the impact of adopting this standard on its financial statements.

IFRS 9 – Financial Instruments

On July 24, 2014, the IASB issued IFRS 9, "Financial Instruments"("IFRS 9") to replace International Accounting Standard 39, "Financial Instruments: Recognition and Measurement". IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS is adopted in its entirety at the beginning of a fiscal period. The Company is currently evaluating the impact of adopting IFRS on the Consolidated Financial Statements.

e) *WesTower US Cost Presentation*

During the first quarter of 2014, the Company revised the classification of certain expenses on the statement of operations. This has resulted in some expenses that would have been included in Infrastructure expenses – excluding depreciation and amortization in previous years being recorded in General and administrative expenses. Therefore, for comparative purposes, results for the first quarter of 2013 in the interim consolidated statement of income have been reclassified based on the change in classification. The impact of the change in classification was an increase in General and administrative expenses with a corresponding decrease to Infrastructure expenses – excluding depreciation and amortization. The net impact is nil and resulted in no change in net income for either period.

The following shows the 2013 quarterly and fiscal impact of the revised classification of expenses for WesTower:

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Fiscal 2013
EXPENSES					
Infrastructure expenses - excluding depreciation and amortization	$ (1,200)	$ (1,487)	$ (2,397)	$ (1,897)	$ (6,981)
General and administrative	1,200	1,487	2,397	1,897	6,981
Net impact of change in accounting policy classification	$ -	$ -	$ -	$ -	$ -

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. There were no changes to the Company's critical accounting estimates from those described in the most recent annual financial statements and the following provides an update around the Company's Deferred Income Tax estimates.

Income Tax Matters

Income tax provisions, including current and deferred income tax assets and liabilities, and income tax filing positions require estimates and interpretations of income tax rules and regulations of the various jurisdictions in which the Company operates and judgments as to their interpretation and application to EIC's specific situation. The amount and timing of reversals of temporary differences also depends on the Company's future operating results, acquisitions and dispositions of assets and liabilities.

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 its conversion from an income trust to a corporation (the "Conversion") in July 2009. The computation of income taxes payable as a result of these transactions involves many complex factors as well as the Company's interpretation of and compliance with 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 April 2014, the Company received a proposal letter from the Canada Revenue Agency ("CRA"), which advises of the CRA's intention to challenge the ability of the Company to carry forward certain losses related to the Conversion on the basis of acquisition of control and general anti-avoidance rules of the Income Tax Act (Canada). In May 2014, the Company responded to the proposal letter to refute the assessing positions of the CRA. The CRA has not yet provided a response to our submission. Failing resolution of this matter, CRA will proceed to reassess the Company which will require the Company, as a large corporation, to pay 50% of the resultant tax liability and interest for the period from July 2009 to December 2012. The required payment before interest would be approximately $11.5 million. The amount will be recorded as a receivable on the Company's financial statements based on management's assessment of the facts and opinions received from the Company's tax advisors prior to the Conversion. The Company remains confident in the appropriateness of its tax-filing position and the expected tax consequences of the conversion transaction and intends to defend such position vigorously if a notice of reassessment is received from the Canada Revenue Agency. Although the Company is confident in its position, it is possible that additional taxes could be payable by the Company and the ultimate value of the Company's income tax assets and liabilities could change in the future and that changes to these amounts could have a material effect on the Company's consolidated financial statements and financial position. The Company has not changed any of its estimates around Deferred Income Taxes as a result of receiving this letter.

6. LONG-TERM DEBT AND FINANCE LEASES

The following summarizes the Company's long-term debt and finance leases as at June 30, 2014 and December 31, 2013:

	June 30 2014	December 31 2013
Revolving term facility:		
Canadian dollar amounts drawn	$ 20,450	$ 51,150
United States dollar amounts drawn (US$165,970 and US$157,197, respectively)	177,190	167,195
Total credit facility debt outstanding, principal value	197,640	218,345
less: unamortized transaction costs	(1,027)	(932)
less: unamortized discount on outstanding Banker's Acceptances	(41)	(65)
Net credit facility debt	196,572	217,348
Finance leases	2,473	2,899
Total net credit facility debt and finance leases	199,045	220,247
less: current portion of finance leases	(1,056)	(1,326)
Long-term debt and finance leases	$ 197,989	$ 218,921

During the second quarter, the Company's credit facility was extended to have a maturity of May 2018. No other significant changes were made to the terms included within the credit facility. The Company is in compliance with all financial and negative covenants as at June 30, 2014.

Interest expense recorded during the three and six months ended June 30, 2014 for the long-term debt and finance leases was $1,669 and $3,217, respectively (2013 – $941 and $1,496, respectively).

Credit Facility

The following is the continuity of long-term debt for the six months ended June 30, 2014:

	Six Months Ended June 30, 2014				
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar portion	$ 51,150	$ 11,500	$ (42,200)	$ -	$ 20,450
United States dollar portion	167,195	20,563	(10,719)	151	177,190
	$ 218,345				$ 197,640

7. CONVERTIBLE DEBENTURES

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
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
Unsecured Debentures - 2014	EIF.DB.G	March 31, 2021	6.0%	$ 31.70

Summary of the debt component of the convertible debentures:

	2014 Balance, Beginning of Period	Debentures Issued	Accretion Charges	Debentures Converted	Repaid on Maturity	2014 Balance, End of Period	December 31, 2013 Balance
Series F	$ 1,128	$ -	$ 6	$ (1,008)	$ (126)	$ -	$ 1,128
Series G	3,214	-	26	(476)	-	2,764	3,214
Series H	21,142	-	128	-	-	21,270	21,142
Series I	33,941	-	227	-	-	34,168	33,941
Series J	54,285	-	308	-	-	54,593	54,285
Unsecured - 2012	53,477	-	288	-	-	53,765	53,477
Unsecured - 2013	60,896	-	268	-	-	61,164	60,896
Unsecured - 2014	-	37,272	76	-	-	37,348	-
						265,072	228,083
less: unamortized transaction costs						(9,420)	(8,177)
Convertible Debentures - Debt Component, end of period						255,652	219,906
less: current portion						(2,764)	(4,324)
Convertible Debentures - Debt Component (long-term portion)						$ 252,888	$ 215,582

During the six months ended June 30, 2014, convertible debentures totaling a face value of $1,491 were converted by the holders at various times into 127,072 Shares of the Company (2013 – $1,712 face value into 100,619 Shares). Interest expense recorded during the three and six months ended June 30, 2014 for the convertible debentures was $5,195 and $10,027, respectively (2013 – $4,373 and $7,806, respectively).

As scheduled, in April 2014, the Series F convertible debentures matured and the Company paid $126 in cash for the outstanding debentures principal at maturity. The remaining equity component for the Series F convertible debentures at maturity of $7 was transferred to contributed surplus.

March 2014 Unsecured Convertible Debenture Offering

The Company issued the $40 million Seven Year 6.0% Convertible Unsecured Subordinated Debentures on February 11, 2014. These debentures bear interest at the rate of 6.0% per annum payable semi-annually in arrears, in cash, on March 31 and September 30 of each year. The maturity of the debentures is March 31, 2021. 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 $31.70.

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, 2017, but prior to March 31, 2019, 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, 2019 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 $2,253 were incurred during the six months ended June 30, 2014 in relation to the issuance of these debentures.

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:

	June 30 2014	December 31 2013
Series F - 2009	$ -	$ 56
Series G - 2009	44	78
Series H - 2010	1,190	1,190
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	3,063
Unsecured Debentures - 2014	1,798	-
Convertible Debentures - Equity Component, end of period	$ 13,924	$ 12,216

8. SHARE CAPITAL

Changes in the Shares issued and outstanding during the six months ended June 30, 2014 are as follows:

	Number of Shares	2014 Amount
Share capital, beginning of period	21,752,400	$ 295,939
Issued upon conversion of convertible debentures	127,072	1,567
Issued under dividend reinvestment plan	105,277	2,152
Issued to Regional One vendors on contingent liability payment (Note 14)	130,175	2,411
Issued under vesting of reserved shares	28,746	623
Share capital, end of period	22,143,670	$ 302,692

9. DIVIDENDS DECLARED

The Company's dividend policy is to pay cash dividends on or about the 15th of each month to shareholders of record on the last business day of the previous month. The Company's Board of Directors regularly examines the dividends paid to shareholders.

Cumulative dividends during the six months ended June 30, 2014 and the comparative 2013 period are as follows:

Six Months Ended June 30	2014	2013
Cumulative dividends, beginning of period	$ 151,649	$ 115,760
Dividends during the period	18,413	17,729
Cumulative dividends, end of period	$ 170,062	$ 133,489

The amounts and record dates of the dividends during the six months ended June 30, 2014 and the comparative 2013 period are as follows:

Month	Record date	Per Share	2014 Dividends Amount	Record date	Per Share	2013 Dividends Amount
January	January 31, 2014	$ 0.14	$ 3,039	January 31, 2013	$ 0.14	$ 2,901
February	February 28, 2014	0.14	3,043	February 28, 2013	0.14	2,905
March	March 31, 2014	0.14	3,054	March 29, 2013	0.14	2,911
April	April 30, 2014	0.14	3,080	April 30, 2013	0.14	2,985
May	May 30, 2014	0.14	3,097	May 31, 2013	0.14	3,011
June	June 30, 2014	0.14	3,100	June 28, 2013	0.14	3,016
Total		$ 0.84	$ 18,413		$ 0.84	$ 17,729

Subsequent to June 30, 2014 and before these interim condensed consolidated financial statements were authorized, the Company declared a dividend of $0.14 per Share for July 2014.

10. 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 is the Chief Executive Officer.

During the first quarter of 2014, the Company's structure of its reporting segments changed from two operating segments to three operating segments with the addition of the Infrastructure segment. The Company amended its operating segments to reflect its change to its reporting structure. Prior to the reorganization, the Company disclosed WesTower's operations in the Manufacturing segment. As a result of the changes to the reporting structure and reports provided to the chief operating decision maker, WesTower's operations are now disclosed within the Infrastructure segment. Changes in reporting segments are to be applied retroactively therefore prior period segment information has been amended to be consistent with current year presentation and reports provided to the chief operating decision maker. There is no impact on the consolidated results of the Company and there are no changes to the Company's accounting policies.

The Company's reportable business segments include strategic business units that offer different products and services. The Company has three operating business segments: Aviation, Manufacturing and Infrastructure. The Aviation segment provides airline services to communities in Manitoba, Ontario, Nunavut and Alberta. 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 Infrastructure segment consists of the operations of WesTower, which is a manufacturer, installer and maintenance service provider of communications towers in both 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. The Company's method of calculating EBITDA is consistent with the Company's Operating Profit before Depreciation, Amortization, Finance Costs and Other presented in the consolidated statement of income. There are no inter-segment revenues, and segment revenues presented in the tables below are from external customers.

"Head Office" used in the following segment tables is not a separate segment and is only presented to reconcile to enterprise revenues, EBITDA, certain statement of financial position amounts and capital asset additions. It includes expenses incurred at head office of the Company.

	Three Months Ended June 30, 2014				
	Aviation	Manufacturing	Infrastructure	Head Office	Consolidated
Revenue	$ 83,317	$ 23,535	$ 167,648	$ -	$ 274,500
Expenses	64,487	19,644	159,477	3,080	246,688
EBITDA	18,830	3,891	8,171	(3,080)	27,812
Depreciation and amortization					13,853
Finance costs - interest					6,869
Acquisition costs					19
Consideration liability fair value adjustment					(256)
Impairment and restructuring					1,300
Earnings before tax					6,027
Current income tax expense					702
Deferred income tax expense					1,203
Net earnings for the period					$ 4,122

	Three Months Ended June 30, 2013				
	Aviation	Manufacturing	Infrastructure	Head Office	Consolidated
Revenue	$ 80,967	$ 22,211	$ 172,502	$ -	$ 275,680
Expenses	61,632	18,118	169,217	1,745	250,712
EBITDA	19,335	4,093	3,285	(1,745)	24,968
Depreciation and amortization					11,519
Finance costs - interest					5,315
Acquisition costs					838
Consideration liability fair value adjustment					(562)
Earnings before tax					7,858
Current income tax expense					517
Deferred income tax expense					1,609
Net earnings for the period					$ 5,732

	Six Months Ended June 30, 2014				
	Aviation	Manufacturing	Infrastructure	Head Office	Consolidated
Revenue	$ 161,666	$ 46,301	$ 324,012	$ -	$ 531,979
Expenses	127,917	38,227	313,273	5,293	484,710
EBITDA	33,749	8,074	10,739	(5,293)	47,269
Depreciation and amortization					27,015
Finance costs - interest					13,332
Acquisition costs					59
Consideration liability fair value adjustment					(651)
Impairment and restructuring					1,300
Earnings before tax					6,214
Current income tax expense (recovery)					(322)
Deferred income tax expense					2,247
Net earnings for the period					$ 4,289

					Six Months Ended June 30, 2013
	Aviation	Manufacturing	Infrastructure	Head Office	Consolidated
Revenue	$ 143,789	$ 43,848	$ 307,615	$ -	$ 495,252
Expenses	117,326	35,890	295,594	3,881	452,691
EBITDA	26,463	7,958	12,021	(3,881)	42,561
Depreciation and amortization					21,512
Finance costs - interest					9,302
Acquisition costs					1,668
Consideration liability fair value adjustment					(562)
Earnings before tax					10,641
Current income tax expense					1,574
Deferred income tax expense					1,749
Net earnings for the period					$ 7,318

					June 30, 2014
	Aviation	Manufacturing	Infrastructure	Head Office	Consolidated
Total assets	$ 375,486	$ 67,933	$ 411,068	$ 149,565	$ 1,004,052
Net capital asset additions	31,377	1,317	1,257	5	33,956

					December 31, 2013
	Aviation	Manufacturing	Infrastructure	Head Office	Consolidated
Total assets	$ 365,750	$ 68,119	$ 392,360	$ 135,143	$ 961,372
Net capital asset additions	72,141	2,134	6,037	19	80,331

During the first quarter of 2014, the Company acquired an aircraft by acquiring the shares of a company holding this aircraft. The acquired company was SMBC Aviation Leasing 1 Limited ("SMBC") and at the time of closing the Company changed the name of SMBC to EIC Ireland Leasing Limited ("EIC Ireland"). For accounting purposes under IFRS, this transaction was concluded to be the acquisition of assets and not a business combination as SMBC was not considered to be an operating business. As a result, the Company allocated the consideration and other costs incurred to acquire the asset (US$6,166), including external professional costs, to the net assets acquired and this was recorded within the Aviation segment.

During the six months ended June 30, 2014, the Company recognized a gain of $1,301 within Aviation revenues relating to the gain on disposal of an aircraft through insurance proceeds.

11. IMPAIRMENT AND RESTRUCTURING

During the second quarter of 2014, the Company began restructuring Bearskin's operations to eliminate certain unprofitable routes. Management accrued total restructuring costs of approximately $1,300, which has been expensed during the quarter. Total payments during the quarter by Bearskin for restructuring costs were $429, with the remaining $871 accrued in accounts payable and accrued expenses. The expenditures relate mainly to severance costs for reducing personnel levels. In addition, as part of the restructuring at Bearskin, $663 of additional depreciation was recorded during the quarter as the residual value and remaining useful lives of some assets were amended as part of the restructuring.

12. 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 Shares outstanding during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Company has two categories of dilutive potential common shares: vested deferred shares that have vested under the Company's Deferred Share Plan and 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 three and six months ended June 30, 2014 and comparative periods in 2013 are as follows:

	Three Months Ended		Six Months Ended	
Periods Ended June 30	**2014**	2013	**2014**	2013
Net earnings for the period, available to common shareholders	**$ 4,122**	$ 5,732	**$ 4,289**	$ 7,318
Effect of dilutive securities				
Convertible debentures	**-**	-	**-**	-
Diluted earnings for the period	**$ 4,122**	$ 5,732	**$ 4,289**	$ 7,318
Basic weighted average number of Shares	**22,048,256**	21,442,904	**21,931,357**	21,151,472
Effect of dilutive securities				
Vested deferred shares	**162,987**	121,118	**162,987**	121,118
Convertible debentures	**-**	-	**-**	-
Diluted basis average number of Shares	**22,211,243**	21,564,022	**22,094,344**	21,272,590
Earnings per share:				
Basic	**$ 0.19**	$ 0.27	**$ 0.20**	$ 0.35
Diluted	**$ 0.19**	$ 0.27	**$ 0.19**	$ 0.35

13. DEFERRED SHARE PLAN

During the six months ended June 30, 2014, the Company recorded compensation expense of $554 for the Company's Deferred Share Plan within the general and administrative expenses of head-office (2013 - $472). During the six months ended June 30, 2014, the Company granted deferred shares to certain personnel. The fair value of the deferred shares granted was $1,087 at the time of the grant and was based on the market price of the Company's Shares at that time.

14. 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. The following describes the risk management areas that have significantly changed from December 31, 2013.

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 $165,970 ($177,190) 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 US based subsidiaries.

The Company`s investment in those subsidiaries with USD functional currencies are hedged partially by US$114,700 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.

Interest Rates

The Company is subject to the risk that future cash flows associated with the credit facility outstanding (Note 6) 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 June 30, 2014, US $164,700 was outstanding under US LIBOR, US $1,270 was outstanding under USD Prime, $450 was outstanding under Canadian Prime and $20,000 was outstanding under Bankers Acceptances.

The interest rates of the convertible debentures (Note 7) have fixed interest rates.

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 June 30, 2014	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	$ (1,977)	$ -	$ -	$ (1,977)
Fair Value Disclosures				
Other assets - Loans and receivables	2,047	-	2,047	-
Long term debt - Other financial liabilities	(196,572)	-	-	(197,640)
Convertible debt - Other financial liabilities	(255,652)	-	(276,155)	-

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 the acquisition of Regional One in April 2013 was US$30,521. Since the acquisition of Regional One, US$28,669 of consideration liabilities have been settled through the payment of cash or issuance of equity, as applicable, including the impact of fair value gains on consideration liabilities. During the six months ended June 30, 2014, an unrealized gain on consideration liabilities of US$589 ($651), an unrealized translation loss of $351 on consideration liabilities and accretion expense of US$80 ($88) were recognized.

During the second quarter of 2014, the Company settled the majority of the outstanding consideration liabilities with the vendors of Regional One. In April 2014, the Company released US$6,620 ($7,270) of the cash in escrow, paid US$648 ($712) in cash, and issued 130,175 of Shares with a value of US$2,201 ($2,411). The remaining consideration liability outstanding at June 30, 2014 consists of certain tax related liabilities owing to the vendors. Additionally, there are 350,567 Shares of the Company that were issued into escrow at the time of acquisition and relate to the retention of the vendor as CEO. These remaining Shares are anticipated to be settled and released from escrow evenly each of the next four anniversaries of closing the acquisition.

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 June 30, 2014, 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 6). 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 June 30, 2014, 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 $276,155 (December 31, 2013 - $231,661) and a carrying value of $255,652 (December 31, 2013 - $219,906).

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 period ended June 30, 2014 there were no such transfers.

15. CHANGES IN WORKING CAPITAL ITEMS

The changes in non-cash operating working capital items during the three and six months ended June 30, 2014 and the comparative periods in 2013 are as follows:

	Three Months Ended		Six Months Ended	
Periods Ended June 30	**2014**	2013	**2014**	2013
Accounts receivable	$ **6,198**	$ (18,194)	$ **(24,577)**	$ (4,887)
Costs incurred plus recognized profits in excess of billings	**(1,115)**	(33,935)	**(13,661)**	(49,216)
Inventory	**(1,833)**	(6,426)	**(7,381)**	(11,650)
Prepaid expenses	**(1,020)**	(3,962)	**(1,434)**	(7,259)
Accounts payable and accrued charges	**(10,562)**	20,504	**4,801**	22,740
Income taxes receivable	**718**	(2,857)	**(958)**	(6,696)
Deferred revenue	**257**	(53)	**507**	312
Billings in excess of costs incurred plus recognized profits	**11,448**	8,039	**27,183**	12,347
Foreign currency adjustments	**(8,470)**	1,766	**466**	3,437
Net change in working capital items	$ **(4,379)**	$ (35,118)	$ **(15,054)**	$ (40,872)

16. INCOME TAX

Income tax expense is recognized based on management's best estimate of the weighted annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period. The Company's consolidated effective tax rate for the six months ended June 30, 2014 was 31.0% (six months ended June 30, 2013: 31.2%). The change in the effective tax rate is detailed in the following table:

Six Months Ended June 30	**2014**	2013
Earnings before provision for income taxes	$ **6,214**	$ 10,641
Combined Canadian federal and provincial tax rates	**27.0%**	27.0%
Income tax expense at statutory rates	$ **1,678**	$ 2,873
Increase (decrease) in taxes resulting from:		
Permanent differences	**203**	26
Change in statutory rates	**-**	(11)
Impact of foreign tax rate differences	**166**	518
Non-taxable capital gains	**-**	(11)
Other	**(122)**	(72)
Provision for income taxes	$ **1,925**	$ 3,323