Exchange
Income
Corporation

First Quarter Report

For the three months ended

March 31, 2013

President & CEO’s Message

Our first quarter results provide a strong start to 2013, sustaining the momentum we developed in recent years. In fact, we experienced significant growth in each of our key financial metrics. In particular:

- Consolidated revenue increased 50% to $219.6 million;
- EBITDA grew 25% to $17.6 million;
- Net income increased 74% to $1.6 million; and
- Free cash flow increased 20% to $13.4 million.

More than anything, the growth we experienced in the first quarter provides additional evidence that our diversification model works, effectively acting as a hedge against volatile economic conditions.

Even though our Aviation segment experienced declines to its revenue and EBITDA primarily as a result of competitive pressures in certain markets in eastern Canada and weakness in the mining sector, we were able to offset these declines through the strong performance of our Manufacturing segment, led by WesTower Communications. WesTower generated revenue of more than $135 million and EBITDA of $8.7 million in the first quarter.

Our first quarter is our weakest quarter of the year due to seasonality factors that impact the performance of both of our segments. In the Aviation segment, winter conditions affect transportation schedules and lessen demand for our passenger and cargo services given the build-out of winter roads. To a lesser extent, winter conditions also have a bearing on the performance of WesTower since adverse weather can delay the construction of cell towers in certain northern markets.

As strong as our net earnings for the first quarter were, they were impacted by acquisition costs of nearly $0.8 million and consulting charges for WesTower of $1.3 million as we strive to structure our organization to fully exploit the growth opportunities within the company. The acquisition costs were incurred mostly as a result of our purchase of Regional One, a Miami-based provider of after-market parts and equipment to regional carriers around the world. The acquisition of Regional One, which is our largest to date at US $74.2 million, is strategic on a number of levels.

Firstly, it allows us to further diversify our revenue streams and cash flow by expanding into new product and geographical markets. Secondly, it can offset the rise in costs of one of the Corporation’s major expense categories, namely parts and equipment needed for maintenance and repair activities of our aircraft.

We are very encouraged by the addition of Regional One, which was completed in April, to our list of operating subsidiaries. We expect the accretive impact of Regional One’s contributions to take effect within the second quarter’s results. Regional One’s contributions, along with the operational efficiencies and fleet restructuring initiatives we are implementing, should result in the improved performance of our Aviation segment in the periods to come.

The consulting charges incurred by WesTower are the result of both internal and external resources utilized to help WesTower manage the growth experienced over the past 18 months. The Company continues to direct resources and expertise towards WesTower to help position it for the long-term. We are optimistic about our growth prospects over the longer term. The introduction of new technology and capabilities within the wireless industry shows no signs of slowing down, providing strong organic growth opportunities for WesTower. Equally important to our long-term growth, we have more than $229 million of available capital to deploy under our credit facility for targeted acquisitions that will help drive accretive growth.

Mike Pyle
President & CEO

Management's Discussion and Analysis

May 14, 2013

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") supplements the unaudited interim condensed consolidated financial statements and related notes for the three months ended March 31, 2013 ("Consolidated Financial Statements") of Exchange Income Corporation ("EIC" or "the Company"). All amounts are stated in thousands of Canadian dollars, except per share data, unless otherwise stated.

These 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 months ended March 31, 2013 and its annual MD&A for the year ended December 31, 2012.

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 12 – Risk Factors of the MD&A. We caution that the list of risk factors set out herein is not exhaustive and that when relying on forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements.

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

NON-GAAP FINANCIAL MEASURES

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

<u>EBITDA</u>: is defined as earnings before interest, income taxes, depreciation, amortization, other non-cash expenses such as unrealized foreign exchange gains or losses and asset impairment, and any unusual non-operating one-time items such as acquisition costs. It is used by management to assess its consolidated results and the results of its operating segments. EBITDA is a performance measure utilized by many investors to analyze the cash available for distribution from operations before allowance for debt service, capital expenditures and income taxes. EBITDA is not a defined performance measure under GAAP and the Company's calculation of EBITDA may differ from similar calculations used by comparable entities.

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

<u>Free Cash Flow</u>: for the period is equal to cash flow from operating activities as defined by GAAP, adjusted for changes in non-cash working capital and any unusual non-operating one-time items. Free Cash Flow is a performance measure used by investors to analyze the cash generated from operations before the seasonal impact of changes in working capital items or other unusual items such as conversion costs.

Maintenance Capital Expenditures: are the capital expenditures made by the Company to maintain the operations of the Company at its current level and includes the principal payments made by the Company on any of its finance leases. Other capital expenditures are classified as growth capital expenditures and are not considered by management in determining the cash flows required to sustain the current operations of the Company.

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

ADDITIONAL INFORMATION

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

1. FINANCIAL HIGHLIGHTS

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

FINANCIAL PERFORMANCE	2013	per share basic	per share fully diluted	2012	per share basic	per share fully diluted
For the three months ended March 31						
Revenue	$ 219,572			$ 146,683		
EBITDA	17,593			14,061		
Net earnings	1,586	$ 0.08	$ 0.08	910	$ 0.05	$ 0.05
Adjusted net earnings	2,655	0.13	0.13	1,567	0.09	0.09
Free cash flow	13,412	0.65	0.56	11,167	0.61	0.54
Free cash flow less maintenance capital expenditures	5,457	0.26	0.26	3,866	0.21	0.21
Dividends declared	8,717	0.42		7,553	0.405	
FINANCIAL POSITION	March 31, 2013			December 31, 2012		
Working capital	$ 162,754			$ 156,561		
Capital assets	272,852			269,036		
Total assets	721,102			709,370		
Senior debt	21,581			69,809		
Equity	294,022			294,542		
SHARE INFORMATION	March 31, 2013			December 31, 2012		
Common shares outstanding	20,731,600			20,636,593		

2. OVERVIEW

EXCHANGE INCOME CORPORATION

The Company is a diversified, acquisition-oriented corporation focused on opportunities in the Manufacturing and Aviation segments. The business plan of the Company is to invest in profitable, well-established companies with strong cash flows operating in niche markets in Canada and/or the United States. The objectives of the Company are:

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

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

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

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

(a) Aviation – providing scheduled airline and charter service and emergency medical services to communities located in Manitoba, Ontario, and Nunavut, including certain First Nations communities, operated by Calm Air, Keewatin, Perimeter, Bearskin, Custom Helicopters and other aviation supporting businesses. Regional One, Inc.

("Regional One") was acquired on April 12, 2013, subsequent to the first quarter of 2013, and is focused on supplying regional airline operators around the world with various after-market aircraft, engines, and component parts; and

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

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

Subsequent Acquisition – Regional One

The Company announced on February 28, 2013 that it had signed a stock purchase agreement to acquire the shares of Regional One and closed the acquisition on April 12, 2013. Regional One is a leading provider of aircraft and engine aftermarket parts to regional airline operators around the world. The acquisition price was US $74.2 million and was funded through a combination of US $60.7 million of debt financing and the issuance of Shares worth US $13.5 million to the Regional One vendors. The purchase price is subject to an earn-out that could result in additional payments of up to US $9.3 million through a combination of cash and shares, if Regional One achieves certain EBITDA targets, resulting in a maximum purchase price, subject to other adjustments, of US $83.5 million.

The acquisition is expected to be 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 for the first quarter of 2013 do not include any financial results of Regional One's operations. The Company did incur acquisition costs of $0.8 million during the first quarter of 2013, of which a large portion was associated with the subsequent acquisition of Regional One.

Prior Year's Acquisitions

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

Acquisition – Custom Helicopters

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

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

The acquisition of Custom expands the Company's existing Aviation segment to include helicopter operations. Custom has operated for over 30 years and has a fleet of 24 helicopters operating out of five bases: Winnipeg, Thompson, Gillam, and Garden Hill in

Manitoba and Rankin Inlet in Nunavut. Custom operates light, intermediate and medium category helicopters on long- and short-term contracts to government agencies, utilities, First Nations groups, mining companies and other customers.

Acquisition costs of $0.4 million were incurred by the Company during fiscal 2012 associated with the acquisition.

Acquisition – Water Blast Dakota

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

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

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

3. KEY PERFORMANCE INDICATORS

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

The dividends declared by the Company to its shareholders are dependent on its cash flow from operating activities with consideration for changes in working capital requirements, investing activities and financing activities of the Company. The EBITDA, Free Cash Flow, and Free Cash Flow less maintenance capital expenditures generated from operations are important performance measures that are used by management to evaluate the performance of the Company.

EBITDA

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

EBITDA	Three Months Ended March 31,	2013	2012
Earnings before income tax		$ 2,783	$ 1,298
Depreciation and amortization		9,993	8,946
Finance costs - interest		3,987	3,441
Acquisition costs		830	376
Total EBITDA		$ 17,593	$ 14,061

FREE CASH FLOW

FREE CASH FLOW	Three Months Ended March 31,	2013		2012
Cash flows from operations	$	6,828	$	6,900
Change in non-cash working capital items		5,754		3,891
Acquisition costs		830		376
	$	13,412	$	11,167
per share - Basic	$	0.65	$	0.61
per share - Fully Diluted	$	0.56	$	0.54

The Company generated Free Cash Flow of $13.4 million for first quarter of 2013, which is $2.2 million higher than the $11.2 million generated in the comparative 2012 period. The 20% increase in Free Cash Flow is mainly the result of the 25% increase in EBITDA, which is an increase of $3.5 million over the comparative period. The improved EBITDA in 2013 is analyzed in more detail in Section 4 – Analysis of Operations but can be attributed mainly to the growth at WesTower and in particular its US operations.

The increased EBITDA was offset in part by the increase of $0.9 million in cash taxes for the 2013 period and the increase of $0.4 million of cash interest paid, particularly on the higher level of convertible debenture principal outstanding during 2013.

On a basic per share basis, the increase in absolute Free Cash Flow was offset by the higher share base. This resulted in a net increase to $0.65 for the first quarter of 2013, which is $0.04 or 7% higher than the $0.61 in 2012. The average amount of Shares outstanding for the first quarter of 2013 was 13% higher than the comparative period in 2012. Explanations around the increase in Shares outstanding can be found in Section 6 – Liquidity and Capital Resources and the Company's 2012 Annual Report. On a fully diluted basis, the additional convertible debentures outstanding in 2013 mostly offset the basic per share increase and resulted in $0.56 for 2013 which is a 4% increase over the $0.54 for 2012. The $57.5 million of principal from the September 2012 Unsecured convertible debentures and the $65.0 million of principal from the March 2013 Unsecured convertible debentures were not outstanding in the 2012 comparative period.

The increase in Shares outstanding significantly decreases the per share results and the issuance of convertible debentures impact the fully diluted shares outstanding. The Company used the net proceeds from the September 2012 unsecured debenture offering and the March 2013 unsecured debenture offering to repay more of the Company's debt outstanding. These decisions will continue to impact the per share results of the Company until these funds are deployed. The acquisition of Regional One in the beginning of the second quarter will utilize some of the funds available by the Company from its credit facility. After taking into account the Regional One acquisition and other cash used from the credit facility subsequent to the end of the first quarter, as at April 30, 2013, the deleveraged balance sheet puts the Company in a position to finance approximately a $229 million acquisition without the need for additional equity financing.

FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENDITURES

FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENDITURES	Three Months Ended March 31,	2013		2012
Free Cash Flow	$	13,412	$	11,167
Maintenance Capital Expenditures		7,955		7,301
	$	5,457	$	3,866
per share - Basic	$	0.26	$	0.21
per share - Fully Diluted	$	0.26	$	0.21

The Company generated Free Cash Flow less maintenance capital expenditures of $5.5 million for the first quarter of 2013, which is an increase of $1.6 million or 41% over the $3.9 million generated in the comparative period in 2012. The improvement in 2013 is mainly due to the 20% increase in Free Cash Flow described above but is also due to a smaller increase in the maintenance capital expenditures during the same period. The maintenance capital expenditures increased by 9% to $8.0 million for the first quarter of 2013 and are described in detail in the Capital Expenditures Section.

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

On a basic per share basis, Free Cash Flow less maintenance capital expenditures for the first quarter of 2013 increased to $0.26 ($0.26 fully diluted) in comparison to $0.21 ($0.21 fully diluted) in the comparative period in 2012. The increase of 24% (24% fully diluted) is due to the additional Free Cash Flow less maintenance capital expenditures generated by the Company, offset by an increased base of Shares outstanding for the Company during the 2013 period. The maintenance capital expenditure component of this metric is described further below and accounted for the $0.38 decrease from Free Cash Flow. The maintenance capital expenditures impact for the 2012 comparative was $0.40 per share.

CAPITAL EXPENDITURES

CAPITAL EXPENDITURES	Three Months Ended March 31,	2013	2012
Cash maintenance capital expenditures		$ 7,594	$ 7,029
add: finance lease principal payments		361	272
Maintenance capital expenditures		7,955	7,301
Growth capital expenditures		5,260	8,307
		$ 13,215	$ 15,608
Maintenance capital expenditures per share - Basic		$ 0.38	$ 0.40
Growth capital expenditures per share - Basic		0.25	0.45
Total capital expenditures per share - Basic		$ 0.63	$ 0.85

Management characterizes capital expenditures as either maintenance capital expenditures or growth capital expenditures. Maintenance capital expenditures are those required to maintain the operations of the Company at its current level. Other capital expenditures are made to grow the enterprise and are expected to generate additional EBITDA. These other capital expenditures are classified as growth capital expenditures and are not considered by management in determining the cash flows required to sustain the current operations of the Company. The accounting for capital expenditures has changed significantly under IFRS as compared to Canadian generally accepted accounting principles before the adoption of International Financial Reporting Standards ("CGAAP"). The most significant change is that aircraft engine overhauls and airframe heavy checks were previously accrued as an expense and then removed from the accrued liability when the event occurred. Under IFRS, these events are treated as maintenance capital expenditures when the event occurs and there is no expense accrued in advance of the event. The result is that maintenance capital expenditures can now be very lumpy from period to period, both within the year and when analyzing to the comparative period in the prior year. It is important to note that the change from CGAAP to IFRS does not change the cash outflows to maintain the fleet. It does, however, make the period to period results less comparable.

Maintenance Capital Expenditures

Maintenance capital expenditures for the first quarter of 2013 totalled $8.0 million compared to $7.3 million in 2012, an increase of $0.7 million. The Aviation segment continues to make up the majority, as it spent $7.2 million versus $0.8 million in the Manufacturing segment.

The maintenance capital expenditures in the Aviation segment will vary from period to period based on the timing of significant maintenance events, such as engine overhauls and heavy checks. The total maintenance capital expenditures in the Aviation segment of $7.2 million are at a level that is indicative of an average quarter. The expenditures at EIC's various airlines are generally proportionate to the size and number of aircraft they operate. As discussed above the maintenance capital expenditures will fluctuate from quarter to quarter. The first quarter of 2013 was a typical quarter however, it is not expected that maintenance capital expenditures will normally be this consistent over the year or multiple years based on the expected variability within the Aviation segment.

The Manufacturing segment's maintenance capital expenditures were mainly from WesTower which spent $0.6 million during the period and includes $0.4 million of finance lease payments. The Manufacturing segment's capital expenditures are largely equipment and vehicles. The Company has finance leases for vehicles. These finance lease principal payments do not show up as part of the Free Cash Flow or the capital expenditures that tie into the statement of cash flows. In order to fully reflect the Free Cash Flow after maintenance capital expenditures as the cash flow generated, the Company has disclosed the finance lease principal payments and deducted this from the Free Cash Flow less maintenance capital expenditures calculation.

Growth Capital Expenditures

The Company invested a net total of $5.2 million in growth capital expenditures during the first quarter of 2013, which consisted of $5.7 million in expenditures less $0.5 million in disposals. The majority of the growth capital expenditures were in the Aviation segment which accounted for net $3.4 million of the growth capital expenditures. The major growth capital expenditures were for additional aircraft and infrastructure for Calm Air's fleet type rationalization. These $3.4 million of aviation growth expenditures are net of the disposal of insurance proceeds received for a helicopter that succumbed to a heavy landing. Calm Air is continuing this fleet rationalization in 2013, which includes the addition of one more ATR 42 and the completion of their ground infrastructure. Total aircraft growth capital expenditures before disposals were $1.3 million and the majority of this came from Calm Air, which spent $0.9 million on betterments for a recently purchased ATR 42 to bring it up to the standards required by Calm Air.

In addition to these aircraft expenditures, the Aviation segment spent $2.6 million on ground infrastructure. This includes infrastructure at the James Armstrong Richardson International Airport to support Calm Air's new heavy maintenance facility and infrastructure in the far north required to support Calm Air's fleet rationalization.

The Manufacturing segment spent $1.8 million on growth capital expenditures in the first quarter of 2013. Virtually all of these growth capital expenditures were spent at WesTower to support the expansion of its US operations. The majority of these expenditures are on equipment to support their growth and new technology to enable them to successfully build Long-Term Evolution ("LTE") sites.

DIVIDENDS & PAYOUT RATIO

The amounts and record dates of the dividends declared during the three months ended March 31, 2013 and the comparative period in 2012 were as follows:

					2013 Dividends					2012 Dividends
Month	Record date	Per Share			Amount	Record date	Per Share			Amount
January	January 31, 2013	$	0.14	$	2,901	January 31, 2012	$	0.135	$	2,390
February	February 28, 2013		0.14		2,905	February 29, 2012		0.135		2,423
March	March 29, 2013		0.14		2,911	March 30, 2012		0.135		2,740
Total		$	0.420	$	8,717		$	0.405	$	7,553

Actual dividends for the first quarter of 2013 totaled $8.7 million, which was an increase of $1.2 million or 15% from the comparative period in 2012 when the actual payouts were $7.5 million. Per share dividends for the first quarter of 2013 totaled $0.42, which was an increase of 4% over the dividends paid per share of $0.405 in the comparative period in 2012.

The increase in total dividends declared by the Company is therefore mainly a result of the increase in the Shares outstanding. The per share dividend increased by 4% (or $0.005) starting with the November 2012 declared dividend and that continued through the first quarter of 2013.

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

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

Payout Ratios		Per share	Per share		Per share	Per share
Three Months Ended March 31,	2013	basic	fully diluted	2012	basic	fully diluted
Free Cash Flows		*65%*	*75%*		*66%*	*75%*
Free Cash Flows less maintenance capital expenditures		*162%*	*162%*		*193%*	*193%*

On a seasonal basis, the first quarter is the weakest operational results quarter for the Company as historically the Aviation segment is impacted by winter roads and both segments are impacted by generally poorer weather conditions. These factors continued to impact the payout ratios for the Company as seen in the table above.

The payout ratios for Free Cash Flow for the first quarter of 2013 of 65% (75% fully diluted) were relatively flat as a result of the increased Free Cash Flow generated was offset by the increased dividends declared per share. The comparable 2012 Free Cash Flow payout ratio was 66% (75% fully diluted).

The Free Cash Flow less maintenance capital expenditures payout ratio for the first quarter of 2013 improved to 162% (162% fully diluted) in comparison to 193% (193% fully diluted) in the 2012 comparable period. The per share increase in Free Cash Flow less maintenance capital expenditures was higher than the increased dividends declared per share.

Overall, the payout ratios for the Company in the first quarter of 2013 are seasonally weak and are negatively impacted by the deleveraged balance sheet that resulted from the September 2012 and March 2013 debenture offerings. 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. Additionally, the deployment of the funds from the debenture offerings into accretive acquisitions like Regional One in April 2013 and/or organic growth opportunities will offer additional strength to the payout ratios. The payout ratio is considered to be prudent and is reviewed by the Company's Board of Directors on a quarterly basis.

4. ANALYSIS OF OPERATIONS

The following section analyzes the financial results of the Company's operations for the three months ended March 31, 2013 and the comparative 2012 period.

	Three Months Ended March 31, 2013				Three Months Ended March 31, 2012			
	Aviation	Manufacturing	Head-office(2)	Consolidated	Aviation	Manufacturing	Head-office(2)	Consolidated
Revenue	$ 62,822	$ 156,750	$ -	$ 219,572	$ 65,754	$ 80,929	$ -	$ 146,683
Expenses(1)	55,694	144,149	2,136	201,979	57,185	73,794	1,643	132,622
EBITDA	7,128	12,601	(2,136)	17,593	8,569	7,135	(1,643)	14,061
Depreciation and amortization				9,993				8,946
Finance costs - interest				3,987				3,441
Acquisition costs				830				376
Earnings before taxes				2,783				1,298
Current income tax expense				1,057				134
Deferred income tax expense				140				254
Net earnings for the period				$ 1,586				$ 910

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

Note 2): Head-office is not a separate reportable segment. It includes expenses incurred at the head-office of the Company and is presented for reconciliation purposes.

On a consolidated basis, total revenue recognized by the Company for the first quarter of 2013 increased by 50% or $72.9 million to $219.6 million when compared to the same period in 2012. The main driver of the increase in consolidated revenue is due to the organic growth in the Manufacturing segment, in particular at WesTower. The revenues for the Aviation segment decreased by 4% to $62.8 million and the revenues for the Manufacturing segment increased by 94% to $156.8 million.

On a consolidated basis, EBITDA generated by the Company for the first quarter of 2013 was $17.6 million, an increase of 25% or $3.5 million when compared to the same period in 2012. Consistent with the change in revenues, the organic growth in the Manufacturing segment increased EBITDA and that was offset by the net decrease in the EBITDA generated by the Aviation segment. The EBITDA for the Aviation segment decreased by 17% to $7.1 million and the EBITDA for the Manufacturing segment increased by 77% to $12.6 million. Costs incurred at the head-office of the Company increased by 30% to $2.1 million.

AVIATION SEGMENT

Aviation Segment	Three Months Ended March 31,	2013	2012	Variance	Variance %
Revenue		$ 62,822	$ 65,754	$ (2,932)	-4%
Expenses		55,694	57,185	(1,491)	-3%
EBITDA		$ 7,128	$ 8,569	$ (1,441)	-17%

The Aviation segment generated revenues of $62.8 million and EBITDA of $7.1 million for the three months ending March 31, 2013. Despite growing revenue opportunities in our key Manitoba market, the Company's Aviation segment experienced an overall decline in revenue in the first quarter of 2013 compared to the same period in 2012. Revenue generated by the Aviation segment decreased by $2.9 million, or 4%, from $65.7 million in 2012 to $62.8 million in 2013. The largest revenue variances were experienced in passenger services and charter operations. The decline in the mining sector has negatively impacted the volume of charter services for both fixed and rotary wing aircraft, and also scheduled service volumes for Calm Air. Revenues generated from passenger services decreased by $2.0 million, or 5%. The decrease in passenger revenue is predominantly the result of increased competition in the Ontario market serviced by Bearskin and decreased volumes for Calm Air's market. Revenues generated from charter services decreased by approximately $0.8 million, or 12%. As discussed in previous reports, Calm Air stopped providing regular charter service to one of their significant mining customers in the second quarter of 2012. The loss of this business was partly mitigated by securing new charter opportunities; however, Calm Air did not fully capitalize on all charter opportunities in the short term as it continued through its fleet renewal plan. The completion of Calm Air's fleet rationalization plan, which is targeted for the end of the third quarter in 2013, and the addition of an eighth ATR42 aircraft will allow Calm Air to grow its charter operations. The winter-road season of 2013 was the longest seen over the last several years and resulted in reduced demand for some of the services of the Aviation segment, in particular for Perimeter, as the transportation alternative was available to our customers for a longer period of time.

Operational expenses for the Aviation segment decreased by $1.5 million, or 3%, from $57.2 million in the 2012 comparable period to $55.7 million in 2013. The decline in operational expenses is primarily due to decreases in fuel, and maintenance costs associated with parts and engine care maintenance program (ECMP) which was primarily the result of reduced fleet hours. Additionally, third party rental costs decreased. In order to service the Government of Nunavut contract, the Company wet leased a jet until the end of April 2012 while focusing on putting the infrastructure associated with this contract in place including procuring a jet. These cost reductions were partly offset by increased labour costs. Factors contributing to the increase in labour include increases associated with moving to a provincially administered Central Dispatch System, increases associated with Perimeter's requirement to move to a Type B Dispatch System as a result of increasing the size of their Dash fleet of aircraft, and increases related to labour contracts. The Company continues to review the labour complement to ensure that all areas are properly resourced and to ensure that changes in market conditions and changes driven by Calm Air's fleet rationalization plan are considered.

EBITDA declined by $1.5M, or 17%, from $8.6 million in 2012 to $7.1 million in 2013. The EBITDA margin declined from 13.0% in 2012 to 11.3% in 2013. As discussed above, the segment experienced increased competition, which reduced both passenger volumes and passenger yields, and suppressed margins in the eastern regions operated by Bearskin. Secondly, the medevac operations moved to a provincially administered Central Dispatch System which also contributed to lower margins.

MANUFACTURING SEGMENT

Manufacturing Segment	Three Months Ended March 31,	2013	2012	Variance	Variance %
Revenue		$ 156,750	$ 80,929	$ 75,821	94%
Expenses		144,149	73,794	70,355	95%
EBITDA		$ 12,601	$ 7,135	$ 5,466	77%

The Manufacturing segment earned revenues of $156.8 million and EBITDA of $12.6 million for the first quarter of 2013. This represents a $75.8 million increase in revenue and a $5.5 million increase in EBITDA in comparison to the same period in 2012.

Revenues were up $75.8 million or 94% over the comparable period and the increase is due to the growth in WesTower which recognized an additional $78.1 million in 2013 (or 137% increase) generating a total of $135.1 million. This growth in WesTower began late in the first quarter of 2012, continued throughout the remainder of that year and into the first quarter of 2013. The US operations generated the growth for WesTower and the demand was largely driven by Long-Term Evolution ("LTE") network builds for the major telecom companies, including AT&T, which generated approximately $80 million in turfing contract revenues for WesTower in 2013. The Canadian operations of WesTower were behind the prior year's comparative based on the early state LTE build that took place in the first quarter of 2012 in some of the Canadian markets.

This increase for WesTower was offset by a combined decrease of $2.9 million in revenue from the other entities in the Manufacturing segment for a total of $21.6 million for 2013. The first quarter of 2012 was a strong quarter for all of these entities as a comparative, in particular for Stainless who experienced strong field operations from some large projects during a season when field operations are typically not as strong. The Alberta operations experienced unseasonable weather conditions in much of its regions of operations during the 2013 winter season and this caused a portion of normal volume for that period to be pushed out to the second quarter of 2013. The precision metal business showed continued growth coming from higher volumes through its production facility.

EBITDA was $12.6 million, up $5.5 million or 77% over the comparable period. Consistent with the change in revenues, the EBITDA increase in 2013 was driven by the growth in WesTower's US operations. The first quarter of 2012 was the startup period for WesTower's turf contract that was awarded to it late in 2011 and this led to lower realized margins from the costs incurred during that ramp up. For the 2013 period WesTower recognized the additional revenues coming from this work and was able to generate a better EBITDA margin without the startup costs. The EBITDA margin earned by WesTower was 6.5% for the first quarter of 2013 in comparison to 4.8% for 2012 and the first quarter EBITDA margin includes $1.3 million of consulting costs for the rapid growth impacting WesTower. The consulting costs include $0.7 million of external charges and $0.6 million of internal costs. Without those consulting charges, the EBITDA margin for WesTower would be 7.4% and 8.9% for the Manufacturing segment. These consulting costs are expected to be incurred throughout 2013. The other companies in the Manufacturing segment traditionally have higher EBITDA margins than WesTower given the different types of operations. These entities generated an EBITDA margin of 17.9% during the first quarter of 2013 in comparison to 18.3% generated in 2012. The margins maintained by the other manufacturing segments remained strong considering the decline in revenues experienced by these entities. This exemplifies the ability of these entities to manage their costs to correspond to their revenue demands.

The significant growth of WesTower and the softer quarter for the Aviation segment resulted in the Manufacturing segment contributing 71% of the Company's consolidated revenues for the first quarter of 2013 in comparison to 55% in 2012. At the EBITDA level, the Manufacturing segment contributed 72% of the consolidated EBITDA of the Company's segments after deducting head-office costs in comparison to 51% for the comparative in 2012. The acquisition of Regional One in April 2013 is expected to impact this ratio going forward into the remainder of 2013.

HEAD-OFFICE

Head-office Costs	Three Months Ended March 31,	2013	2012	Variance	Variance %
Expenses		$ 2,136	$ 1,643	$ 493	30%

The head-office costs for the Company increased by $0.5 million or 30% to total $2.1 million for the first quarter of 2013. The increase is mainly attributable to an increase in personnel costs, including share-based compensation costs for management and the Board of Directors. The head-office team grew throughout the second half of fiscal 2012 and is reflective of the growth in the size of the consolidated group of companies within EIC. Other general and administrative costs have been incurred at head-office as a result of the growth in head-office personnel.

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 March 31, 2013 in comparison to the same period in 2012. Consolidated net earnings for the three months ended March 31, 2013 were $1.6 million, an increase of $0.7 million over the comparative period in 2012.

	Three Months Ended March 31,	2013	2012	Variance	Variance %
Depreciation and amortization		$ 9,993	$ 8,946	$ 1,047	12%

The Company's depreciation and amortization for the first quarter of 2013 increased by $1.0 million or 12% over the comparative period in 2012. The change is attributable to the increase in capital asset depreciation recorded by the Company, in particular the Aviation segment. The significant capital expenditures made by the Aviation segment throughout fiscal 2012 has contributed to higher depreciation in 2013. Amortization of intangible assets is relatively consistent between both periods.

	Three Months Ended March 31,	2013	2012	Variance	Variance %
Finance costs - interest		$ 3,987	$ 3,441	$ 546	16%

The Company incurred additional interest costs during the first quarter of 2013 of $0.5 million or 16% over the comparative period in 2012. The majority of the reason for the increase in 2013 is a result of additional interest costs on the Company's outstanding convertible debentures and resulted in an additional $1.0 million of costs. During fiscal 2012 the Company closed the offering of its September 2012 unsecured convertible debentures of $57.5 million with a 5.5% fixed interest rate and therefore the principal on that series was not outstanding during the comparative period but was outstanding for all of the first quarter of 2013. As well, the Company closed its March 2013 unsecured convertible debentures of $65.0 million with a 5.35% fixed interest rate during the first quarter of 2013 and has no comparable in 2012. The combined additional interest from these two series within the 2013 results was $1.0 million. The other series of convertible debentures outstanding incurred $0.1 million less interest in 2013.

The Company's interest on long-term debt and finance leases decreased overall by $0.4 million based on the overall principal amount outstanding in its credit facility over each period and as a result of $0.2 million of interest capitalized by the Company as part of the maintenance facility and buildings being constructed by Calm Air.

Three Months Ended March 31,	2013	2012	Variance	Variance %
Acquisition Costs	$ 830	$ 376	$ 454	121%

The acquisition costs incurred by the Company during the first quarter of 2013 included a large portion of the external costs incurred for the Regional One acquisition, which closed early in the second quarter of 2013. The costs incurred in 2012 pertain to the closing of the Custom acquisition, which closed in February 2012, along with external costs incurred on some other potential acquisitions and due diligence activities. In comparison, the Regional One acquisition is proportionately larger than the Custom acquisition and resulted in higher acquisition costs being incurred.

Three Months Ended March 31,	2013	2012	Variance	Variance %
Current income tax expense	$ 1,057	$ 134	$ 923	689%
Deferred income tax expense	140	254	(114)	-45%
Income Tax Expense	$ 1,197	$ 388	$ 809	209%

The Company's income tax expense for the first quarter of 2013 was $1.2 million, an increase of $0.8 million or 209% over the comparative period in 2012. The two main reasons for the increase in tax expense is due to an increase in net income before tax of 114%, and an increase in taxable income in the US where income tax rates are considerably higher than in Canada.

The Company has the ability to offset some of the taxable income it generates in its Canadian operations with non-capital losses. During the 2013 period the Company used $0.3 million of non-capital losses and it has $125.5 million of non-capital losses available to offset future taxable income.

Current income tax expense is the expected tax payable on taxable income for the period of subsidiaries that do not have access to non-capital losses. During the period the income subject to tax of those subsidiaries was $2.8 million, and the income was primarily generated in the US.

5. SUMMARY OF QUARTERLY RESULTS

	2013 Q1	Q4	Q3	Q2	2012 Q1	Q4	Q3	2011 Q2
Total revenue	$ 219,572	$ 231,447	$ 220,807	$ 201,636	$ 146,683	$ 147,780	$ 145,993	$ 138,008
EBITDA	17,593	25,642	30,332	24,463	14,061	20,734	22,153	19,738
Net earnings / (loss)	1,586	6,710	9,972	7,759	910	6,914	7,285	4,506
Basic	0.08	0.32	0.49	0.38	0.05	0.40	0.42	0.27
Diluted	0.08	0.32	0.46	0.37	0.05	0.38	0.41	0.27
Free cash flow (FCF)	13,412	20,729	24,059	20,821	11,167	17,470	19,234	16,890
Basic	0.65	1.00	1.17	1.02	0.61	1.00	1.11	1.00
Diluted	0.56	0.76	0.94	0.82	0.54	0.83	0.92	0.83
FCF less maintenance capital expenditures	5,457	13,432	16,199	12,508	3,866	9,845	12,721	8,059
Basic	0.26	0.65	0.79	0.61	0.21	0.57	0.74	0.48
Diluted	0.26	0.57	0.69	0.55	0.21	0.50	0.63	0.43

6. LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2013, the Company had a net cash position of $2.8 million (December 31, 2012 of $4.2 million) and net working capital of $162.8 million (December 31, 2012 of $156.6 million), which represents a current ratio of 1.92 to 1 (December 31, 2012 of 1.90 to 1).

	March 31, 2013	December 31, 2012	Change
Cash and cash equivalents	$ 2,787	$ 4,166	$ (1,379)
Accounts receivable	121,201	134,508	(13,307)
Costs incurred plus recognized profits in excess of billings	136,249	120,968	15,281
Inventory	69,089	63,865	5,224
Prepaid expenses	9,516	6,219	3,297
Accounts payable and accrued expenses	(127,850)	(125,614)	(2,236)
Income taxes payable	(3,379)	(7,218)	3,839
Deferred revenue	(8,947)	(8,582)	(365)
Billings in excess of costs incurred plus recognized profits	(34,654)	(30,346)	(4,308)
Current portion of long-term debt and finance leases	(1,258)	(1,405)	147
Net working capital	$ 162,754	$ 156,561	$ 6,193

The Company closed the offering of its March 2013 Unsecured Series 5.35% seven year convertible debentures with a par value of $65.0 million, including $5.0 million from the over-allotment option, and generated net proceeds of $61.9 million. The funds generated were used by the Company in making payments against its outstanding credit facility balance in anticipation of the closing of the Regional One acquisition subsequent to the first quarter in April 2013. The debentures have a seven year term with a 5.35% fixed interest rate paid semi-annually. The conversion price for these debentures is $41.60.

The acquisition of Regional One closed on April 12, 2013 and subsequent to March 31, 2013 the Company drew funds from the Company's credit facility towards the cash consideration of the purchase price. The Company also issued 494,656 of its common shares for consideration of the purchase price. Overall at the time of closing, the Company paid US$74.2 million ($75.2 million equivalent), issued shares with a US $13.5 million value, and assumed debt of US$60.7million. As a result of certain contingent payments and future payments of both cash and issuance of shares within the share purchase agreement, the Company will record a fair value for those liabilities.

Near the end of March 2013, prior to the closing of the Regional One acquisition, the Company used the net proceeds from the March 2013 Unsecured debenture offering to repay the debt outstanding under the US portion of the Company's credit facility. As at March 31, 2013, the Company had $19.4 million outstanding under the Canadian portion of the facility and nothing outstanding under its US portion.

Upon the closing of the Regional One acquisition, the Company amended its credit facility which resulted in the total amount of credit available under the credit facility increasing, changing the split between the Canadian and US portions of the facility, and extending the term of the revolving three year credit facility to mature in March 2016. The total credit available under the facility was amended to $335 million consisting of $258 million in Canadian funds and US $77 million (prior to the amendment the total credit available was $235 million consisting of $160 million in Canadian funds and US $75 million). The credit facility includes a revolving operating line of credit up to a maximum of $15 million and consisting of $10 million in Canadian funds and US $5 million. After taking into consideration the transactions for closing the Regional One acquisition and some other items that the Company used cash for during the subsequent period, the Company had $22.5 million and US$82.6 million outstanding under the credit facility as at April 30, 2013 which results in $229 million of credit available to the Company at that time under the amended credit facility.

The finance leases of WesTower's operations continue and as a result the Company made principal payments of US $0.1 million and $0.2 million Canadian during the first quarter of 2013 for the finance leases of WesTower's operations. Also during this period, WesTower entered into new finance leases with a capital asset value and principal of $0.1 million. The Company's cash flow statement does not show the non-cash transaction when a new finance lease is recognized on the balance sheet. Instead, the principal portion of the lease payments are shown as a cash outflow within financing activities and the interest portion is recorded through net income and operating activities.

The Company's dividend reinvestment plan ("DRIP") continued during the first quarter of 2013 and the Company received $1.0 million for 38,574 Shares being issued in accordance with the DRIP.

The Company obtained additional cash through the means described above and also generated $13.4 million of Free Cash Flow during the first quarter of 2013. The Company used these funds for significant capital expenditures over that period. See Section 3 – Key Performance Indicators for more information on the capital expenditures made by the Company. The Company's cash flow from operations for the first quarter of 2013 generated cash of $6.9 million.

The Company's dividends are dependent on its ability to generate cash flow from operations and Free Cash Flow. During the first quarter of 2013 the Company declared dividends totaling $8.7 million in comparison to $7.6 million during comparative period in 2012. This was a result of an increased number of Shares outstanding and an increase in the monthly dividend rate between the two periods. During the 2012 comparative period the monthly dividend declared per share was $0.135 and during the first quarter of 2013 the dividend was $0.14 per share per month. 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 three months ended March 31, 2013:

	Date issued	Number of shares
Shares outstanding, beginning of period		20,636,593
Issued upon conversion of convertible debentures	various	56,433
Issued under dividend reinvestment plan (DRIP)	various	38,574
Shares outstanding, end of period		20,731,600

With the acquisition of Regional One at the beginning of the second quarter of 2013 and the issuance of reserved Shares to WesTower vendors, the Shares outstanding changed subsequent to March 31, 2013. The following summarizes the change in the Shares outstanding of the Company during the month of April 2013.

	Date issued	Number of shares
Shares outstanding, April 1, 2013		20,731,600
Issued for Regional One vendor	April 12, 2013	494,656
Issued under vesting of Reserved Shares	April 25, 2013	28,746
Issued upon conversion of convertible debentures	various	14,652
Issued under dividend reinvestment plan (DRIP)	various	13,025
Shares outstanding, April 30, 2013		21,282,679

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

Series - Year of Issuance	Maturity	Interest Rate	Conversion Price
Series F - 2009	April 8, 2014	10.0%	$ 10.75
Series G - 2009	September 30, 2014	7.5%	$ 14.50
Series H - 2010	May 31, 2017	6.5%	$ 20.00
Series I - 2011	January 31, 2016	5.75%	$ 26.00
Series J - 2011	May 31, 2018	6.25%	$ 30.60
Unsecured Debentures - 2012	September 30, 2019	5.50%	$ 36.80
Unsecured Debentures - 2013	March 31, 2020	5.35%	$ 41.60

Par value	Balance, beginning of period	Issued	Converted	Matured	Balance, end of period
Series F	$ 1,189	$ -	$ -	$ -	$ 1,189
Series G	4,817	-	(405)	-	4,412
Series H	23,053	-	(554)	-	22,499
Series I	34,965	-	(21)	-	34,944
Series J	57,480	-	-	-	57,480
Unsecured Debentures - September 2012	57,500	-	-	-	57,500
Unsecured Debentures - March 2013	-	65,000	-	-	65,000
Total	$ 179,004	$ 65,000	$ (980)	$ -	$ 243,024

7. RELATED PARTY TRANSACTIONS

The related party transactions that the Company entered into during the three months ended March 31, 2013 are consistent with those described in the Company's MD&A for the year ended December 31, 2012.

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, 2012.

9. ACCOUNTING POLICIES

The critical accounting policies are substantially unchanged from those identified in the MD&A of the Company for the year ended December 31, 2012, 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, 4873999 Manitoba Ltd., 7328010 Canada Ltd., Overlanders, Water Blast, WesTower CDA, EIC USA, EIIF USA and their respective subsidiaries, including Stainless, WesTower US and Water Blast Dakota. All significant inter-company transactions have been eliminated for purposes of these interim condensed consolidated financial statements.

b) *Changes in accounting policies*

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

IFRS 10, Consolidated Financial Statements

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

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

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

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

IFRS 13 Fair Value Measurement

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

IAS 1 Amendment, Presentation of Items of Other Comprehensive Income

EIC has early adopted the amendments to IAS 1 effective December 31, 2012. These amendments required EIC to group other comprehensive income items by those that will be reclassified subsequently to net earnings and those that will not be reclassified. The Company has reclassified comprehensive income items of the comparative period. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

c) *Hedges of a net investment in foreign operation*

The Company applies hedge accounting to certain foreign currency differences arising between the functional currency of the foreign operation and the Company's presentation currency, regardless of whether the net investment is held directly or through an intermediate parent.

Financial Liabilities

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

Derivative financial instruments

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

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

FUTURE ACCOUNTING STANDARDS

Accounting standards issued but not yet effective

IFRS 9 – Financial Instruments

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

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 GAAP.

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

Management has evaluated the design and operation of the Company's internal controls over financial reporting as of March 31, 2013, and based on that evaluation has concluded that such internal controls over financial reporting are not effective, due to the following material weaknesses:

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

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

On April 12, 2013, subsequent to the end of the first quarter of 2013, the Company acquired all of the shares of Regional One. As at the date of this MD&A, management has not completed its review of internal controls over financial reporting for this newly acquired company nor determined its impact, if any, on the Company's internal controls over financial reporting.

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

Disclosure Controls and Procedures

Management has established and maintained disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to management in a timely manner and that information required to be disclosed by the Company is reported within the time periods prescribed by applicable securities legislation. Due to the substantial overlap between internal controls over financial reporting and disclosure controls and procedures, management has concluded that disclosure controls and procedures as at March 31, 2013 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, 2012 except as follows:

Acquired New Industries

With the acquisition of Regional One subsequent to March 31, 2013, the Company is exposed to the risk of having operations in a new industry commencing in the second quarter of 2013. For the Regional One acquisition, the Company is exposed to a different area of the aviation industry. Regional One provides a variety of aircraft, engines and related aftermarket parts to regional airline operators around the world. Demand levels for and the availability of the assets offered by Regional One can fluctuate over time, which can impact the revenue generated and the cost incurred to obtain these aftermarket assets. The revenue transactions entered into by Regional One can include leasing arrangements, consignment sales and direct sales which can be over multiple years and cover a significant portion of the asset's use life.

12. OUTLOOK

Acquisition strategy

The Company completed the acquisition of Regional One for estimated US $74.2 million (prior to certain adjustments) on April 12, 2013. Regional One is the largest acquisition in the history of the Company and will be part of the consolidated group of companies within the Aviation segment starting the second quarter of 2013.

At the time of closing the Regional One acquisition, the Company amended its credit facility and after including this acquisition plus some other funds drawn subsequent to the end of the first quarter, the Company has $229 million of available capital under its $335 million senior credit facility.

The Company continues to develop and expand its network of referral sources that regularly present it with potential acquisitions. The Company believes that its disciplined approach to acquisitions is largely responsible for the success that has been experienced to date. While the deal flow brought to the Company is considered strong, there can be no assurance target companies meeting the Company's standards will be found.

Aviation Segment

During the first quarter of 2013, the Company operated five aviation companies providing fixed wing and rotor wing scheduled, charter, freight and medevac services within Manitoba, Ontario and Nunavut. In April 2013, the Company acquired Regional One, a Miami, Florida based company that provides aircraft, engines and related aftermarket aircraft parts to regional airline operators in the global economy. This acquisition creates further diversification of the Company's revenue streams by expanding into new product and geographical markets. Secondly, the addition of Regional One promotes synergies within the aviation segment by providing improved access to one of the segment's major expense categories.

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

Despite experiencing growing revenue opportunities outside of our traditional geographic markets, the Company's aviation companies experienced an overall revenue decrease in the first quarter of 2013 compared to same quarter in 2012. This decline is driven by increased competition in the Ontario market and lower passenger volumes in the far north. The lost charter and scheduled services during the first quarter as a result of the decline in the mining sector is unknown when it will fully recover. To respond to these changes in demand the Company will assess where its assets will best be utilized in the Ontario market throughout 2013 and has accelerated its fleet rationalization plan for Calm Air as discussed in previous reports.

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

The Company added two Dornier jets in 2012, increased its ATR fleet, and added northern infrastructure to support Calm Air's fleet rationalization. In 2013, the Company will add one more ATR and enhance the freight capability of an ATR by adding a large door. This will enable Calm to retire its sole Hawker at the end of 2013 leading to further efficiencies from reducing aircraft types. In 2013, a Metro 3 aircraft will be added to Perimeter's fleet allowing the Company to capitalize on growth opportunities.

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

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

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

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

Manufacturing Segment

The slow economic recovery in the US was unchanged from what has been experienced over the last several quarters. While there are signs of some improvement, the overall sluggish pace continues. During this time of recovery our US manufacturing entities continue to experience sustained strong demand for their products and services.

During the first quarter of 2013 WesTower continued to grow its market share with increased activity on AT&T turfing in all awarded regions. The continued strong demand for WesTower's services has led to the need for WesTower to further expand its footprint within many of the awarded regions as well as ramping up efforts to support newly awarded territories. As previously mentioned, there is no specific dollar amount guaranteed as a part of the contract. The Company believes, based on the history of AT&T's infrastructure work in the contract territories awarded to WesTower, that the additional revenue from the contract could be in excess of $500 million over the original three year life of the contract. This estimate is subject to a number of variables, including the fluid nature of the telecom environment and the ongoing introduction of new technology, both of which could significantly impact AT&T's infrastructure requirements. Accordingly, there can be no assurances of the revenues that will be generated from the contract.

The majority of 2012 was spent dealing with the transition from the incumbent contractors to WesTower. With that now completed for the most part, WesTower has been focusing on quality and performance. Concentrated efforts have been put forth to position WesTower's performance with the expectations set by AT&T. With the ongoing adjustments to additional work activity within each region there are manpower, management infrastructure and resource additions being added to support the increases. Management expects this to continue throughout the better part of 2013, positioning WesTower to continue to capitalize on these investments through the remainder of this year.

Along with the continued growth opportunities within the turf contract for AT&T, the strong performance by WesTower continues to generate further opportunities outside of the turf contract. These opportunities are explored and will be capitalized on if they fit for both WesTower and AT&T. While many opportunities have presented themselves within AT&T, WesTower continues to explore and capitalize on growth opportunities outside of AT&T with other industry leaders. The continued strong activity in the industry is driven by the rapid growth in data traffic. This increase is a result of increased usage of such devices as smart phones, tablets and other mobile devices. The race to add capacity throughout North America continues and management expects this growth to continue in the near term. Commencing in the first quarter of 2013, WesTower began to obtain external consultation to help with its structure, processes and systems for the growth that it has already experienced over the last 18 months and for the growth opportunities continuing to present themselves. This consultation results in both internal and external costs being incurred by WesTower while building the needed foundation to support this growth and these types of costs are expected to continue for the short to medium term.

As the US economy slowly recovers Stainless continues to explore opportunities in a multitude of markets. While the quantity of bidding opportunities for large field projects has declined, the quality of these opportunities continues to be high. Stainless continues to build on their strong order book they possessed entering into 2013. Projects are coming from all the different markets that Stainless serves. The demand from customers for a shorter cycle time for many projects has resulted in Stainless focusing on efficiencies within the shop manufacturing process and the erection process on field projects. This coupled with the focus on determining the necessary capacity to handle a large variety of field and shop jobs is the balance that Stainless is always monitoring in order to position itself to capture new opportunities. Management continues to be cautious of the volatility that comes with the slow US economic recovery but it believes the proper steps are being taken to position the order book to mitigate this risk in the short to medium term.

As was stated throughout 2012 the oil and gas markets in Alberta, southern Saskatchewan and North Dakota remain strong. While there was a slight drop in activity during the first quarter, the demand for products and services has returned early in the second quarter. In all markets there continues to be a strong number of bid opportunities for a variety of products. The continued challenge around the limited availability of skilled labour in these regions has not improved from 2012. Management believes this will continue throughout 2013. The continued shortage will challenge management in the Manufacturing segment in the areas of cost control, on time delivery as well as increased training needs. The segment's precision metal business in British Columbia continued to enjoy a strong market. Continued marketing and sales efforts have resulted in a strong order book spread over a number of key customers. Efforts continue to generate new customers within the lower mainland of British Columbia and beyond.

Strong order books throughout the Manufacturing segment are a result of the concentrated marketing and sales efforts of each of the entities. This coupled with efforts to maximize capacities has positioned them well within their respective markets. The diversity of the Manufacturing segment along with having strong backlogs and quality opportunities encourages management; however, they remain cognizant of the continued sluggish growth across the North American economy and the potential for this slow growth to continue for some time. Management continues to believe that the Manufacturing segment is well positioned for the short to medium term based on opportunities and its current order books.

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited, in thousands of Canadian dollars)

As at	March 31 2013	December 31 2012
ASSETS		
CURRENT		
Cash and cash equivalents	$ 2,787	$ 4,166
Accounts receivable	121,201	134,508
Costs incurred plus recognized profits in excess of billings	136,249	120,968
Inventory	69,089	63,865
Prepaid expenses	9,516	6,219
	338,842	329,726
CAPITAL ASSETS	272,852	269,036
INTANGIBLE ASSETS	28,194	28,393
DEFERRED INCOME TAX ASSETS	7,126	8,699
GOODWILL	74,088	73,516
	$ 721,102	$ 709,370
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ 127,850	$ 125,614
Income taxes payable	3,379	7,218
Deferred revenue	8,947	8,582
Billings in excess of costs incurred plus recognized profits	34,654	30,346
Current portion of long-term debt and finance leases (Note 4)	1,258	1,405
	176,088	173,165
LONG-TERM DEBT AND FINANCE LEASES (Note 4)	20,323	68,404
CONVERTIBLE DEBENTURES (Note 5)	218,510	161,046
DEFERRED INCOME TAX LIABILITY	12,159	12,213
	427,080	414,828
EQUITY		
SHARE CAPITAL (Note 6)	270,494	268,494
CONVERTIBLE DEBENTURES - Equity Component (Note 5)	12,319	9,304
CONTRIBUTED SURPLUS - Matured Debentures	102	102
DEFERRED SHARE PLAN (Note 10)	1,575	1,575
RESERVED SHARES	1,234	1,234
RETAINED EARNINGS		
Cumulative Earnings	130,604	129,018
Cumulative Dividends (Note 7)	(124,477)	(115,760)
	6,127	13,258
ACCUMULATED OTHER COMPREHENSIVE INCOME (Note 12)	2,171	575
	294,022	294,542
	$ 721,102	$ 709,370

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)

For the periods ended March 31		2013		2012
REVENUE				
Aviation	$	62,822	$	65,754
Manufacturing		156,750		80,929
		219,572		146,683
EXPENSES				
Direct operating - excluding depreciation and amortization		47,047		49,201
Cost of goods sold - excluding depreciation and amortization		133,211		66,944
General and administrative		21,721		16,477
Depreciation and amortization		9,993		8,946
		211,972		141,568
EARNINGS BEFORE THE FOLLOWING		7,600		5,115
Finance costs - interest		3,987		3,441
Acquisition costs		830		376
EARNINGS BEFORE INCOME TAXES		2,783		1,298
INCOME TAX EXPENSE (Note 14)				
Current		1,057		134
Deferred		140		254
		1,197		388
NET EARNINGS FOR THE PERIOD attributable to common shareholders	$	1,586	$	910
EARNINGS PER SHARE (Note 9)				
Basic	$	0.08	$	0.05
Diluted	$	0.08	$	0.05

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 For the periods ended March 31		2013		2012
NET EARNINGS FOR THE PERIOD	$	1,586	$	910
OTHER COMPREHENSIVE INCOME (LOSS),				
Items that are or may be reclassified to the Statement of Income				
Cumulative translation adjustment, net of tax (Note 12)		1,282		(651)
Net gain (loss) on hedge of net investment in foreign operation (Note 12)		314		-
		1,596		(651)
COMPREHENSIVE INCOME FOR THE PERIOD	$	3,182	$	259

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, 2012	$ 194,049	$ 6,516	$ 102	$ 1,435	$ 1,851	$ 103,667	$ (83,043)	$ 1,060	$ 225,637
Shares issued to acquisition vendors	4,241	-	-	-	-	-	-	-	4,241
Prospectus offering	55,729	-	-	-	-	-	-	-	55,729
Convertible debentures									
Converted into shares (Note 6)	4,728	(268)	-	-	-	-	-	-	4,460
Shares issued under dividend reinvestment plan	953	-	-	-	-	-	-	-	953
Shares issued under First Nations community partnership agreements	424	-	-	-	-	-	-	-	424
Deferred share plan vesting	-	-	-	99	-	-	-	-	99
Comprehensive income	-	-	-	-	-	910	-	(651)	259
Dividends declared (Note 7)	-	-	-	-	-	-	(7,553)	-	(7,553)
Balance, March 31, 2012	$ 260,124	$ 6,248	$ 102	$ 1,534	$ 1,851	$ 104,577	$ (90,596)	$ 409	$ 284,249
Balance, January 1, 2013	$ 268,494	$ 9,304	$ 102	$ 1,575	$ 1,234	$ 129,018	$ (115,760)	$ 575	$ 294,542
Convertible debentures									
Converted into shares (Note 6)	960	(52)	-	-	-	-	-	-	908
Issued (Note 5)	-	3,067	-	-	-	-	-	-	3,067
Shares issued under dividend reinvestment plan (Note 6)	1,040	-	-	-	-	-	-	-	1,040
Comprehensive income	-	-	-	-	-	1,586	-	1,596	3,182
Dividends declared (Note 7)	-	-	-	-	-	-	(8,717)	-	(8,717)
Balance, March 31, 2013	$ 270,494	$ 12,319	$ 102	$ 1,575	$ 1,234	$ 130,604	$ (124,477)	$ 2,171	$ 294,022

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 March 31	2013	2012
OPERATING ACTIVITIES		
Net earnings for the period	$ 1,586	$ 910
Items not affecting cash:		
Depreciation and amortization	9,993	8,946
Accretion of interest	879	595
Long-term debt discount (paid) accretion	-	58
Foreign exchange loss on debt (unrealized)	115	(68)
(Gain) on sale of disposal of capital assets	(331)	(3)
Deferred income tax	140	254
Deferred share program share-based vesting	200	99
	12,582	10,791
Changes in non-cash operating working capital items (Note 13)	(5,754)	(3,891)
	6,828	6,900
FINANCING ACTIVITIES		
Proceeds from (repayment of) long-term debt & finance leases, net of issuance costs	(49,563)	(24,143)
Proceeds from issuance of debentures, net of issuance costs (Note 5)	61,886	-
Proceeds from issuance of shares, net of issuance costs	1,041	56,512
Cash dividends (Note 7)	(8,717)	(7,553)
	4,647	24,816
INVESTING ACTIVITIES		
Purchase of capital assets, net of disposals	(12,826)	(12,996)
Purchase of intangible assets	(28)	(2,340)
Cash outflow for acquisitions	-	(24,067)
Cash acquired in acquisitions	-	2,152
	(12,854)	(37,251)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,379)	(5,535)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,166	11,475
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 2,787	$ 5,940
Supplementary cash flow information		
Interest paid	$ 1,707	$ 1,301
Income taxes paid (recovery)	$ 5,043	$ 1,213

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

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

1. ORGANIZATION

Exchange Income Corporation ("EIC" or the "Company") is a diversified, acquisition-oriented corporation focused on acquisition opportunities in the industrial products and aviation sectors, in particular businesses that are suited for public markets, except, in certain circumstances, for their size. The business plan of the Company is to invest in profitable, well-established companies with strong cash flows operating in niche markets in Canada and/or the United States. The Company is incorporated in Canada and the address of the registered office is 1067 Sherwin Road, Winnipeg, Manitoba, Canada R3H 0T8.

As at March 31, 2013, the principal wholly-owned operating subsidiaries of the Company are Perimeter Aviation LP ("Perimeter"), Keewatin Air LP ("Keewatin"), Calm Air International LP ("Calm Air"), Bearskin Lake Air Service LP ("Bearskin"), Custom Helicopters Ltd. ("Custom"), 4873999 Manitoba Ltd., 7328010 Canada Ltd., Overlanders Manufacturing LP ("Overlanders"), Water Blast Manufacturing LP ("Water Blast"), WesTower Communications Ltd. ("WesTower CDA"), EIC USA LLC ("EIC USA") and EIIF Management USA Inc. ("EIIF USA"). Stainless Fabrication, Inc. ("Stainless"), WesTower Communications Inc. (the US operations of WesTower – "WesTower US") and Dallas Sailer Enterprises, Inc. ("Water Blast Dakota") are wholly owned subsidiaries of EIIF USA. Through the Company's subsidiaries, products and services are provided in two business segments: Aviation and Manufacturing.

As described in Note 16, subsequent to the period the Company closed the acquisition of Regional One, Inc. ("Regional One") on April 12, 2013. Regional One will be a wholly-owned subsidiary of EIIF USA and part of the Aviation segment.

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements are for the three months ended March 31, 2013, 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, 2012, 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.

These interim condensed consolidated financial statements were approved by the Board of Directors of the Company for issue on May 14, 2013.

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, 4873999 Manitoba Ltd., 7328010 Canada Ltd., Overlanders, Water Blast, WesTower CDA, EIC USA, EIIF USA and their respective subsidiaries, including Stainless, WesTower US and Water Blast Dakota. All significant inter-company transactions have been eliminated for purposes of these interim condensed consolidated financial statements.

b) *Changes in accounting policies*

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

IFRS 10, Consolidated Financial Statements

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

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

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

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

IFRS 13 Fair Value Measurement

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

IAS 1 Amendment, Presentation of Items of Other Comprehensive Income

EIC has early adopted the amendments to IAS 1 effective December 31, 2012. These amendments required EIC to group other comprehensive income items by those that will be reclassified subsequently to net earnings and those that will not be reclassified. The Company has reclassified comprehensive income items of the comparative period. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

c) *Hedges of a net investment in foreign operation*

The Company applies hedge accounting to certain foreign currency differences arising between the functional currency of the foreign operation and the Company's presentation currency, regardless of whether the net investment is held directly or through an intermediate parent.

Financial Liabilities

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

Derivative financial instruments

The Company holds derivative financial instruments to hedge its foreign currency exposure associated with its net investment in a foreign operation. Gains and losses on such derivative instruments are recognized in other comprehensive income to the extent the hedge is effective (Note 12).

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

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

4. LONG-TERM DEBT AND FINANCE LEASES

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

	March 31 2013	December 31 2012
Revolving term facility		
Canadian dollar amounts drawn	$ 7,250	$ 750
United States dollar amounts drawn (US$12,000 and US$67,150, respectively)	12,187	66,808
Total credit facility debt outstanding, principal value	19,437	67,558
less: unamortized transaction costs	(520)	(616)
Net credit facility debt	18,917	66,942
Finance leases	2,664	2,867
Total net credit facility debt and finance leases	21,581	69,809
less: current portion of finance leases	(1,258)	(1,405)
Long-term debt and finance leases balance	$ 20,323	$ 68,404

The Company had US $12,000 drawn from the U.S. dollar portion of its credit facility at March 31, 2013 (December 31, 2012 - US $67,150).

Interest expense recorded during the three months ended March 31, 2013 for the long-term debt and finance leases was $555 (2012 – $983).

<u>Credit Facility</u>

The following is the continuity of long-term debt for the three months ended March 31, 2013:

	Three Months Ended March 31, 2013				
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar portion	$ 750	$ 6,500	$	$ -	$ 7,250
United States dollar portion	66,808	17,244	(73,195)	1,330	12,187
	67,558	23,744	(73,195)	1,330	19,437
Unamortized transaction costs	(616)				(520)
	$ 66,942				$ 18,917

Subsequent to March 31, 2013, the Company's senior credit facility was amended in association with the closing of the acquisition of Regional One, Inc. (Note 16). The total credit available and the value of the Canadian and US funds components within the total facility were amended. The total credit available under the facility is $335,000 consisting of $258,000 in Canadian funds and US $77,000 (prior to the amendment the total credit available was $235,000 consisting of $160,000 in Canadian funds and US $75,000). The credit facility includes a revolving operating line of credit up to a maximum of $15,000 and consisting of $10,000 in Canadian funds and US $5,000. Also at the time of the amendment the term of the credit facility was extended a year as part of the revolving three year credit facility. The maturity of the credit facility is March 2016.

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

5. CONVERTIBLE DEBENTURES

Series - Year of Issuance	Maturity	Interest Rate	Conversion Price
Series F - 2009	April 8, 2014	10%	$ 10.75
Series G - 2009	September 30, 2014	7.5%	$ 14.50
Series H - 2010	May 31, 2017	6.5%	$ 20.00
Series I - 2011	January 31, 2016	5.75%	$ 26.00
Series J - 2011	May 31, 2018	6.25%	$ 30.60
Unsecured Debentures - 2012	September 30, 2019	5.5%	$ 36.80
Unsecured Debentures - 2013	March 31, 2020	5.35%	$ 41.60

Summary of the debt component of the convertible debentures:

	2013 Balance, Beginning of Period	Debentures Issued	Accretion Charges	Debentures Converted	Repaid on Maturity	2013 Balance, End of Period	December 31, 2012 Balance
Series F	$ 1,162	$ -	$ 5	$ -	$ -	$ 1,167	$ 1,162
Series G	4,665	-	9	(383)	-	4,291	4,665
Series H	21,787	-	40	(507)	-	21,320	21,787
Series I	33,534	-	94	(17)	-	33,611	33,534
Series J	53,706	-	158	-	-	53,864	53,706
Unsecured - 2012	52,933	-	124	-	-	53,057	52,933
Unsecured - 2013	-	60,504	8	-	-	60,512	-
						227,822	167,787
less: unamortized transaction costs						(9,312)	(6,741)
Convertible Debentures - Debt Component, end of period						218,510	161,046
less: current portion						-	-
Convertible Debentures - Debt Component (long-term portion)						$ 218,510	$ 161,046

During the three months ended March 31, 2013, convertible debentures totaling a face value of $980 were converted at various times into 56,433 Shares of the Company (2012 – $4,829 face value into 260,470 Shares). Interest expense recorded during the three months ended March 31, 2013 for the convertible debentures was $3,432 (2012 – $2,458).

March 2013 Unsecured Convertible Debenture Offering

The Company issued the Seven Year 5.35% Convertible Unsecured Subordinated Debentures in March 2013. These debentures bear interest at the rate of 5.35% 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, 2020. Each debenture is convertible, at the debenture-holders' option, into Shares of the Company at any time prior to the close of business on the day prior to the maturity date at a conversion price of $41.60. The Company has a cash conversion option allowing it to elect for a conversion to pay the holder cash rather than issue Shares based on a volume-weighted average trading price of the Company's Shares for a 10 day period prior to the conversion.

At the Company's option, on the maturity date, the debentures (or any portion thereof) shall be convertible into Shares at the Company's forced conversion price equal to 95% of the weighted average trading price of the Shares for the 20 trading days ending five days prior to the maturity date. The Company also has the ability to convert these unsecured debentures, in whole or in part, on or after the third anniversary of the date of issuance of the debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time. After March 31, 2016, but prior to March 31, 2018, the Company has the option to redeem these debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time. On and after March 31, 2018 but prior to the maturity date the Company has the option to redeem these debentures without any weighted average market price thresholds. If the Company elects to redeem the debentures, the debentureholders have the option to convert the debentures into Shares of the Company at the conversion price.

Transaction costs of $3,114 were incurred during the first quarter of 2013 in relation to the issuance of these debentures.

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

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:

	March 31 2013	December 31 2012
Series F - 2009	$ 61	$ 61
Series G - 2009	153	176
Series H - 2010	1,209	1,238
Series I - 2011	1,489	1,489
Series J - 2011	3,136	3,136
Unsecured Debentures - 2012	3,204	3,204
Unsecured Debentures - 2013	3,067	-
Convertible Debentures - Equity Component, end of period	$ 12,319	$ 9,304

The Series F-J convertible debentures are secured, subordinate only to senior security, by a charge on the assets and undertakings of the Company and its subsidiaries. The September 2012 and March 2013 convertible debenture offerings represent direct unsecured debt obligations of the Company.

6. SHARE CAPITAL

Changes in the Shares issued and outstanding during the three months ended March 31, 2013 are as follows:

	Number of Shares	2013 Amount
Share capital, beginning of period	20,636,593	$ 268,494
Issued upon conversion of convertible debentures	56,433	960
Issued under dividend reinvestment plan (DRIP)	38,574	1,040
Share capital, end of period	20,731,600	$ 270,494

7. DIVIDENDS DECLARED

The Company's policy is to make dividends to shareholders equal to cash flows from operations after making allowances for debt servicing requirements, working capital, and for growth and capital expenditure requirements as deemed prudent by its Board of Directors.

Cumulative dividends during the three months ended March 31, 2013 and the comparative 2012 period are as follows:

Three Months Ended March 31	2013	2012
Cumulative dividends, beginning of period	$ 115,760	$ 83,043
Dividends during the period	8,717	7,553
Cumulative dividends, end of period	$ 124,477	$ 90,596

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

The amounts and record dates of the dividends during the three months ended March 31, 2013 and the comparative 2012 period are as follows:

			2013 Dividends			2012 Dividends
Month	Record date	Per Share	Amount	Record date	Per Share	Amount
January	January 31, 2013	$ 0.14	$ 2,901	January 31, 2012	$ 0.135	$ 2,390
February	February 28, 2013	0.14	2,905	February 29, 2012	0.135	2,423
March	March 29, 2013	0.14	2,911	March 30, 2012	0.135	2,740
Total		$ 0.42	$ 8,717		$ 0.405	$ 7,553

Subsequent to March 31, 2013 and before these interim condensed consolidated financial statements were authorized, the Company declared a dividend of $0.14 per Share for April 2013.

8. SEGMENTED INFORMATION

The Company's reportable business segments include strategic business units that offer different products and services. The Company has two reportable business segments: Aviation and Manufacturing. The Aviation segment provides airline services to communities in Manitoba, Ontario, and Nunavut. The Manufacturing segment consists of niche specialty metal manufacturers in markets throughout Canada and the United States.

On April 12, 2013, the Company acquired Regional One (Note 15) and results for Regional One will be included in the Aviation segment starting in the second quarter of 2013.

The Company evaluates each segment's performance based on EBITDA. The Company's method of calculating EBITDA may differ from that of other corporations and therefore may not be comparable to measures utilized by them. There are no inter-segment revenues, and segment revenues presented in the tables below are from external customers.

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

Due to the seasonal nature of the operations of each of the Company's segments, the results of operations for the interim periods reported are not necessarily indicative of the results to be expected for the year. The Aviation segment has historically had strongest revenues in the second and third quarters when demand tends to be highest, relatively modest in the fourth quarter and at the lowest in the first quarter as communities serviced by the airlines are less isolated with the use of ice roads for transportation during the winter. With the diversity in the Manufacturing segment, the seasonality of the Manufacturing segment is relatively flat throughout the fiscal period.

				Three Months Ended March 31, 2013				Three Months Ended March 31, 2012
	Aviation	Manufacturing	Company	Consolidated	Aviation	Manufacturing	Company	Consolidated
Revenue	$ 62,822	$ 156,750	$ -	$ 219,572	$ 65,754	$ 80,929	$ -	$ 146,683
EBITDA	7,128	12,601	(2,136)	17,593	8,569	7,135	(1,643)	14,061
Depreciation and amortization				9,993				8,946
Finance costs - interest				3,987				3,441
Acquisition costs				830				376
Earnings before tax				$ 2,783				$ 1,298

				March 31, 2013				December 31, 2012
	Aviation	Manufacturing	Company	Consolidated	Aviation	Manufacturing	Company	Consolidated
Total assets	$ 265,972	$ 353,630	$ 101,500	$ 721,102	$ 268,541	$ 348,857	$ 91,972	$ 709,370
Net capital asset additions	10,581	2,244	1	12,826	56,965	6,150	141	63,256

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

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

Three Months Ended March 31	2013	2012
Canada	$ 94,403	$ 101,605
United States	125,169	45,078
Total revenue for the period	$ 219,572	$ 146,683

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

9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income attributable to owners of the Company by the weighted average number of common 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 one category of dilutive potential common shares: convertible debentures. For the convertible debentures, the convertible debt is assumed to have been converted into common shares and the net income is adjusted to eliminate the interest expense from the convertible debt less the tax effect.

The computation for basic and diluted earnings per share for the three months ended March 31, 2013 and comparative period in 2012 are as follows:

Three Months Ended March 31	2013	2012
Net earnings for the period, available to common shareholders	$ 1,586	$ 910
Dilutive effect of convertible debentures	2,505	1,794
Add back impact from anti-dilutive factors	(2,505)	(1,794)
Diluted earnings for the period	$ 1,586	$ 910
Basic weighted average number of shares	20,790,022	18,451,409
Dilutive effect of convertible debentures	6,480,675	5,100,877
Add back impact from anti-dilutive factors	(6,480,675)	(5,100,877)
Diluted basis average number of shares	20,790,022	18,451,409
Earnings per share:		
Basic	$ 0.08	$ 0.05
Diluted	$ 0.08	$ 0.05

10. DEFERRED SHARE PLAN

During the three months ended March 31, 2013 the Company granted deferred shares to certain personnel. The fair value of the deferred shares granted was $1,440 at the time of the grant and was based on the market price of the Company's Shares at that time. During the three months ended March 31, 2013, the Company recorded compensation expense of $200 for the Company's Deferred Share Plan within the general and administrative expenses of head-office (2012 - $99).

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11. 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 are significantly changed from December 31, 2012.

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 $12,000 outstanding on its credit facility (Canadian equivalent of $12,187). The outstanding funds in USD results in currency risk that the future cash flows will fluctuate with the changes in market currency rates. The exposure for the USD portion of its credit facility outstanding is offset by the cash generated through the operations of its Manufacturing segment subsidiaries, in particular, the operations of WesTower US and Stainless throughout the United States.

The Company`s investment in EIC USA LLC is hedged partially by the USD-denominated secured bank loan which mitigates the foreign currency translation risk arising from the subsidiary`s net assets. The fair value of the borrowing at March 31, 2013 was $12,187. The loan is designated as a net investment hedge. No ineffectiveness was recognized from the net investment hedge.

During the period, the Company also entered into a currency swap in order to hedge the remaining investment in EIC USA LLC. The hedge allows the Company to convert US$60,000 into a predetermined Canadian equivalent in the future (third quarter of 2013). At March 31, 2013, a $240 gain on the hedge was recorded within other comprehensive income. The currency swap is designated as a net investment hedge. No ineffectiveness was recognized from the net investment hedge. The Company`s investments in other subsidiaries are not hedged.

For the three months ended March 31, 2013, the Company also recorded a currency translation gain of $1,282 (2012 – loss of $651) in Other Comprehensive Income as described below in Note 12.

Interest Rates

The Company is subject to the risk that future cash flows associated with the credit facility outstanding (Note 4) 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 March 31, 2013, US $12,000 was outstanding under US LIBOR and $7,250 was outstanding under Canadian Prime.

The interest rates of the convertible debentures (Note 5) 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:

Recurring measurements	March 31, 2013	Quoted prices in an active market Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Financial Assets				
Foreign currency swap	$ 240	$ -	$ 240	$ -
	$ 240	$ -	$ 240	$ -

The Company valued the level 2 foreign currency swap based on the present value of the estimated future cash flows using observable yield curves.

Financial instruments that are not measured at fair value on the balance sheet are represented by cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, long term debt and convertible debentures. The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate their carrying values due to their short term nature. Furthermore, 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 4).

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Management estimated the fair value of the convertible debentures based on valuation techniques taking into account 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 long term debt approximates its carrying value and the estimated fair value of its convertible debentures is $235,211 (December 31, 2012 $168,600) and a carrying value of $218,510 (December 31, 2012 $161,046).

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

12. OTHER COMPREHENSIVE INCOME (LOSS)

During the three months ended March 31, 2013 the Company had other comprehensive income of $1,282 (net of $243 tax) that relates to foreign currency translation adjustments of the operations of Stainless, Water Blast Dakota, and the US operations of WesTower from US dollars to the Canadian dollar reporting currency (2012 – loss of $651, net of $52 tax).

In addition, during three months ended March 31, 2013 the Company had other comprehensive income of $314 that relates to the Company's foreign currency hedge of the US $72,000 net investment in EIC USA LLC. Included in this amount is $240 gain on the foreign currency swap and $74 gain on the US $12,000 long term debt used to hedge the remaining net investment in EIC USA LLC not covered by the foreign currency swap. The currency swap, as described in Note 11, has not experienced ineffectiveness.

13. CHANGES IN WORKING CAPITAL ITEMS

The changes in non-cash operating working capital items during the three months ended March 31, 2013 and the comparative period in 2012 are as follows:

Three Months Ended March 31,	2013	2012
Accounts receivable	$ 13,307	$ 9,186
Costs incurred plus recognized profits in excess of billings	(15,281)	(14,592)
Inventory	(5,224)	(2,388)
Prepaid expenses	(3,297)	(2,818)
Accounts payable and accrued charges	2,236	11,792
Income taxes payable	(3,839)	(1,286)
Deferred revenue	365	1,000
Billings in excess of costs incurred plus recognized profits	4,308	(4,667)
Foreign currency adjustments	1,671	(118)
Net change in working capital items	$ (5,754)	$ (3,891)

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14. 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 three months ended March 31, 2013 was 43.5% (three months ended March 31, 2012: 29.2%). The change in the effective tax rate is detailed in the following table:

Three Months Ended March 31		2013		2012
Earnings before provision for income taxes	$	2,783	$	1,298
Combined Canadian federal and provincial tax rates		27.0%		27.0%
Income tax expense at statutory rates	$	751	$	350
Increase (decrease) in taxes resulting from:				
Permanent differences		101		177
Change in statutory rates		(7)		(217)
Impact of foreign tax rate differences		408		26
Non-taxable capital gains		(10)		-
Other		(46)		52
Provision for income taxes	$	1,197	$	388

15. SUBSEQUENT EVENTS

Acquisition Target – Regional One, Inc.

During the first quarter of 2013, the Company announced that it signed a stock purchase agreement to acquire the shares of Regional One, which is a leading provider of aircraft and engine aftermarket parts to regional airline operators around the world. The Company completed the acquisition on April 12, 2013. The acquisition price is estimated at US $74.2 million and was funded through a combination of the Company's senior credit facility and Shares of the Company to the Regional One vendors totalling 18% of the purchase price (494,656 shares). The purchase price is subject to an earn-out that could result in additional payments of up to US $9.3 million through a combination of cash and shares, if Regional One achieves certain EBITDA targets. This would result in a maximum purchase price of US $83.5 million.

The results of operations will be included in the Company's consolidated statement of operations from the date of acquisition and as a result the three months ended March 31, 2013 financial statements do not include any results of Regional One. The Company expensed acquisition costs of $830 during the three months ended March 31, 2013.