Exchange Income Corporation

Second Quarter Report

For the three and six months ended June 30, 2013

President & CEO's Message

The second quarter was characterized by both challenges and exciting developments for the Company's future. EIC generated record revenues for the quarter driven by WesTower's faster than anticipated growth. This pace has led to challenges managing the growth, putting pressure on their margins. On the positive side, Calm Air is beginning to realize the costs savings from their fleet renewal and ground infrastructure plan and EIC has added an exciting new company in Regional One, our largest acquisition to date.

A closer look at our financial results for the second quarter shows that revenue grew 37% to $275.7 million and EBITDA increased by 2% to $25.0 million. Free Cash Flow generated was $19.6 million, a 6% decline from the second quarter in 2012. The performance was largely driven by the changes at WesTower. Revenues increased 64% however profits declined. This decline was principally the result of reduced margins as we grow the company and attempt to manage its dramatic growth. The challenges at WesTower have been somewhat offset by improvements at Calm Air and strengthened performance at Keewatin.

Since we first acquired WesTower Communications in April 2011, we have seen their business experience massive growth as they have capitalized on their expertise and our balance sheet to secure significant new business. WesTower's main focus has been to meet their customers build plans and still maintain the safety and quality that they have always delivered. This growth has put considerable pressure on WesTower's resources and systems. One of the most prevalent issues is procuring resources, both internal and external, to achieve this new run rate. Our staffing levels in the US have grown fourfold over the past 18 months, which has led to considerable hiring and training costs, as well as lower job productivity. Procuring external subcontractors to meet this growth rate in the short-term has also increased the costs. The combination of these items has led to margin contraction. Time, energy and resources, including the use of external advisors, have been invested by WesTower to reengineer processes and systems to help drive efficiencies through job performance and overhead cost management. The combination of the investment in business process reengineering and an expected leveling of the current growth rate will put the company in a position to improve margins as these processes are implemented and mature.

At Calm Air we have seen indications that the strategic investments made over recent periods are beginning to bear fruit. In spite of the decline in the mining sector and a resultant small decline in revenue, efficiency strategies and cost cutting measures resulted in an increase in EBITDA. In addition, subsequent to the second quarter, Calm Air was able to further strengthen its relationship with one of its large freight customers, adding new locations to be serviced.

During the second quarter we closed the acquisition of Regional One, an aftermarket aircraft parts supplier based out of Southern Florida, serving regional airlines around the world. Regional One has met our expectations in the second quarter. Subsequent to the end of the second quarter we have committed approximately $20 million of capital for additional inventory and leasing assets to grow its operations. Regional One will bring these assets online over the remainder of the year and we will start to realize the benefit of these investments towards the end of the year and into 2014. This acquisition is another example where EIC has been able to partner with a successful operation, deliver capital for growth opportunities, and help realize organic growth opportunities that would not have been available for that business in the past.

The decline in the mining and exploration in the North has resulted in declining demand for aviation services in those regions which has impacted some of our aviation businesses. Custom Helicopter has traditionally had a regular stream of revenues being generated from diamond drilling exploration activities and Calm Air provides regular scheduled service and special freight and charter services for mining communities and isolated camps. On top of the reduced levels of demand, Custom Helicopters experienced an accident that resulted in the unfortunate death of a long-standing pilot which was devastating for our Custom Helicopters' team / family.

Although the challenges we faced in the second quarter had a direct impact on our financial results, we are not disheartened by our performance. In fact we believe this second quarter and its challenges once again emphasized the strength of our business model. Even though our largest subsidiary met difficulties we were able to maintain our payout, invest in the necessary changes to enhance future profitability, and set the stage for further growth in the future. The solutions at WesTower will take some time in order to be evident in our results but we are confident that we are laying the foundation for it to become a much more profitable enterprise in the future.

Our balance sheet continues to remain strong and will provide the quick and easy access to capital as the right opportunities are being presented. Despite short term diversions, we are confident our strategy and commitment to our shareholders through our model of diversification and discipline will lead to reliable and growing dividends.

Mike Pyle
President & CEO

Management's Discussion and Analysis

August 13, 2013

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") supplements the unaudited interim condensed consolidated financial statements and related notes for the three and six months ended June 30, 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 and six months ended June 30, 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 11 – Risk Factors of the MD&A. We caution that the list of risk factors set out herein is not exhaustive and that when relying on forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements.

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

NON-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, gains or losses recognized on the fair value of contingent consideration items, and amortization of intangible assets that are purchased at the time of acquisitions.

<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 June 30						
Revenue	$ 275,680			$ 201,636		
EBITDA	24,968			24,463		
Net earnings	5,732	$ 0.27	$ 0.27	7,759	$ 0.38	$ 0.37
Adjusted net earnings	6,579	0.31	0.31	8,062	0.39	0.36
Free cash flow	19,636	0.92	0.76	20,821	1.02	0.82
Free cash flow less maintenance capital expenditures	11,061	0.52	0.46	12,508	0.61	0.55
Dividends declared	9,012	0.420		8,258	0.405	
For the six months ended June 30						
Revenue	$ 495,252			$ 348,319		
EBITDA	42,561			38,524		
Net earnings	7,318	$ 0.35	$ 0.35	8,669	$ 0.44	$ 0.44
Adjusted net earnings	9,234	0.44	0.44	9,629	0.49	0.49
Free cash flow	33,048	1.56	1.33	31,988	1.64	1.30
Free cash flow less maintenance capital expenditures	16,518	0.78	0.74	16,374	0.84	0.78
Dividends declared	17,729	0.840		15,811	0.81	
FINANCIAL POSITION	June 30, 2013			December 31, 2012		
Working capital	$ 210,845			$ 156,561		
Capital assets	304,926			269,036		
Total assets	904,207			709,370		
Senior debt	138,628			69,809		
Equity	314,814			294,542		
SHARE INFORMATION	June 30, 2013			December 31, 2012		
Common shares outstanding	21,518,539			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, Regional One and other aviation supporting businesses. Regional One, Inc. ("Regional One") was acquired on April 12, 2013 and is focused on supplying regional airline operators around the world with various after-market aircraft, engines, and component parts; and

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

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

Acquisition – Regional One

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

The acquisition price was US$94.9 million ($96.2 million) and was funded through a combination of US cash, the issuance of the Company's Common Shares ("Shares") and the recognition of consideration liabilities for future payments. At the time of closing, the Company paid US$45.1 million in cash ($45.8 million). Additionally the Company paid US$15.7 million ($15.9 million) to an escrow agent associated with future results being attained by Regional One and this is treated as a consideration liability on the Statement of Financial Position. The Company issued 494,656 Shares with a value of US$13.6 million ($13.8 million) and the recognized contingent consideration liabilities associated with future payments was US$20.5 million ($20.8 million). The Company also assumed debt within Regional One of US$1.6 million ($1.6 million) and paid it off at the time of closing.

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

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

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

Prior Year's Acquisitions

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

Acquisition – Custom Helicopters

On February 1, 2012, the Company closed the acquisition of the shares of Custom Helicopters Ltd. ("Custom"), a privately-owned provider of helicopter-based aviation services in Manitoba and Nunavut. The acquisition price of $28.4 million 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 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		Six Months Ended	
periods ending June 30	2013	2012	2013	2012
Earnings before income tax	$ 7,858	$ 11,455	$ 10,641	$ 12,753
Depreciation and amortization	11,519	9,713	21,512	18,659
Finance costs - interest	5,315	3,281	9,302	6,722
Acquisition costs	838	14	1,668	390
Liability fair value adjustment	(562)	-	(562)	-
Total EBITDA	$ 24,968	$ 24,463	$ 42,561	$ 38,524

FREE CASH FLOW

FREE CASH FLOW	Three Months Ended		Six Months Ended	
periods ending June 30	2013	2012	2013	2012
Cash flows from operations	$ (16,320)	$ (29,349)	$ (9,492)	$ (22,449)
Change in non-cash working capital items	35,118	50,156	40,872	54,047
Acquisition costs	838	14	1,668	390
	$ 19,636	$ 20,821	$ 33,048	$ 31,988
per share - Basic	$ 0.92	$ 1.02	$ 1.56	$ 1.64
per share - Fully Diluted	$ 0.76	$ 0.82	$ 1.33	$ 1.30

Three Month Free Cash Flow

The Company generated Free Cash Flow of $19.6 million for second quarter of 2013, which is $1.2 million less than the $20.8 million generated in the comparative period in 2012. The 6% decrease in Free Cash Flow is the result of a number of factors.

The EBITDA generated by the Company was relatively flat with a small increase of $0.5 million (2%) over the comparative period. The EBITDA in 2013 is analyzed in more detail in Section 4 – Analysis of Operations. The increase in EBITDA wasn't enough to cover the additional cash interest that the Company paid which increased by $2.0 million as a result of higher levels of convertible debentures outstanding during the 2013 period. In addition, cash taxes decreased by $0.6 million mainly as a result of lower income levels generated and this was offset by an increase in other non-cash expenses of $0.3 million.

On a basic per share basis, the decrease in absolute Free Cash Flow was compounded by the higher base of the Company's shares outstanding. The combined impact resulted in a decrease to $0.92 for the second quarter of 2013, which is a decrease of $0.10 (or 10%) from the $1.02 in the 2012 comparable period. The average amount of Shares outstanding for the second quarter of 2013 was 4.5% 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 also contributed to the decrease of 7% to $0.76 for the 2013 period from $0.82 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.

As discussed in previous quarters, the Company has continued to invest in short-term external advisory services in association with WesTower's business process reengineering to support its growth. Included in Free Cash Flow are WesTower short-term external advisory costs of $2.0 million. If these short-term external advisory costs are excluded, Free Cash Flow would increase by an after-tax amount of $1.2 million, yielding Free Cash Flow of $20.9 million or $0.97 per share basic.

Six Month Free Cash Flow

For the six months ended June 30, 2013 the Company generated Free Cash Flow of $33.0 million, which is $1.1 million higher (or 3%) than the $32.0 million generated in the comparative 2012 period. As described above the second quarter was behind the prior year and this was offset by the first quarter of 2013 which generated an additional $2.2 million over the comparative period.

The Company generated an increase in EBITDA of $4.0 million for the six months ended June 30, 2013 which is a 10% increase over the comparative period. The increase in EBITDA is analyzed in more detail in Section 4 – Analysis of Operations. The increase in EBITDA was offset by the additional cash interest that the Company paid which increased by $2.4 million as a result of higher levels of convertible debentures outstanding during the 2013 period including the $57.5 million of debentures issued in September 2012 and the $65.0 million of debentures issued March 2013. Neither of these offerings have any cash interest costs in the prior year period. In addition, cash taxes increased by $0.3 million mainly as a result of higher income levels generated over the six months of 2013 and an increase in other non-cash expenses of $0.2 million.

On a basic per share basis, the increase in absolute Free Cash Flow was offset by the higher share base, resulting in a decrease of $0.08 or 5% to $1.56 for the six months ended June 30, 2013 (fully diluted increase of 2% to $1.33) from the comparative period's $1.64 (2012 fully diluted $1.30). The per share amount decreased despite the increase in the actual Free Cash Flow amounts as a result of the increased number of shares outstanding year over year.

Included in Free Cash Flow are WesTower short-term external advisory costs of $3.3 million. If these short-term external advisory costs are excluded, Free Cash Flow would increase by an after-tax amount of $2.1 million, yielding Free Cash Flow of $35.1 million or $1.66 per share basic.

FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENDITURES

FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENDITURES	Three Months Ended		Six Months Ended	
periods ending June 30	2013	2012	2013	2012
Free Cash Flow	$ 19,636	$ 20,821	$ 33,048	$ 31,988
Maintenance Capital Expenditures	8,575	8,313	16,530	15,614
	$ 11,061	$ 12,508	$ 16,518	$ 16,374
per share - Basic	$ 0.52	$ 0.61	$ 0.78	$ 0.84
per share - Fully Diluted	$ 0.46	$ 0.55	$ 0.74	$ 0.78

Three Month Free Cash Flow Less Maintenance Capital Expenditures

The Company generated Free Cash Flow less maintenance capital expenditures of $11.1 million for the second quarter of 2013, which is a decrease of $1.4 million or 12% over the $12.5 million generated in the comparative period in 2012. The decline is mainly due to the $1.2 million (or 6%) decrease in Free Cash Flow described above for the second quarter. The maintenance capital expenditures increased by 3% to $8.6 million for the second 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 second quarter of 2013 decreased to $0.52 ($0.46 fully diluted) in comparison to $0.61 ($0.55 fully diluted) in the 2012 comparative period. The decrease of 15% (16% fully diluted) is due to the lower Free Cash Flow less maintenance capital expenditures generated by the Company compounded by an increased base of Shares outstanding for the Company during the 2013 period. The maintenance capital expenditure component of this metric is described further below and accounted for the $0.40 decrease from Free Cash Flow. The maintenance capital expenditures impact for the comparable period in 2012 was $0.41 per share.

Included in Free Cash Flow less maintenance capital expenditures are WesTower short-term external advisory costs of $2.0 million. If these short-term external advisory costs are excluded, Free Cash Flow less maintenance capital expenditures would increase by an after-tax amount of $1.2 million, yielding Free Cash Flow less maintenance capital expenditures of $12.3 million or $0.57 per share basic.

Six Month Free Cash Flow Less Maintenance Capital Expenditures

The Company generated Free Cash Flow less maintenance capital expenditures of $16.5 million for the six months ended June 30, 2013, which is relatively flat with the $16.4 million generated in the comparative period in 2012. The net impact on the 2013 period amount is a result of the $1.1 million (or 3%) increase in Free Cash Flow described above for the 2013 six month period offset by the $0.9 million (or 6%) increase in maintenance capital expenditures. The maintenance capital expenditures are described in detail in the Capital Expenditures Section.

On a basic per share basis, Free Cash Flow less maintenance capital expenditures for the six months ended June 30, 2013 decreased to $0.78 ($0.74 fully diluted) in comparison to $0.84 ($0.78 fully diluted) in the 2012 comparative period. The decrease of 7% (5% fully diluted) is due to the relatively flat Free Cash Flow less maintenance capital expenditures generated by the Company negatively impacted 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 $0.78 decrease from Free Cash Flow. The maintenance capital expenditures impact for the comparable period in 2012 was $0.80 per share.

Included in Free Cash Flow less maintenance capital expenditures are WesTower short-term external advisory costs of $3.3 million. If these short-term external advisory costs are excluded, Free Cash Flow less maintenance capital expenditures would increase by an after-tax amount of $2.1 million, yielding Free Cash Flow less maintenance capital expenditures of $18.6 million or $0.88 per share basic.

CAPITAL EXPENDITURES

CAPITAL EXPENDITURES	Three Months Ended		Six Months Ended	
periods ending June 30	2013	2012	2013	2012
Cash maintenance capital expenditures	$ 8,169	$ 7,946	$ 15,763	$ 14,975
add: finance lease principal payments	406	367	767	639
Maintenance capital expenditures	8,575	8,313	16,530	15,614
Growth capital expenditures	8,583	14,857	13,843	23,164
	$ 17,158	$ 23,170	$ 30,373	$ 38,778
Maintenance capital expenditures per share - Basic	$ 0.40	$ 0.41	$ 0.78	$ 0.80
Growth capital expenditures per share - Basic	0.40	0.73	0.65	1.19
Total capital expenditures per share - Basic	$ 0.80	$ 1.14	$ 1.43	$ 1.99

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

For the second quarter of 2013 the Company spent $8.6 million on maintenance capital expenditures compared to $8.3 million in the comparable period, an increase of $0.3 million. The majority of this continues to be in the Aviation segment as it spent $7.7 million versus the $0.9 million from 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 for this period are at a level that is indicative of an average quarter. The expenditures at the various airlines are generally proportionate to the size and number of aircraft they operate but can fluctuate based on the timing of certain major events. During the second quarter Perimeter replaced a Metro III aircraft for $1.0 million. Included in the Aviation segment's maintenance capital expenditures is the addition of Regional One which contributed to $0.5 million for the second quarter of 2013 with no comparable.

The Manufacturing segment's maintenance capital expenditures were mainly from WesTower which spent $0.9 million during the second quarter 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.

Total maintenance capital expenditures for the six months ended June 30, 2013 totaled $16.5 million compared to $15.6 million in 2012, an increase of $0.9 million. The Aviation segment spent $14.9 million and the Manufacturing segment spent $1.6 million.

Growth Capital Expenditures

For the second quarter of 2013 the Company spent $8.6 million on growth capital expenditures compared to $14.9 million in the comparable period, a decrease of $6.3 million. The majority of the growth capital expenditures were in the Aviation segment which accounted for $7.3 million of the growth capital expenditures. The major growth capital expenditures were for Calm Air's fleet type rationalization, including the addition of an ATR 42 aircraft and further ground infrastructure. The growth capital expenditures of the Manufacturing segment totaled $1.3 million which came from WesTower's US operations on equipment to support their growth and new technology to enable them to successfully build Long-Term Evolution ("LTE") sites.

Total growth capital expenditures for the six months ended June 30, 2013 totaled $13.8 million compared to $23.2 million in 2012, a decrease of $9.4 million. The Aviation segment spent $10.7 million and the Manufacturing segment spent $3.1 million. Consistent with the second quarter, growth capital expenditures were driven by Calm Air's fleet type rationalization. The aviation growth expenditures are net of insurance proceeds received for a helicopter that succumbed to a heavy landing. During the six months ended June 30, 2013 Calm Air has spent $4.6 million on the addition of the ATR 42 and $4.4 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.

DIVIDENDS & PAYOUT RATIO

The amounts and record dates of the dividends declared during the six months ended June 30, 2013 and the comparative period in 2012 were as follows:

Month	Record date	Per Share	2013 Dividends Amount	Record date	Per Share	2012 Dividends Amount
January	January 31, 2013	$ 0.14	$ 2,901	January 31, 2012	$ 0.135	$ 2,390
February	February 28, 2013	0.14	2,905	February 29, 2012	0.135	2,423
March	March 29, 2013	0.14	2,911	March 30, 2012	0.135	2,740
April	April 30, 2013	0.14	2,985	April 30, 2012	0.135	2,749
May	May 31, 2013	0.14	3,011	May 31, 2012	0.135	2,753
June	June 28, 2013	0.14	3,016	June 29, 2012	0.135	2,756
Total		$ 0.84	$ 17,729		$ 0.81	$ 15,811

Actual dividends for the second quarter of 2013 totaled $9.0 million, which was an increase of $0.7 million or 9% from the comparative period in 2012 when the actual payouts were $8.3 million. Per share dividends for the second 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.

Actual dividends for the six months ended June 30, 2013 totaled $17.7 million, which was an increase of $1.9 million or 12% from the comparative period in 2012 when the actual payouts were $15.8 million. Per share dividends for the six month period of 2013 totaled $0.84, which was an increase of 4% over the dividends paid per share of $0.81 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 six months 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	2013	Per share basic	Per share fully diluted	2012	Per share basic	Per share fully diluted
For the three months ended June 30						
Free Cash Flows		*46%*	*55%*		*40%*	*49%*
Free Cash Flows less maintenance capital expenditures		*81%*	*91%*		*66%*	*74%*
For the six months ended June 30						
Free Cash Flows		*54%*	*63%*		*49%*	*62%*
Free Cash Flows less maintenance capital expenditures		*108%*	*114%*		*96%*	*104%*

The payout ratio for Free Cash Flow for the second quarter of 2013 of 46% (55% fully diluted) was less than the 2012 payout ratio of 40% (49% fully diluted). The payout ratio for Free Cash Flow less maintenance capital expenditures for the second quarter of 2013 of 81% (91% fully diluted) was also less than the comparable period's ratio of 66% (74% fully diluted). These ratios were negatively impacted by the decrease in Free Cash Flow, the increase in maintenance capital expenditures and the increase in dividends per share.

The payout ratio for Free Cash Flow for the six months ended June 30, 2013 of 54% (63% fully diluted) was less than the 2012 payout ratio of 49% (62% fully diluted). The payout ratio for Free Cash Flow less maintenance capital expenditures for the six months ended June 30, 2013 of 108% (114% fully diluted) was also less than the comparable period's ratio of 96% (104% fully diluted). The Company generated an increase in Free Cash Flow which helped the payout ratio but was offset by the increase in maintenance capital expenditures and the increase in dividends per share.

Overall, the payout ratios for the Company in these 2013 periods 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

Three Month Results

The following section analyzes the financial results of the Company's operations for the three months ended June 30, 2013 and the comparative 2012 period.

	Three Months Ended June 30, 2013				Three Months Ended June 30, 2012			
	Aviation	Manufacturing	Head-office(2)	Consolidated	Aviation	Manufacturing	Head-office(2)	Consolidated
Revenue	$ 80,967	$ 194,713	$ -	$ 275,680	$ 72,412	$ 129,224	$ -	$ 201,636
Expenses(1)	61,632	187,335	1,745	250,712	58,227	116,234	2,712	177,173
EBITDA	19,335	7,378	(1,745)	24,968	14,185	12,990	(2,712)	24,463
Depreciation and amortization				11,519				9,713
Finance costs - interest				5,315				3,281
Acquisition costs				838				14
Consideration liability fair value adjustment				(562)				-
Earnings before taxes				7,858				11,455
Current income tax expense				517				1,138
Deferred income tax expense				1,609				2,558
Net earnings for the period				$ 5,732				$ 7,759

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

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

On a consolidated basis, total revenue for the Company for the second quarter of 2013 increased by 37% or $74.0 million to $275.7 million when compared to the same period in 2012. The main drivers of the increase in consolidated revenue for 2013 is the organic growth in the Manufacturing segment, in particular at WesTower, and the acquisition of Regional One in the Aviation segment which has no comparative in 2012. The revenues for the Aviation segment increased by 12% to $81.0 million and the revenues for the Manufacturing segment increased by 51% to $194.7 million.

On a consolidated basis, EBITDA of the Company for the second quarter of 2013 was $25.0 million, an increase of 2% or $0.5 million when compared to the same period in 2012. Several factors contributed to the net increase in consolidated EBITDA for 2013 including the acquisition of Regional One in the Aviation segment offset by a decrease in EBITDA from the Manufacturing segment entities. The EBITDA for the Aviation segment increased by 36% to $19.3 million and the EBITDA for the Manufacturing segment decreased by 43% to $7.4 million. Costs incurred at the head-office of the Company decreased by 36% to $1.7 million. Included in EBITDA are short-term external advisory costs incurred in WesTower totaling $2.0 million. Excluding these short-term external advisory costs would result in EBITDA of $27.0 million, an increase of 10% when compared to the same period in 2012.

AVIATION SEGMENT

Aviation Segment	Three Months Ended June 30,	2013	2012	Variance	Variance %
Revenue		80,967	72,412	8,555	12%
Expenses		61,632	58,227	3,405	6%
EBITDA		19,335	14,185	5,150	36%

The Aviation segment generated revenues of $81.0 million and EBITDA of $19.3 million for the second quarter of 2013. Revenues generated by the Aviation segment in the second quarter increased by $8.6 million, or 12%, from $72.4 million in 2012 to $81.0 million in 2013 including $8.8 million generated from Regional One which was acquired April 12, 2013.

The Aviation segment's pre-existing entities' revenues were relatively flat in the second quarter of 2013 compared to the same period in 2012. The greatest challenges were in passenger services and the segment's rotary wing operations. Revenues generated from passenger services decreased by approximately $1.6 million, or 4%. The decrease in passenger revenue is predominantly the result of increased competition in the Ontario market serviced by Bearskin, as well as decreased volumes in Calm Air's market. The Company's rotary wing operation experienced a decline in revenue of approximately $0.8M. Increased competition in the Manitoba rotary wing market driven by a decline in the northern mining sector, combined with unfavorable weather conditions which delayed work on various government contracts, both negatively impacted the segment's rotary wing operation. These revenue declines were offset by growth in charter and medevac operations. Charter revenue and medevac revenues increased by a combined $2.7 million. The increase in charter operations is primarily from growth in new markets as well as increased fire and flood evacuation services. The segment's medevac operations experienced growth in both the Baffin and Kivalliq regions. The Company has mitigated the declines in revenue experienced in its scheduled service operations by capitalizing on growth opportunities in its charter operations. The Company continues to diligently assess market conditions in all areas of its operation and has identified growth opportunities in new markets and geographical regions to offset the impact of competition and lower passenger volumes in certain markets.

Operational expenses for the Aviation segment increased by $3.4 million, or 6%, from $58.2 million in 2012 to $61.6 million in 2013 including $5.2 million of expenses generated from Regional One which was acquired April 12, 2013. The increase in expenses associated with Regional One was partly offset by a $1.7 million reduction in expenses from pre-existing operations. The $1.7 million, or 3%, reduction in operational expenses in the pre-existing aviation entities is driven by reductions in variable operating costs associated with reduced fleet hours including reductions in fuel, and maintenance costs associated with parts and engine care maintenance programs. This reduction in fleet hours is primarily driven by Calm Air. The implementation of Calm Air's fleet rationalization plan in previous quarters has yielded the benefit of cost savings from reduced aircraft type. 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. Lastly, personnel costs, including costs associated with training, declined in the second quarter of 2013 compared to the same period of 2012. The segment experienced increased labour costs associated with Perimeter's requirement to move to a Type B Dispatch System as a result of increasing the size of their Dash fleet, and increases related to labour contracts across the entities; however, these costs were more than offset by labor cost reductions in other areas, including Calm Air. Again, operational cost savings were largely the result of the implementation of Calm Air's fleet rationalization plan and operational streamlining.

EBITDA increased by $5.1 million, or 36%, from $14.2 million in 2012 to $19.3 million in 2013. The acquisition of Regional One in the 2nd quarter of 2013 contributed $3.6 million in EBITDA. The EBITDA margin for the Aviation segment increased from 19.6% in 2012 to 23.9% in 2013. The EBITDA margin improvement is driven by a combination of an improvement in EBITDA margin in the pre-existing entities as well the addition of Regional One which yields higher margins than those historically experienced in the pre-existing aviation entities. As discussed above, revenue generated from the pre-existing aviation entities in the second quarter of 2013 decreased slightly compared to the same period in 2012; however, this minimal deterioration in revenue was more than offset by a $1.7 million, or 3% reduction in operational expenses thereby increasing EBITDA by $1.5 million, as well as positively impacting EBITDA margin.

MANUFACTURING SEGMENT

Manufacturing Segment	Three Months Ended June 30,	2013	2012	Variance	Variance %
Revenue		$ 194,713	$ 129,224	$ 65,489	51%
Expenses		187,335	116,234	71,101	61%
EBITDA		$ 7,378	$ 12,990	$ (5,612)	-43%

The Manufacturing segment earned revenues of $194.7 million and EBITDA of $7.4 million for the second quarter of 2013. This represents a $65.5 million increase in revenue and a $5.6 million decrease in EBITDA in comparison to the same period in 2012. Short-term external advisory costs at WesTower accounted for $2.2 million of the EBITDA decrease.

Revenues were up $65.5 million or 51% for the second quarter of 2013 over the comparable period. The increase is due to the organic growth of WesTower which generated an additional $67.0 million of revenues and was an increase of 63% over its revenues in the comparable period. This growth in WesTower began late in the first quarter of 2012, continued throughout the remainder of that year and into 2013. The growth was largely driven by the demand for Long-Term Evolution ("LTE") network builds for the major telecom companies, including AT&T, which generated approximately $118 million in turfing contract revenues for WesTower in the second quarter of 2013. The Canadian operations of WesTower were behind the prior year's comparative, as they did experience some softening in the Eastern markets in the first half of 2013.

The revenue increase at WesTower was offset by a small decline in the remainder of the Manufacturing segment, which was driven by a decrease at Stainless. The revenues generated by Stainless in the second quarter of 2013 were in line with expectations. However it was the second quarter of 2012 that was a particularly strong quarter at Stainless driven by several large field projects. These large field projects can result in short term spikes in performance that will result in lumpy revenues when comparing periods. The revenues generated by the remainder of the Manufacturing segment were comparable to the prior year period.

EBITDA for the segment was $7.4 million, a decrease of $5.6 million or 43% over the comparable period. WesTower had the largest impact on the decline as its EBITDA decreased by $4.6 million or 58%. The US operations of WesTower experienced lower gross margins as a result of project inefficiencies with higher costs than expected to complete the work, higher overhead costs and the higher level of material related revenues that have lower margins. Many of these inefficiencies were driven by procuring the resources, both internal and external, to meet customers' build plans. This has required a significant increase in the size of its employee base and the costs of hiring and training those new employees puts a cost burden on the operations. Rapid growth of the employee base has also resulted in high employee turnover, resulting in further training and hiring costs. Also contributing to the decline were short-term external advisory costs that WesTower has incurred throughout 2013. The short-term external advisory costs for the second quarter were $2.2 million and these costs are expected to be incurred throughout 2013, which will continue to put a drag on the EBITDA generated by WesTower. Without those charges, the EBITDA margin for WesTower would be 3.0% and 4.8% for the Manufacturing segment. The EBITDA for the remainder of the Manufacturing segment declined mainly as a result of the lower revenue generated as described above.

For the second quarter the Manufacturing segment contributed 71% of the Company's consolidated revenues in comparison to 64% in 2012. The EBITDA generated by the Manufacturing segment was 30% of the consolidated EBITDA of the Company's segments after deducting head-office costs in comparison to 53% in 2012. The major factors impacting these ratios are the growth of WesTower and the acquisition of Regional One in April 2013.

HEAD-OFFICE

Head-office Costs	Three Months Ended June 30,	2013	2012	Variance	Variance %
Expenses		$ 1,745	$ 2,712	$ (967)	-36%

The head-office costs decreased in the second quarter of 2013 by $1.0 million or 36% over the comparative period in 2012. The decrease can be attributed mainly to personnel costs decreasing by $0.4 million, certain unrealized foreign gains on US foreign currency balances as a result of the weakening of the Canadian currency using period-end rates, and other various general and administrative costs decreasing. The decrease in personnel costs have declined as a result of certain performance related bonus accruals and the impact of the Company's period-end share price declining.

OTHER NON-EBITDA ITEMS

The following analyzes the changes in the other non-EBITDA income statement items that impacted net earnings for the three months ended June 30, 2013 in comparison to the same period in 2012. Consolidated net earnings for the three months ended June 30, 2013 was $5.7 million, a decrease of $2.0 million over the comparative period in 2012.

Three Months Ended June 30,		2013		2012	Variance	Variance %
Depreciation and amortization	$	11,519	$	9,713	1,806	19%

The depreciation and amortization for the Company increased by $1.8 million or 19% in the second quarter of 2013 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 addition of Regional One and the significant capital expenditures made by the Aviation segment throughout fiscal 2012 and during the first six months of 2013 have contributed to higher depreciation in 2013. Amortization of intangible assets is relatively consistent between both periods with some increase in 2013 as a result of the additional amortization on the intangible assets recognized from the Regional One acquisition.

Three Months Ended June 30,		2013		2012		Variance	Variance %
Finance costs - interest	$	5,315	$	3,281	$	2,034	62%

The Company incurred additional interest costs during the second quarter of 2013 of $2.0 million or 62% 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 $2.0 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 during the first quarter of 2013 the Company closed the offering of its March 2013 unsecured convertible debentures of $65.0 million with a 5.35% fixed interest rate. Both of these offerings were outstanding during the second quarter of 2013 but were not outstanding during the comparative period. The combined additional interest from these two series within the 2013 results was $2.0 million. The interest from the other series of convertible debentures were relatively flat between both periods.

The Company's interest on long-term debt and finance leases was relatively flat and increased overall by $0.1 million. The Company's credit facility incurred a consistent level of interest between both periods and the increase overall was a combination of non-cash interest accretion on certain consideration liabilities associated with the acquisition of Regional One offset by the interest capitalized by the Company as part of the maintenance facility and buildings being constructed by Calm Air.

Three Months Ended June 30,		2013		2012		Variance	Variance %
Acquisition Costs	$	838	$	14	$	824	5986%

The Company incurred acquisition costs during the beginning of the second quarter of 2013 as a result of the closing of the Regional One acquisition, which closed early in the second quarter of 2013. Minimal acquisition costs were incurred in 2012 based on the timing of acquisitions closing outside of that comparative period including the acquisition of Custom Helicopters in February 2012.

Three Months Ended June 30,		2013		2012		Variance	Variance %
Consideration liability fair value adjustment	$	(562)	$	-	$	(562)	-

As a result of the structure of the consideration for the acquisition of Regional One in April 2013, there were contingent consideration liability balances recorded pertaining to the planned future payment of cash and shares of the Company. Certain liabilities were recognized that will be settled by the Company through issuing shares and according to IFRS the value of these liabilities fluctuate in value based on the Company's share price up to the time they are settled or derecognized. Within the second quarter a portion of the liability was settled and the Company issued shares to the vendor and based on the timing of that issuance the share price decreased and resulted in a gain of $0.4 million. The remaining liability was valued as at the period-end share price which was also lower than the acquisition closing date share price which resulted in an additional gain of $0.2 million from reducing the liability recorded. Each period a fair value adjustment will be recorded as long as this liability is outstanding.

Three Months Ended June 30,	2013	2012	Variance	Variance %
Current income tax expense	$ 517	1,138	(621)	-55%
Deferred income tax expense	1,609	2,558	(949)	-37%
Income Tax Expense	$ 2,126	$ 3,696	$ (1,570)	-42%

Income tax expense for the second quarter of 2013 was $2.1 million, representing a decrease of $1.6 million over the comparative period in 2012. The two primary reasons for the decrease in tax expense is due to a decrease in pre-tax income of $3.6 million, and a decrease in the proportion of income subject to tax in the US.

Current tax expense is the expected tax payable on taxable income after applying non-capital losses. Not all of the subsidiaries have full access to the non-capital losses. During the 2013 period the income of these subsidiaries subject to tax, before the use of subsidiary losses was $1.4 million. Of this, $0.1 million was offset by subsidiary losses resulting in taxable income of $1.3 million and current tax expense of $0.5 million. The unrestricted subsidiary loss balance at June 30, 2013 is nil.

The Company has the ability to offset much of the taxable income it generates with non-capital losses. During the 2013 period the Company used $7.7 million of non-capital losses and has approximately $118.0 million of non-capital losses available to offset future taxable income.

Six Month Results

The following section analyzes the financial results of the Company's operations for the six months ended June 30, 2013 and the comparative 2012 period.

	Six Months Ended June 30, 2013				Six Months Ended June 30, 2012			
	Aviation	Manufacturing	Head-office[(2)]	Consolidated	Aviation	Manufacturing	Head-office[(2)]	Consolidated
Revenue	$ 143,789	$ 351,463	$ -	$ 495,252	$ 138,166	$ 210,153	$ -	$ 348,319
Expenses[(1)]	117,326	331,484	3,881	452,691	115,412	190,028	4,355	309,795
EBITDA	26,463	19,979	(3,881)	42,561	22,754	20,125	(4,355)	38,524
Depreciation and amortization				21,512				18,659
Finance costs - interest				9,302				6,722
Acquisition costs				1,668				390
Consideration liability fair value adjustment				(562)				-
Earnings before taxes				10,641				12,753
Current income tax expense				1,574				1,272
Deferred income tax expense				1,749				2,812
Net earnings for the period				$ 7,318				$ 8,669

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

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

On a consolidated basis, total revenue recognized by the Company for the six months ended June 30, 2013 increased by 42% or $146.9 million to $495.3 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 and the acquisition of Regional One during the second quarter. The revenues for the Aviation segment increased by 4% to $143.8 million and the revenues for the Manufacturing segment increased by 67% to $351.5 million.

On a consolidated basis, EBITDA generated by the Company for the six months ended June 30, 2013 was $42.6 million, an increase of 10% or $4.0 million when compared to the same period in 2012. Consistent with the change in revenues, the acquisition of Regional One and the organic growth in the Manufacturing segment increased EBITDA. The EBITDA for the Aviation segment increased by 16% to $26.5 million and the EBITDA for the Manufacturing segment decreased by 1% to $20.0 million. Costs incurred at the head-office of the Company decreased by 11% to $3.9 million. Included in EBITDA are short-term external advisory costs incurred in WesTower totaling $3.3 million. Excluding these short-term external advisory costs would result in EBITDA of $45.8 million, an increase of 19% when compared to the same period in 2012.

AVIATION SEGMENT

Aviation Segment	Six Months Ended June 30,	2013	2012	Variance	Variance %
Revenue		$ 143,789	$ 138,166	$ 5,623	4%
Expenses		117,326	115,412	1,914	2%
EBITDA		$ 26,463	$ 22,754	$ 3,709	16%

The Aviation segment generated revenues of $143.8 million and EBITDA of $26.5 million for the six months ending June 30, 2013. Revenues generated by the Aviation segment increased by $5.6 million, or 4%, from $138.2 million in 2012 to $143.8 million in 2013 including $8.8 million generated from Regional One which was acquired April 12, 2013.

The Aviation segment's pre-existing entities experienced an overall decline in revenue of $3.1 million, or 2%, in the first six months of 2013 compared to the same period in 2012. The largest declines were experienced in passenger services and rotary wing operations. Revenues generated from passenger services decreased by approximately $4.0 million, or 5%. The decrease in passenger revenue is predominantly the result of increased competition in the Ontario market serviced by Bearskin, as well as decreased volumes for Calm Air's market. The Company's rotary wing operation experienced a decline in revenue of approximately $0.4 million. Increased competition in the Manitoba rotary wing market driven by a decline in the mining sector, combined with unfavorable weather conditions in the first half of 2013, negatively impacted the segment's rotary wing operation. These decreases in revenue were partly offset by growth in charter and medevac operations. Charter revenues increased by approximately $1.2 million. This increase is driven primarily by growth in new markets as well as increased fire and flood evacuation services over prior year activity. The segment's medevac operations experienced growth in the Baffin and Kivalliq regions during the first half of 2013, compared to the same period in 2012.

Operational expenses for the Aviation segment increased by $1.9 million, or 2%, from $115.4 million in 2012 to $117.3 million in 2013 including $5.1 million of expenses generated from Regional One which was acquired April 12, 2013. The increase in expenses associated with Regional One was partly offset by a reduction in expenses from pre-existing operations. As discussed above, revenue generated from the pre-existing aviation entities decreased by $3.1 million in the first six months of 2013 compared to the same period in 2012; however, this deterioration in revenue was more than offset by a corresponding $3.2 million, or 3% reduction in operational expenses. The decrease is driven by reductions in variable operating costs associated with reduced fleet hours including reductions in fuel and maintenance costs associated with parts and engine care maintenance programs. 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. These cost reductions were partly offset by increased labor costs. Factors contributing to the increased labour costs 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, and increases related to labour contracts.

EBITDA increased by $3.7 million, or 16%, from $22.8 million in 2012 to $26.5 million in 2013. The acquisition of Regional One in the second quarter of 2013 contributed $3.6 million in EBITDA. As discussed above, revenue generated from the pre-existing aviation entities decreased by $3.1 million in the first six months of 2013 compared to the same period in 2012; however, this deterioration in revenue was more than offset by a corresponding $3.2 million, or 3% reduction in operational expenses thereby increasing EBITDA by $0.1 million. The EBITDA margin increased from 16.5% in 2012 to 18.4% in 2013. Although the pre-existing entities experienced a slight EBITDA margin improvement, the majority of the margin growth is related to the addition of Regional One which yields higher margins than those historically experienced in the pre-existing aviation entities.

MANUFACTURING SEGMENT

Manufacturing Segment	Six Months Ended June 30,	2013	2012	Variance	Variance %
Revenue		$ 351,463	$ 210,153	$ 141,310	67%
Expenses		331,484	190,028	141,456	74%
EBITDA		$ 19,979	$ 20,125	$ (146)	-1%

During the six months ended June 30, 2013 the Manufacturing segment earned revenues of $351.5 million and EBITDA of $20.0 million. This represents a $141.3 million increase in revenue and a relatively flat EBITDA with a $0.1 million decrease in comparison to the same period in 2012.

Consistent with the discussion on the three month period the increase in revenues for the segment is mainly attributable to WesTower whose revenue increased by $145.0 million, offset by a small decline in the revenues of Stainless. The revenue growth at WesTower comes from the increased demand of LTE network builds in the US for the major telecom companies and in particular the revenue generated from the turfing contract with AT&T which was only starting to ramp up in the beginning of 2012 while it was fully operational throughout 2013. The first six months of 2012 were particularly strong for the Stainless business mainly as a result of some large field projects during the beginning of the year when that type of revenues are not normally as strong. As a result, the revenue levels during the 2013 period were more in line with expectations without those large field contracts.

The EBITDA generated by the Manufacturing segment decreased by 1% as the EBITDA margin decreased from 9.6% in 2012 to 5.7% in the current year. The three month period discussion described several factors that contributed to the margin decline which are consistent for the six month period variance. WesTower's operations generated lower gross margins as a result of certain cost inefficiencies incurred to meet customers' build plans. The EBITDA margins for WesTower include $3.3 million of short-term external advisory costs for the rapid growth impacting WesTower. Without those charges, the EBITDA margin for WesTower would be 5.0% and 6.6% for the Manufacturing segment. These costs are expected to be incurred throughout 2013.

Consistent with the three month discussion, the other entities within the Manufacturing segment generated less EBITDA in 2013 than the comparable period. The majority of this is explained by the operations of Stainless that didn't include the large field projects that were performed by Stainless in the comparable period. The Alberta operations were negatively impacted throughout the 2013 period by unseasonal weather patterns and some additional costs incurred with the expansion to additional markets in the end of fiscal 2012.

Consistent with the three month discussion, the Manufacturing segment has contributed 71% of the consolidated revenues of the Company which is an increase over the 60% in the comparable period. As a result of the items putting stress on the EBITDA margins of the Manufacturing segment, it contributed 47% of the consolidated EBITDA in 2013 as compared to 52% in 2012 after deducting head-office costs. The acquisition of Regional One early in the second quarter also impacted this ratio and that will continue going forward.

HEAD-OFFICE

Head-office Costs	Six Months Ended June 30,	2013	2012	Variance	Variance %
Expenses		$ 3,881	$ 4,355	$ (474)	-11%

The head-office costs for the Company decreased by $0.5 million or 11% to total $3.9 million for the six month period ended June 30, 2013. The decrease in head-office costs described above for the three month period discussion was offset by an increase in personnel costs incurred during the first quarter of 2013. 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 but the personnel costs for the six month 2013 period are relatively flat. Unrealized foreign exchange gains on US currency balances and other general and administrative costs decreasing contributed to the overall decrease in head-office costs in 2013.

OTHER NON-EBITDA ITEMS

The following analyzes the changes in the other non-EBITDA income statement items that impacted net earnings for the six months ended June 30, 2013 in comparison to the same period in 2012. Consolidated net earnings for the six months ended June 30, 2013 were $7.3 million, a decrease of $1.4 million over the comparative period in 2012.

	Six Months Ended June 30,	2013	2012	Variance	Variance %
Depreciation and amortization		$ 21,512	$ 18,659	$ 2,853	15%

The Company's depreciation and amortization for the six months ended June 30, 2013 increased by $2.9 million or 15% 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 addition of Regional One and the significant capital expenditures made by the Aviation segment throughout fiscal 2012 and during the first six months of 2013 have contributed to higher depreciation throughout 2013. Amortization of intangible assets is relatively consistent between both periods.

Six Months Ended June 30,	2013	2012	Variance	Variance %
Finance costs - interest	$ 9,302	$ 6,722	$ 2,580	38%

The Company incurred additional interest costs during the six months ended June 30, 2013 of $2.6 million or 38% over the comparative period in 2012. Consistent with the explanation for the three month period, the increase in 2013 is mainly a result of additional interest costs on the Company's outstanding convertible debentures. An additional $3.0 million of costs were incurred by the Company and can be attributed to the September 2012 unsecured convertible debentures of $57.5 million with a 5.5% fixed interest rate and the March 2013 unsecured convertible debentures of $65.0 million with a 5.35% fixed interest rate. Both of these offerings have no costs in the comparative period. The interest from the other series of convertible debentures were relatively flat between both periods with a decrease of $0.1 million in 2013.

The Company's interest on long-term debt and finance leases decreased overall by $0.3 million which is made up mostly from the $0.2 million of interest capitalized by the Company as part of the maintenance facility and buildings being constructed by Calm Air.

Six Months Ended June 30,	2013	2012	Variance	Variance %
Acquisition Costs	$ 1,668	$ 390	$ 1,278	328%

The acquisition costs incurred by the Company during the six months ended June 30, 2013 related almost solely to the external costs incurred for the Regional One acquisition, which closed early in April. 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 during the 2013 period.

Six Months Ended June 30,	2013	2012	Variance	Variance %
Consideration liability fair value adjustment	$ (562)	$ -	$ (562)	-

As discussed for the three month discussion, the structure agreement for the acquisition of Regional One in April 2013 resulted in some contingent consideration liability balances recorded pertaining to the planned future payment of cash and shares of the Company. Certain liabilities were recognized that will be settled by the Company through issuing shares and according to IFRS the value of these liabilities fluctuate in value based on the Company's share price up to the time of when they are settled or derecognized. Within the second quarter a portion of the liability was settled and the Company issued shares to the vendor and based on the timing of that issuance the share price decreased and resulted in a gain of $0.4 million. The remaining liability was valued as at the period-end share price which was also lower than the acquisition closing date share price which resulted in an additional gain of $0.2 million from reducing the liability recorded. Each period a fair value adjustment will be recorded as long as this liability is outstanding.

Six Months Ended June 30,	2013	2012	Variance	Variance %
Current income tax expense	$ 1,574	$ 1,272	$ 302	24%
Deferred income tax expense	1,749	2,812	(1,063)	-38%
Income Tax Expense	$ 3,323	$ 4,084	$ (761)	-19%

The Company's income tax expense for the six months ended June 30, 2013 was $3.3 million, a decrease of $0.8 million or 19% over the comparative period in 2012. The main reason for the decrease in tax expense is due to a decrease in net income before tax of 17%.

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 increased resulting in higher current tax expense.

The Company has the ability to offset much of the taxable income it generates with non-capital losses. During the 2013 period the Company used $8.0 million of non-capital losses and it has approximately $118.0 million of non-capital losses available to offset future taxable income.

5. SUMMARY OF QUARTERLY RESULTS

	2013		2012				2011	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total revenue	$ 275,680	$ 219,572	$ 231,447	$ 220,807	$ 201,636	$ 146,683	$ 147,780	$ 145,993
EBITDA	24,968	17,593	25,642	30,332	24,463	14,061	20,734	22,153
Net earnings	5,732	1,586	6,710	9,972	7,759	910	6,914	7,285
Basic	0.27	0.08	0.32	0.49	0.38	0.05	0.40	0.42
Diluted	0.27	0.08	0.32	0.46	0.37	0.05	0.38	0.41
Free cash flow (FCF)	19,636	13,412	20,729	24,059	20,821	11,167	17,470	19,234
Basic	0.92	0.65	1.00	1.17	1.02	0.61	1.00	1.11
Diluted	0.76	0.56	0.76	0.94	0.82	0.54	0.83	0.92
FCF less maintenance capital expenditures	11,061	5,457	13,432	16,199	12,508	3,866	9,845	12,721
Basic	0.52	0.26	0.65	0.79	0.61	0.21	0.57	0.74
Diluted	0.46	0.26	0.57	0.69	0.55	0.21	0.50	0.63

6. LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2013, the Company had a net cash position of $8.4 million (December 31, 2012 of $4.2 million) and net working capital of $210.8 million (December 31, 2012 of $156.6 million), which represents a current ratio of 1.95 to 1 (December 31, 2012 of 1.90 to 1).

	June 30, 2013	December 31, 2012	Change
Cash and cash equivalents	$ 8,355	$ 4,166	$ 4,189
Accounts receivable	147,739	134,508	13,231
Costs incurred plus recognized profits in excess of billings	170,184	120,968	49,216
Inventory	91,685	63,865	27,820
Prepaid expenses and deposits	15,036	6,219	8,817
Accounts payable and accrued expenses	(166,882)	(125,614)	(41,268)
Income taxes payable	(522)	(7,218)	6,696
Deferred revenue	(9,797)	(8,582)	(1,215)
Billings in excess of costs incurred plus recognized profits	(42,693)	(30,346)	(12,347)
Current portion of long-term debt and finance leases	(1,113)	(1,405)	292
Current portion of convertible debentures	(1,147)	-	(1,147)
Net working capital	$ 210,845	$ 156,561	$ 54,284

The Company's working capital at the end of the second quarter of 2013 included the addition of Regional One which was not part of the year-end 2012 comparative. As at June 30, 2013 Regional One added working capital of $26.9 million, consisting mainly of accounts receivable and inventory. The Company's pre-existing entities had a net increase of $27.4 million in working capital over year-end 2012 which is primarily attributed to the growth in WesTower. During the 2013 period the Company utilized its credit facility to fund WesTower working capital needs with the growth of its US operations.

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. Subsequent to the end of the second quarter but before the release of this report, the Company amended the trust indenture to remove certain terms of these March 2013 unsecured debentures and the same terms within the September 2012 unsecured debentures. The amendment removed the cash conversion feature that gave the Company the ability to force a debentureholder to be paid out in cash based on market pricing around the time of conversion versus issuing shares. Under IFRS this feature causes the debentures to contain an embedded derivative and the potential volatility that is created from valuing the embedded derivative is not considered to have value for the Company. As a result, the cash conversion feature and the related immaterial embedded derivatives in each of these debenture series was removed effective July 26, 2013.

The acquisition of Regional One closed during the second quarter on April 12, 2013 and the Company drew funds from its credit facility for the cash consideration of the purchase price. Overall at the time of closing, the Company paid US$60.8 million, issued 494,656 shares with a US$13.6 million value, and recognized consideration liabilities of US$20.5 million for future payments. The Company also assumed debt within Regional One of US$1.6 million and paid it off at the time of closing. The recognized consideration liabilities include certain contingent future payments of both cash and issuance of shares within the share purchase agreement. The price of the shares used for both the shares issued at the time of closing and in the future was negotiated between the Company and the vendors. However, IFRS requires that shares issued be valued at the share price at the time of issuance and as a result certain differences exist. As well, subsequent to closing, any change in the Company's share price impacts the value of the liability and will be recorded through the Company's statement of income in the period of the change even though there is no impact on the maximum number of shares to be issued in accordance with the share purchase agreement. Included in the cash consideration paid, US$15.7 million was paid to an escrow agent and the terms of that escrow agreement are based on certain financial results being achieved. Under IFRS this contingent consideration is not considered to fulfill the contingent liability and therefore the cash held in escrow remains as the cash of the Company until those funds are released to the vendors or returned to the Company. During the second quarter some of those contingent requirements were fulfilled and US$9.1 million was released to the vendors. As at June 30, 2013 the Company's cash position on the balance sheet included US$6.6 million of cash held in escrow which is expected to be released to the vendors within the first anniversary of the closing date.

During the six months ended June 30, 2013 the Company has made several payments and draws to its credit facility. Near the end of March 2013 the Company used the net proceeds from the March 2013 unsecured debenture offering to repay the debt outstanding under the US portion of the Company's credit facility. As described above, the Company has used its credit facility for paying a portion of the Regional One purchase consideration and it has also made other draws for a variety of capital expenditures and working capital requirements.

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 and extending the term of the revolving credit facility to mature in April 2017. The total credit available under the facility is $335,000, with $258,000 allocated to EIC and $77,000 allocated to EIIF USA (prior to the amendment the total credit available was $235,000 consisting of $160,000 allocated to EIC and $75,000 to EIIF USA). The facility allows for borrowings to be denominated in either Canadian or US funds. Based on the amounts outstanding under the credit facility as at June 30, 2013, the Company has $127.9 million drawn, excluding the impact of foreign exchange, leaving approximately $207 million of credit available to the Company at that time under the amended credit facility. Subsequent to the end of the second quarter the Company has drawn an additional $21 million out of its credit facility for investment opportunities in Regional One and working capital requirements at WesTower.

The finance leases of WesTower's operations continue and as a result the Company made principal payments of $0.8 million Canadian during the first six months 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 $0.3 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 six months ended June 30, 2013 and the Company received $2.1 million for 79,373 Shares being issued in accordance with the DRIP.

The Company obtained additional cash through the means described above and also generated $33.0 million of Free Cash Flow during the first six months 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 dividends are dependent on its ability to generate cash flow from operations and Free Cash Flow. During the first six months of 2013 the Company declared dividends totaling $17.7 million in comparison to $15.8 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 six months 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 six months ended June 30, 2013:

	Date issued	Number of shares
Shares outstanding, beginning of period		20,636,593
Issued for Regional One vendors on closing	April 12, 2013	494,656
Issued under vesting of Reserved Shares	April 25, 2013	28,746
Issued for Regional One vendors on contingent liability payment	May 31, 2013	178,552
Issued upon conversion of convertible debentures	various	100,619
Issued under dividend reinvestment plan (DRIP)	various	79,373
Shares outstanding, end of period		21,518,539

The following summarizes the convertible debentures outstanding as at June 30, 2013 and the changes in the amount of convertible debentures outstanding during the six months ended June 30, 2013:

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Series F - 2009	N/A	April 8, 2014	10.0%	$ 10.75
Series G - 2009	EIF.DB.A	September 30, 2014	7.5%	$ 14.50
Series H - 2010	EIF.DB.B	May 31, 2017	6.5%	$ 20.00
Series I - 2011	EIF.DB.C	January 31, 2016	5.75%	$ 26.00
Series J - 2011	EIF.DB.D	May 31, 2018	6.25%	$ 30.60
Unsecured Debentures - 2012	EIF.DB.E	September 30, 2019	5.50%	$ 36.80
Unsecured Debentures - 2013	EIF.DB.F	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	-	(808)	-	4,009
Series H	23,053	-	(880)	-	22,173
Series I	34,965	-	(21)	-	34,944
Series J	57,480	-	(3)	-	57,477
Unsecured Debentures - September 2012	57,500	-	-	-	57,500
Unsecured Debentures - March 2013	-	65,000	-	-	65,000
Total	$ 179,004	$ 65,000	$ (1,712)	$ -	$ 242,292

7. RELATED PARTY TRANSACTIONS

The related party transactions that the Company entered into during the six months ended June 30, 2013 are consistent with those described in the Company's MD&A for the year ended December 31, 2012 with the exception of new transactions as a result of the acquisition of Regional One. Consistent with a number of the other operating entities of the Company, the operation facilities of the business acquired are owned by the vendor of the acquired business. The vendor is considered a related party because of his continued involvement in the management of the business as the President of Regional One. These leases are considered to be at market terms and recognized in the consolidated financial statements at the exchange amounts. The total costs incurred in 2013 since the acquisition closed in April 2013 under these leases was $0.1 million and the lease term maturities are April 2018 subject to Regional One's option to extend the term of the leases for two additional periods of five years. The expense is recorded within general and administrative expenses and is paid monthly, therefore no balance exists on the Company's statement of financial position.

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 accounting policies of the Company used in the determination of the results for these interim consolidated financial statements for the three and six months ended June 30, 2013 and 2012 that are discussed and analyzed in this report are described in detail in Note 3 of the Company's 2012 consolidated financial statements and Note 3 of the Company's interim condensed consolidated financial statements for the six months ended June 30, 2013.

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 June 30, 2013, and based on that evaluation has concluded that such internal controls over financial reporting are not effective, due to the following material weaknesses:

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

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

Management has limited the scope of design of internal controls over financial reporting to exclude the evaluation of the design of controls at Regional One, purchased April 12, 2013, as it has not determined its impact, if any, on the Company's internal controls over financial reporting.

Regional One had revenue of $8.8 million and EBITDA of $3.6 million included in the consolidated results of the Company for the period ended June 30, 2013 since the acquisition closed on April 12, 2013. As at June 30, 2013, it had current assets and current liabilities of $31.2 million and $4.4 million, respectively.

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

Disclosure Controls and Procedures

Management has established and maintained disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to management in a timely manner and that information required to be disclosed by the Company is reported within the time periods prescribed by applicable securities legislation. Due to the substantial overlap between internal controls over financial reporting and disclosure controls and procedures, management has concluded that disclosure controls and procedures as at June 30, 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 closing in April, 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 useful life.

12. OUTLOOK

Acquisition strategy

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

At the time of closing the Regional One acquisition, the Company amended its credit facility. Based on the debt drawn as of June 30, 2013, the Company has approximately $207 million of available capital under its $335 million senior credit facility (ignoring foreign currency).

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

Aviation Segment

During the second quarter of 2013, the Company operated five aviation companies providing fixed 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 provides a proxy for vertical integration into one of the major expense categories of our aviation segment.

Regional One continually monitors its inventory and lease portfolios to ensure a proper sales complement as well as to enhance and grow its sales portfolio. Regional One did not add any growth capital additions in the second quarter of 2013 as it transitioned into the EIC group of companies. The company has a strong pipeline of inventory and capital asset opportunities that will ensure the continued flow of assets available in the market and contribute to the growth of its operations. The company's management is at different stages of due diligence and procurement for additional assets and has recently closed or is in the final stages of closing various deals. We are optimistic that the asset base will grow throughout the remainder of 2013. Regional One is focused on growing its next generation of products including Q400, and CRJ700/900 products. The Q400 and CRJ700/900 series are larger variants of the earlier models. There is a strong demand for serviceable engines for these series as well as CRJ700/900 rotable components based on the lifespan of this aircraft type.

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. In 2013, the demand for the Company's base aviation services has been and we anticipate will continue to be consistent with the levels experienced in 2012. There are multiple years left on our three key contracts with the Government of Nunavut. One of the contracts provides passenger transportation to medical patients and government workers and the other two contracts provide medevac services to the central and eastern regions as a sole service provider. These contracts provide EIC with a strong base level of service in the north. For our non-contracted services, which represent the majority of our revenues, there are no significant new competitors expected in our key markets.

Revenues generated in the second quarter of 2013 by the Company's aviation transportation entities were relatively flat compared to the same period in 2012. The segment experienced reductions in its scheduled services operation as a result of increased competition in the Ontario market and from lower passenger volumes in the north. To respond to these changes in demand, the Company is reviewing where its assets will best be utilized in the Ontario market and has continued with its fleet rationalization plan for Calm as discussed in previous reports. The rotor wing operation was negatively impacted by weather conditions which delayed work on government projects leading to soft revenues in the second quarter; however, the third quarter has started off strong with increased fire evacuation work. The Company continues to diligently assess market conditions in all areas of its operation and is focused on identifying growth opportunities in new markets and geographical regions. The Company experienced growth in its charter operations in the second quarter of 2013 compared to the same period of 2012 by expanding into the Alberta market, and procuring new charter customers, thereby offsetting reductions experienced in passenger services. Commencing in the 3rd quarter of 2013, we have the opportunity to add some new communities to our cargo operation in and surrounding our main territory with an existing cargo customer. Additionally, we are pursuing opportunities to increase volumes generated from Polar Bear charter operations.

The Company continues with its fleet rationalization plan which focuses on reducing the number of aircraft types in Calm's fleet, flying aircraft in combi configuration, and adding infrastructure in the North to support the rationalization. The reduction of aircraft types has already generated positive results by lowering operating costs driven by greater efficiency in labour, maintenance, and inventory. The combination of investment in combi aircrafts and infrastructure in the north will enable 24 hour operations in select locations. The extended operating hours will yield improved efficiency and also support higher service levels to our key freight customers. In the second quarter of 2013, the Company completed construction on a northern warehouse and medevac hangar to support, streamline, and grow operations.

The Company added one more ATR42 which came on line early in the third quarter of 2013. The Company will enhance the freight capability of one of its ATR aircraft by adding a large door. This conversion, originally targeted for the fourth quarter of 2013, has been postponed until 2014. This will enable Calm to retire its sole Hawker leading to further efficiencies from reducing aircraft types. In 2013, a Dash 8-300 aircraft will be added to Perimeter's fleet allowing the Company to capitalize on additional growth opportunities. This acquisition is targeted for the fourth quarter of 2013 and into 2014.

Other major capital initiatives include the construction of a new hangar for Calm in Winnipeg. Calm moved into this new facility in late 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 early 2014.

The Company began to invest in enhanced GPS technology for its 19 seat aircraft in late 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 associated to weather related redirection of flights. The capital expenditures related to this upgrade will continue throughout 2013 and into 2014.

The Company monitors its expenses and costs structure on an ongoing basis. Volatility or increases in fuel prices are beyond the Company's control and 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 as well as other contract customers have provisions whereby fuel is a flow through cost, mitigating the exposure from changes fuel cost.

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 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

In the second quarter there were signs of the US economy beginning to recover in some regions while others remained stagnant. These signs of recovery were exhibited through increased bidding opportunities in relation to larger projects being revisited and new projects starting up. While there are signs of some improvement, the overall sluggish pace continues and management remains cautious. During this time of continued economic recovery our US manufacturing entities continue to experience sustained strong demand for their products and services.

During the second quarter of 2013 WesTower's US operations were able to continue to grow its market share in certain geographical areas with increased activity on AT&T turfing and expansion with other carriers on existing programs. The overall demand in the industry continues as most carriers show no signs of slowing plans to launch new programs, expand existing ones or continue robust upgrades across the nation.

WesTower's ongoing efforts to focus on quality and performance have put them in a favorable positioned with AT&T as they continue to be in line with AT&T's expectations for operational quality. There is a continual shift of manpower and resources to meet ongoing demand within regions and from region to region as AT&T adds additional work and starts new programs in different regions. Management's expectations are for this activity to continue for the remainder of 2013 and into the 2014 build out plans. As communicated in previous quarters, there is no specific dollar amount guaranteed as a part of the AT&T turfing 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.

Commencing in the first quarter of 2013, WesTower's US operations began to obtain external advisory services to help with its structure, processes and systems for the significant growth that it has experienced over the last 18 months and for the growth opportunities continuing to present themselves. This activity continued throughout the second quarter and is expected to continue for the remainder of 2013. Although there are both internal and external costs being incurred by WesTower US as a result of the investment in business process reengineering, it is the foundation needed to support this growth.

The US operations of WesTower experienced lower gross margins as a result of project inefficiencies with higher costs than expected to complete the work, higher overhead costs and the higher level of material related revenues that have lower margins. Many of these inefficiencies were driven by procuring the resources, both internal and external, to meet the customers build plan. External advisors have been brought in to help reengineer the business processes and systems to help drive efficiencies through job performance and managing overhead costs. Management believes the combination of these initiatives and a leveling of the current growth rate will result in improved margins as these processes are implemented and mature. The short-term external advisory costs for the second quarter were $2.2 million and these costs are expected to be incurred throughout 2013, which will continue to put a drag on the EBITDA generated by WesTower.

In Canada WesTower continues to support the efforts of all three national carriers as well as regional carriers in all territories. The ongoing ramp up of network upgrades across Canada will continue throughout the remainder of 2013 and into 2014. While WesTower Canada did experience some softening in the eastern markets during the first half of 2013 management believes the second half of 2013 will see increased activity as a result of aggressive project plans by many of the carriers. The Canadian marketplace could be impacted by the potential of US based carriers entering it based on certain Canadian government legislation. It is not clear on the impact this would have on WesTower however having an additional carrier in the marketplace could lead to benefitting WesTower placing increased demands for network build-outs and/or upgrades. Overall it is not certain that a new carrier will enter into the Canadian marketplace or what type of network and project plan it would try to initiate.

The industry as a whole in North America continues to experience rapid growth in infrastructure related projects as a result of significant increase in data traffic. This growth is a result of increased usage of traditional devices such as smart phones, tablets and other mobile devices along with new technologies introduced at a rapid pace. As mentioned in the past the race to add capacity throughout North America continues and Management expects this growth to continue in the near term.

Although Stainless experienced a decline in revenue from that seen in the same time period of 2012 due to 2012 revenues including a large field project, multiple bookings in mid to late May of 2013 shows that demand is still strong. Stainless continues to explore multiple new markets throughout the US and many new and existing customers throughout these markets have plans for expansion during late 2013 and well into 2014. These plans for expansion will provide Stainless with strong bid opportunities for the third and fourth quarter in both field and shop projects. However, strong competition is still present and the continued demand by customers for shorter cycle times remains. As such, Stainless continues to focus on improving efficiencies within the shop manufacturing process and the erection process on field projects. Management believes that current customer retention along with a strong order book mitigates the risk around the recovering US economy in the short to medium term.

Activity during the second quarter slowed down in the Alberta, southern Saskatchewan and North Dakota markets. This shift in market demand was seen industry wide and was due to seasonality and abnormally high levels of rainfall and flooding in these areas causing a slowing of rig activity throughout the regions. In spite of this, our manufacturing businesses in North Dakota and Saskatchewan have been able to explore opportunities and are working hard to establish a strong customer base in these new areas. In all markets there continues to be a strong number of bid opportunities for a variety of products. The segment’s precision metal business in British Columbia continues to focus its efforts on marketing and sales as well as continued attention on engineering solutions and quality. These efforts have resulted in a strong order book spread over a number of key customers. With this marketing approach our precision metal business continues to generate new customers within its market in the lower mainland of British Columbia and beyond.

Finding and retaining skilled employees is a continued challenge for the Manufacturing segment. Management will be challenged in the areas of cost control, on time delivery, as well as increased training needs as a result of this shortage. New prospects and a high volume of bid opportunities provide encouragement for management, but they are still cognizant of the continued sluggish growth across the North American economy. 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	June 30 2013	December 31 2012
ASSETS		
CURRENT		
Cash and cash equivalents	$ 8,355	$ 4,166
Accounts receivable	147,739	134,508
Costs incurred plus recognized profits in excess of billings	170,184	120,968
Inventory	91,685	63,865
Prepaid expenses and deposits	15,036	6,219
	432,999	329,726
OTHER ASSETS (Note 3)	7,093	-
CAPITAL ASSETS	304,926	269,036
INTANGIBLE ASSETS	46,590	28,393
DEFERRED INCOME TAX ASSETS	4,463	8,699
GOODWILL	108,136	73,516
	$ 904,207	$ 709,370
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ 166,882	$ 125,614
Income taxes payable	522	7,218
Deferred revenue	9,797	8,582
Billings in excess of costs incurred plus recognized profits	42,693	30,346
Current portion of long-term debt and finance leases (Note 6)	1,113	1,405
Current portion of convertible debentures (Note 7)	1,147	-
	222,154	173,165
LONG-TERM DEBT AND FINANCE LEASES (Note 6)	136,368	68,404
OTHER LONG-TERM LIABILITIES (Note 3)	1,813	-
CONVERTIBLE DEBENTURES (Note 7)	217,598	161,046
DEFERRED INCOME TAX LIABILITY	11,460	12,213
	589,393	414,828
EQUITY		
SHARE CAPITAL (Note 8)	291,479	268,494
CONVERTIBLE DEBENTURES - Equity Component (Note 7)	12,277	9,304
CONTRIBUTED SURPLUS - Matured Debentures	102	102
DEFERRED SHARE PLAN (Note 12)	2,047	1,575
RESERVED SHARES	623	1,234
RETAINED EARNINGS		
Cumulative Earnings	136,336	129,018
Cumulative Dividends (Note 9)	(133,489)	(115,760)
	2,847	13,258
ACCUMULATED OTHER COMPREHENSIVE INCOME (Note 14)	5,439	575
	314,814	294,542
	$ 904,207	$ 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)

	Three Months Ended		Six Months Ended	
For the periods ended June 30	2013	2012	2013	2012
REVENUE				
Aviation	$ 80,967	$ 72,412	$ 143,789	$ 138,166
Manufacturing	194,713	129,224	351,463	210,153
	275,680	201,636	495,252	348,319
EXPENSES				
Aviation expenses - excluding depreciation and amortization	51,874	49,908	98,921	99,109
Manufacturing expenses - excluding depreciation and amortization	171,278	107,502	304,489	174,446
General and administrative	27,560	19,763	49,281	36,240
Depreciation and amortization	11,519	9,713	21,512	18,659
	262,231	186,886	474,203	328,454
EARNINGS BEFORE THE FOLLOWING	13,449	14,750	21,049	19,865
Finance costs - interest	5,315	3,281	9,302	6,722
Acquisition costs	838	14	1,668	390
Consideration liability fair value adjustment	(562)	-	(562)	-
EARNINGS BEFORE INCOME TAXES	7,858	11,455	10,641	12,753
INCOME TAX EXPENSE (Note 16)				
Current	517	1,138	1,574	1,272
Deferred	1,609	2,558	1,749	2,812
	2,126	3,696	3,323	4,084
NET EARNINGS FOR THE PERIOD attributable to common shareholders	$ 5,732	$ 7,759	$ 7,318	$ 8,669
EARNINGS PER SHARE (Note 11)				
Basic	$ 0.27	$ 0.38	$ 0.35	$ 0.44
Diluted	$ 0.27	$ 0.37	$ 0.35	$ 0.44

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands of Canadian dollars)

Attributable to common shareholders	Three Months Ended		Six Months Ended	
For the periods ended June 30	2013	2012	2013	2012
NET EARNINGS FOR THE PERIOD	$ 5,732	$ 7,759	$ 7,318	$ 8,669
OTHER COMPREHENSIVE INCOME (LOSS),				
Items that are or may be reclassified to the Statement of Income				
Cumulative translation adjustment, net of tax (Note 14)	8,074	766	9,356	115
Net (loss) on hedge of net investment in foreign operation	(4,806)	-	(4,492)	-
	3,268	766	4,864	115
COMPREHENSIVE INCOME FOR THE PERIOD	$ 9,000	$ 8,525	$ 12,182	$ 8,784

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	5,765	(328)	-	-	-	-	-	-	5,437
Shares issued under dividend reinvestment plan	1,898	-	-	-	-	-	-	-	1,898
Shares issued under First Nations community partnership agreements	495	-	-	-	-	-	-	-	495
Deferred share plan vesting	-	-	-	282	-	-	-	-	282
Deferred share plan issuance	5	-	-	(5)	-	-	-	-	-
Shares issued under vesting of reserved shares	617	-	-	-	(617)	-	-	-	-
Comprehensive income	-	-	-	-	-	8,669	-	115	8,784
Dividends declared (Note 9)	-	-	-	-	-	-	(15,811)	-	(15,811)
Balance, June 30, 2012	$ 262,799	$ 6,188	$ 102	$ 1,712	$ 1,234	$ 112,336	$ (98,854)	$ 1,175	$ 286,692
Balance, January 1, 2013	$ 268,494	$ 9,304	$ 102	$ 1,575	$ 1,234	$ 129,018	$ (115,760)	$ 575	$ 294,542
Shares issued to acquisition vendors (Note 4)	18,592	-	-	-	-	-	-	-	18,592
Convertible debentures									
Converted into shares (Note 8)	1,688	(94)	-	-	-	-	-	-	1,594
Issued (Note 7)	-	3,067	-	-	-	-	-	-	3,067
Shares issued under dividend reinvestment plan (Note 8)	2,094	-	-	-	-	-	-	-	2,094
Deferred share plan issuance	-	-	-	472	-	-	-	-	472
Shares issued under vesting of reserved shares	611	-	-	-	(611)	-	-	-	-
Comprehensive income	-	-	-	-	-	7,318	-	4,864	12,182
Dividends declared (Note 9)	-	-	-	-	-	-	(17,729)	-	(17,729)
Balance, June 30, 2013	$ 291,479	$ 12,277	$ 102	$ 2,047	$ 623	$ 136,336	$ (133,489)	$ 5,439	$ 314,814

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of Canadian dollars)

For the periods ended June 30	Three Months Ended 2013	Three Months Ended 2012	Six Months Ended 2013	Six Months Ended 2012
OPERATING ACTIVITIES				
Net earnings for the period	$ 5,732	$ 7,759	$ 7,318	$ 8,669
Items not affecting cash:				
Depreciation and amortization	11,519	9,713	21,512	18,659
Accretion of interest	907	636	1,786	1,231
Long-term debt discount (paid) accretion	(36)	(103)	(36)	(45)
Foreign exchange (gain) / loss on debt (unrealized)	(1,323)	(18)	(1,208)	(86)
Loss/(gain) on sale of disposal of capital assets	118	79	(213)	76
Deferred income tax	1,609	2,558	1,749	2,812
Deferred share program share-based vesting	272	183	472	282
	18,798	20,807	31,380	31,598
Changes in non-cash operating working capital items (Note 15)	(35,118)	(50,156)	(40,872)	(54,047)
	(16,320)	(29,349)	(9,492)	(22,449)
FINANCING ACTIVITIES				
Proceeds from (repayment of) long-term debt & finance leases, net of issuance costs	107,054	58,592	57,491	34,449
Proceeds from issuance of debentures, net of issuance costs	-	-	61,886	-
Proceeds from issuance of shares, net of issuance costs	1,053	1,016	2,094	57,528
Cash dividends / distributions (Note 9)	(9,012)	(8,258)	(17,729)	(15,811)
	99,095	51,350	103,742	76,166
INVESTING ACTIVITIES				
Purchase of capital assets, net of disposals	(16,742)	(22,747)	(29,568)	(35,743)
Purchase of intangible assets	(10)	(56)	(38)	(2,396)
Investment in other assets	(5,775)	-	(5,775)	-
Cash outflow for acquisitions (Note 4)	(55,411)	-	(55,411)	(24,067)
Cash acquired in acquisitions (Note 4)	731	-	731	2,152
	(77,207)	(22,803)	(90,061)	(60,054)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,568	(802)	4,189	(6,337)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,787	5,940	4,166	11,475
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 8,355	$ 5,138	$ 8,355	$ 5,138
Supplementary cash flow information				
Interest paid	$ 5,162	$ 3,573	$ 6,869	$ 5,670
Income taxes paid	$ 3,378	$ 744	$ 8,421	$ 1,957

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

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

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 June 30, 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"), Dallas Sailer Enterprises, Inc. ("Water Blast Dakota"), and Regional One, Inc. ("Regional One") are wholly owned subsidiaries of EIIF USA. Through the Company's subsidiaries, products and services are provided in two business segments: Aviation and Manufacturing.

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements are for the six months ended June 30, 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 August 13, 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, Water Blast Dakota and Regional One. All significant inter-company transactions have been eliminated for purposes of these interim condensed consolidated financial statements.

b) *Business Combinations*

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

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

The intangible assets acquired that require critical accounting estimates are customer contracts, customer relationships, customer lists, certifications and trade names. To determine the fair value of these customer based intangible assets, the Company adopted the excess earning method. This valuation technique values the intangible assets based on the capitalization of the earnings, which are calculated to be in excess of what a reasonable amount of earnings would be on the tangible assets used to generate the earnings associated with the intangible asset. Significant assumptions include, among others, the determination of projected revenues, cash flows, customer retention rates, discount rates and anticipated average income tax rates. To determine the fair value of the trade name intangible asset, the Company adopted the royalty relief method. This valuation technique values the intangible assets based on the present value of the expected after-tax royalty cash flow stream using a hypothetical licensing arrangement. Significant assumptions include, among others, the determination of projected revenues, royalty rate, discount rates and anticipated average income tax rates. In certain circumstances the Company also has to consider the differences between the acquisition of a business and the purchase of assets depending on the terms of an acquisition contract. Certain judgments can be made in this determination which impacts the valuation and recognition of assets acquired and liabilities assumed. When an asset acquisition occurs the identifiable assets acquired and liabilities assumed are allocated the cost of the acquisition and no goodwill or gain on a bargain purchase would be recognized.

c) *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 investment in associates or joint arrangements.

IFRS 13 Fair Value Measurement

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

d) *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 14).

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

e) *Revenue Recognition*

The Company recognizes revenue on various types of transactions. The Aviation segment recognizes revenue on the provision of flight, flight ancillary services, and the sale and/or lease of aircraft and aftermarket parts. The Manufacturing segment recognizes revenue on the sales of manufacturing products and services.

<u>Aviation Revenues</u>

The Company records flight revenue at the time when the flight has been completed. Tickets sold but for which the customer has not flown are reflected on the consolidated statement of financial position as deferred revenue and recognized as flight revenue when the service is provided or when the ticket expires. Perimeter offers a customer loyalty program where a customer receives a loyalty point as a percentage of each ticket purchased. The award points are recognized as a separately identifiable component of the initial sale of the ticket, by allocating the fair value of the consideration received between the award points and the sale of the ticket. The fair value of the award points is deferred and is recognized as revenue on redemption of the award by the participant to whom the award is issued. The Company performs regular evaluations on the deferred revenue liability for passenger tickets purchased in advance within the Aviation segment's operating entities. These evaluations may result in adjustments being recognized as revenue. Due to the complexity of the pricing and systems, historical experience, and other factors including refunds, exchanges and unused tickets, certain amounts are recognized as revenue based on estimates. Events and circumstances may result in actual results that are different from estimates.

The Company recognizes aviation part sales revenue when the title has been passed to the customer, at the time the effective control of the product and the risks and rewards of ownership have been passed to the buyer. Payments received in advance are recorded as deferred revenue until the product has been delivered to the customer. In addition, the Company recognizes revenue from consignment sales in the same manner as discussed above. These sales have the characteristics of principal sales and are therefore recorded at the gross amount in revenue, with the payment to the consignor recorded as cost of sales.

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

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

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

Manufacturing Revenues

The Company recognizes manufacturing product revenue when the title has been passed to the customer, at the time the effective control of the product and the risks and rewards of ownership have been passed to the buyer, excluding revenues recognized by Stainless and WesTower as described below on long-term contracts. Payments received in advance are recorded as deferred revenue until the product has been delivered to the customer. Non-refundable deposits, however, are recorded as revenue when they are received from the customer.

Revenues from long-term contracts associated with manufacturing products are recognized on a percentage-of-completion basis. The operations of Stainless and WesTower within the Manufacturing segment include these contracts. The percentage complete is calculated based upon contract costs incurred to date compared with total estimated contract costs. The percentage complete is then applied to total anticipated contract revenue to determine the period's revenue. A provision for the estimated loss is made when contract costs are expected to exceed estimated contract revenue.

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

f) Expenses

Aviation expenses – excluding depreciation and amortization

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

Manufacturing expenses – excluding depreciation and amortization

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

g) *Aviation Inventory*

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

For all inventory, carrying value is recorded at the lower of cost and net realizable value.

Critical Judgments on Aviation Inventory

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

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

4. ACQUISITIONS

Acquisition of Regional One

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

The results of operations are included in the Company's consolidated statement of income since the date of acquisition and Regional One is part of the Aviation segment. For the approximate two and a half months of operations during the 2013 period since Regional One was acquired, it contributed revenues of approximately $8.8 million, earnings before income taxes $1.9 million (including internal interest costs of $0.3 million) and has total assets of approximately $109.7 million as at June 30, 2013.

The acquisition price was US$94.9 million ($96.2 million) and was funded through a combination of cash, the issuance of Shares and the recognition of consideration liabilities for future payments. At the time of closing, the Company paid US$45.1 million in cash ($45.8 million). Additionally the Company paid US$15.7 million ($15.9 million) to an escrow agent for contingent consideration associated with future results being attained by Regional One and this is treated as a consideration liability on the Statement of Financial Position. The Company issued 494,656 Shares with a value of US$13.6 million ($13.8 million) and the recognized contingent consideration liabilities associated with future payments was US$20.5 million ($20.8 million). The Company also assumed debt within Regional One of US$1.6 million and paid it off at the time of closing.

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

Included in the cash consideration paid, US$15.7 million was paid to an escrow agent and the terms of that escrow agreement are based on certain financial results being achieved. Under IFRS this contingent consideration is not considered to fulfill the contingent liability and therefore the cash held in escrow remains as the cash of the Company until those funds are released to the vendors or returned to the Company. As at June 30, 2013 the Company's cash position on the balance sheet included US$6.6 million of cash held in escrow which is expected to be released to the vendors within the first anniversary of the closing date.

During the second quarter and subsequent to the closing date, the Company released US$9.1 million ($9.4 million) of the cash held in escrow, paid US$0.5 million in cash ($0.5 million), and issued 178,552 of Shares with a value of US$4.7 million ($4.9 million) as partial settlement of certain contingent consideration liabilities that were recognized on closing. As at June 30, 2013 the Company's cash position on the balance sheet included US$6.6 million of cash held in escrow which is expected to be released to the vendors within the first anniversary of the closing date. As a result of this payment and the adjustment to fair value the remaining consideration liabilities associated with the Company's share price, the Company recorded a gain of $562 during the second quarter of 2013 in the Statement of Income.

The settlement of the working capital is expected to be finalized during the fourth quarter of 2013 and the tables below include the estimated working capital settlement excess of US$10.5 million owing to the vendors and the Company paid US$2.7 million at closing as advancement on this estimated liability.

Consideration given:		
Cash	$	45,770
Issue of 494,656 Shares of the Company at a price of $27.80 per share		13,751
Contingent consideration liabilities		36,708
Total purchase consideration	$	96,229

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

Details of the preliminary fair values of the net assets acquired at the time of the transaction are as follows:

Fair value of assets acquired:	
Cash	$ 731
Accounts receivable	8,343
Inventory	15,226
Prepaid expenses and deposits	1,558
Capital assets	25,917
Other assets	806
Intangible assets	18,123
	70,704
Less fair value of liabilities assumed:	
Accounts payable and accrued liabilities	2,663
Long-term debt	1,612
Deferred revenue	903
Other long-term liabilities	1,172
Fair value of identifiable net assets acquired	64,354
Goodwill	31,875
Total purchase consideration	$ 96,229

Of the $18,123 acquired intangible assets, $12,465 was assigned to trade name and $5,658 was assigned to customer relationships. All the intangibles acquired are subject to amortization with the exception of the trade name which is considered to have indefinite life.

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

5. INTANGIBLE ASSETS & GOODWILL

As described in Note 4 – Acquisitions, the Company acquired intangible assets totaling $18,123 and goodwill totaling $31,875 with the acquisition of Regional One on April 12, 2013. Included in the acquired intangible assets was $12,465 associated with the trade name of Regional One and $5,658 assigned to customer relationships.

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

6. LONG-TERM DEBT AND FINANCE LEASES

The following summarizes the Company's long-term debt and finance leases as at June 30, 2013 and December 31, 2012:

	June 30 2013	December 31 2012
Revolving term facility		
Canadian dollar amounts drawn	$ 28,250	$ 750
United States dollar amounts drawn (US$102,780 and US$67,150, respectively)	108,042	66,808
Total credit facility debt outstanding, principal value	136,292	67,558
less: unamortized transaction costs	(1,172)	(616)
less: unamortized discount on outstanding Banker's Acceptances	(36)	-
Net credit facility debt	135,084	66,942
Finance leases	2,397	2,867
Total net credit facility debt and finance leases	137,481	69,809
less: current portion of finance leases	(1,113)	(1,405)
Long-term debt and finance leases balance	$ 136,368	$ 68,404

Interest expense recorded during the three and six months ended June 30, 2013 for the long-term debt and finance leases was $941 and $1,496, respectively (2012 – $856 and $1,839, respectively).

Credit Facility

The following is the continuity of long-term debt for the six months ended June 30, 2013:

	Six Months Ended June 30, 2013				
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar portion	$ 750	$ 27,500	$	$ -	$ 28,250
United States dollar portion	66,808	109,329	(73,195)	5,100	108,042
	67,558	136,829	(73,195)	5,100	136,292

During the second quarter, the Company's senior credit facility was amended in association with the closing of the acquisition of Regional One (Note 4). The total credit available under the facility was amended. The total credit available is allocated between both EIC head office and EIIF USA. The total credit available under the facility is $335,000, with $258,000 allocated to EIC and $77,000 allocated to EIIF USA (prior to the amendment the total credit available was $235,000 consisting of $160,000 allocated to EIC and $75,000 to EIIF USA). The facility allows for borrowings to be denominated in either Canadian or US funds. The credit facility includes a revolving operating line of credit up to a maximum of $15,000. Also at the time of the amendment the term of the credit facility was extended two years, to April 2017, as part of the revolving four year credit facility.

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

7. CONVERTIBLE DEBENTURES

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

Summary of the debt component of the convertible debentures:

	2013 Balance, Beginning of Period	Debentures Issued	Accretion Charges	Debentures Converted	Repaid on Maturity	2013 Balance, End of Period	December 31, 2012 Balance
Series F	$ 1,162	$ -	$ 10	$ -	$ -	$ 1,172	$ 1,162
Series G	4,665	-	23	(772)	-	3,916	4,665
Series H	21,787	-	87	(802)	-	21,072	21,787
Series I	33,534	-	170	(17)	-	33,687	33,534
Series J	53,706	-	282	(3)	-	53,985	53,706
Unsecured - 2012	52,933	-	261	-	-	53,194	52,933
Unsecured - 2013	-	60,504	128	-	-	60,632	-
						227,658	167,787
less: unamortized transaction costs						(8,913)	(6,741)
Convertible Debentures - Debt Component, end of period						218,745	161,046
less: current portion						(1,147)	-
Convertible Debentures - Debt Component (long-term portion)						$ 217,598	$ 161,046

During the six months ended June 30, 2013, convertible debentures totaling a face value of $1,712 were converted at various times into 100,619 Shares of the Company (2012 – $5,887 face value into 328,627 Shares). Interest expense recorded during the three and six months ended June 30, 2013 for the convertible debentures was $4,373 and $7,806, respectively (2012 – $2,426 and $4,883, respectively).

March 2013 Unsecured Convertible Debenture Offering

The Company issued the $65 million 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.

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.

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

Convertible Debentures Equity Component

Since all of the outstanding convertible debentures contain a conversion feature available to the debenture-holder to convert debenture principal into Shares of the Company, the debenture obligation is classified partly as debt and partly as shareholders' equity. The debt component represents the present value of interest and principal payments over the life of the convertible debentures discounted at a rate approximating the rate which would have been applicable to non-convertible debentures at the time the convertible debentures were issued. The difference between the principal amount of the convertible debentures and the present value of interest and principal payments over the life of the convertible debentures is accreted over the term of the convertible debentures through periodic charges to the debt component, such that, on maturity, the debt component equals the principal amount of the convertible debentures outstanding.

Summary of the equity component of the convertible debentures:

		June 30 2013		December 31 2012
Series F - 2009	$	61	$	61
Series G - 2009		127		176
Series H - 2010		1,193		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	$	12,277	$	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.

8. SHARE CAPITAL

Changes in the Shares issued and outstanding during the six months ended June 30, 2013 are as follows:

	Number of Shares		2013 Amount
Share capital, beginning of period	20,636,593	$	268,494
Issued for Regional One vendors on closing (Note 5)	494,656		13,751
Issued for Regional One vendors on contingent liability payment	178,552		4,841
Issued under vesting of reserved shares	28,746		611
Issued upon conversion of convertible debentures	100,619		1,688
Issued under dividend reinvestment plan (DRIP)	79,373		2,094
Share capital, end of period	21,518,539	$	291,479

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9. 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 six months ended June 30, 2013 and the comparative 2012 period are as follows:

Six Months Ended June 30		2013		2012
Cumulative dividends, beginning of period	$	115,760	$	83,043
Dividends during the period		17,729		15,811
Cumulative dividends, end of period	$	133,489	$	98,854

The amounts and record dates of the dividends during the six months ended June 30, 2013 and the comparative 2012 period are as follows:

Month	Record date		Per Share		2013 Dividends Amount	Record date		Per Share		2012 Dividends Amount
January	January 31, 2013	$	0.14	$	2,901	January 31, 2012	$	0.135	$	2,390
February	February 28, 2013		0.14		2,905	February 29, 2012		0.135		2,423
March	March 29, 2013		0.14		2,911	March 30, 2012		0.135		2,740
April	April 30, 2013		0.14		2,985	April 30, 2012		0.135		2,749
May	May 31, 2013		0.14		3,011	May 31, 2012		0.135		2,753
June	June 28, 2013		0.14		3,016	June 29, 2012		0.135		2,756
Total		$	0.84	$	17,729		$	0.81	$	15,811

Subsequent to June 30, 2013 and before these interim condensed consolidated financial statements were authorized, the Company declared a dividend of $0.14 per Share for July 2013.

10. SEGMENTED AND SUPPLEMENTAL 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. On April 12, 2013, the Company acquired Regional One (Note 4) which provides aircraft and aircraft aftermarket parts to regional airline operators around the world. The results for Regional One have been included in the Aviation segment starting in the second quarter of 2013. The Manufacturing segment consists of niche specialty metal manufacturers in markets throughout Canada and the United States.

The Company evaluates each segment's performance based on EBITDA. The Company's method of calculating EBITDA may differ from that of other entities 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.

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

	Three Months Ended June 30, 2013				Three Months Ended June 30, 2012			
	Aviation	Manufacturing	Company	Consolidated	Aviation	Manufacturing	Company	Consolidated
Revenue	$ 80,967	$ 194,713	$ -	$ 275,680	$ 72,412	$ 129,224	$ -	$ 201,636
EBITDA	19,335	7,378	(1,745)	24,968	14,185	12,990	(2,712)	24,463
Depreciation and amortization				11,519				9,713
Finance costs - interest				5,315				3,281
Acquisition costs				838				14
Consideration liability fair value adjustment				(562)				-
Earnings before tax				$ 7,858				$ 11,455

	Six Months Ended June 30, 2013				Six Months Ended June 30, 2012			
	Aviation	Manufacturing	Company	Consolidated	Aviation	Manufacturing	Company	Consolidated
Revenue	$ 143,789	$ 351,463	$ -	$ 495,252	$ 138,166	$ 210,153	$ -	$ 348,319
EBITDA	26,463	19,979	(3,881)	42,561	22,754	20,125	(4,355)	38,524
Depreciation and amortization				21,512				18,659
Finance costs - interest				9,302				6,722
Acquisition costs				1,668				390
Consideration liability fair value adjustment				(562)				-
Earnings before tax				$ 10,641				$ 12,753

	June 30, 2013				December 31, 2012			
	Aviation	Manufacturing	Company	Consolidated	Aviation	Manufacturing	Company	Consolidated
Total assets	$ 351,560	$ 439,749	$ 112,898	$ 904,207	$ 267,443	$ 331,526	$ 110,401	$ 709,370
Net capital asset additions	25,602	3,964	2	29,568	56,965	6,150	141	63,256

11. EARNINGS PER SHARE

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

Diluted earnings per share is calculated by adjusting the weighted average number of 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.

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

The computation for basic and diluted earnings per share for the three and six months ended June 30, 2013 and comparative periods in 2012 are as follows:

	Three Months Ended		Six Months Ended	
Periods Ended June 30	2013	2012	2013	2012
Net earnings for the period, available to common shareholders	$ 5,732	$ 7,759	$ 7,318	$ 8,669
Dilutive effect of convertible debentures	3,193	1,771	5,698	3,565
Add back impact from anti-dilutive factors	(3,193)	(1,323)	(5,698)	(3,565)
Diluted earnings for the period	$ 5,732	$ 8,207	$ 7,318	$ 8,669
Basic weighted average number of Shares	21,442,904	20,447,039	21,151,472	19,492,361
Dilutive effect of convertible debentures	7,871,285	4,961,637	7,179,819	5,031,255
Add back impact from anti-dilutive factors	(7,871,285)	(3,223,624)	(7,179,819)	(5,031,255)
Diluted basis average number of Shares	21,442,904	22,185,052	21,151,472	19,492,361
Earnings per share:				
Basic	$ 0.27	$ 0.38	$ 0.35	$ 0.44
Diluted	$ 0.27	$ 0.37	$ 0.35	$ 0.44

12. DEFERRED SHARE PLAN

During the six months ended June 30, 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 six months ended June 30, 2013, the Company recorded compensation expense of $472 for the Company's Deferred Share Plan within the general and administrative expenses of head-office (2012 - $282).

13. 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 $102,780 outstanding on its credit facility (Canadian equivalent of $108,042). The outstanding funds in USD results in currency risk that the future cash flows will fluctuate with the changes in market currency rates. The exposure for the USD portion of its credit facility outstanding is offset by the cash generated through the operations of its Manufacturing and Aviation segment subsidiaries, in particular, the operations of WesTower US, Stainless and Regional One throughout the United States.

The Company`s investment in EIC USA LLC is hedged partially by US$74,500 of the secured bank loan which mitigates the foreign currency translation risk arising from the subsidiary`s net assets. The loan is designated as a net investment hedge and no ineffectiveness was recognized from the net investment hedge.

During the period, the Company also entered into a currency swap in order to hedge the remaining investment in EIC USA LLC. The hedge allows the Company to convert US$60,000 into $61,398 Canadian equivalent in the future (third quarter of 2013). At June 30, 2013, a $1,872 loss on the hedge was recorded within other comprehensive income (loss). 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.

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

Interest Rates

The Company is subject to the risk that future cash flows associated with the credit facility outstanding (Note 6) will fluctuate due to fluctuations in interest rates and the degree of volatility of the rates. The Company manages this risk and seeks financing terms in individual arrangements that are most advantageous.

The terms of the credit facility allow for the Company to choose the base interest rate between Prime, Bankers Acceptances or London Inter Bank Offer Rate ("LIBOR"). At June 30, 2013, US $93,600 was outstanding under US LIBOR, US $9,180 was outstanding under USD Prime, $24,250 was outstanding under Bankers Acceptances, and $4,000 was outstanding under Canadian Prime.

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

Fair Value of Financial Instruments

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

Recurring measurements	June 30, 2013	Quoted prices in an active market Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Financial Liabilities				
Foreign currency swap	$ (1,872)	$ -	$ (1,872)	$ -
Consideration liabilities	(22,586)	-	(22,586)	-
	$ (24,458)	$ -	$ (24,458)	$ -

The Company valued the level 2 foreign currency swap liability based on the present value of the estimated future cash flows using observable yield curves. The Company valued the level 2 consideration liability based on the present value of estimated cash outflows using observable yield curves and the observable fair market value of its equity, as applicable.

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, other long-term liabilities, 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. Management had determined that the fair value of its long term debt approximates its carrying value as such debt is subject to floating interest rates and current market conditions as it was recently amended (Note 6). Furthermore, management had determined that the fair value of its other long-term liabilities approximates carrying value as such was recorded at fair value on acquisition date.

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 its convertible debentures is $235,759 (December 31, 2012 $168,600) and a carrying value of $218,745 (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 six months ended June 30, 2013 there were no such transfers.

14. OTHER COMPREHENSIVE INCOME (LOSS)

During the three and six months ended June 30, 2013 the Company had other comprehensive income of $8,074 and income of $9,356, respectively, that relates to foreign currency translation adjustments of the operations of Stainless, Water Blast Dakota, Regional One and the US operations of WesTower from US dollars to the Canadian dollar reporting currency (2012 – income of $766, and income of $115, respectively).

In addition, during three and six months ended June 30, 2013 the Company had other comprehensive loss of $4,806 and $4,492, respectively, that relates to the Company's foreign currency hedge of the US $134,500 net investment in EIC USA LLC. Included in these amounts are losses of $2,112 and $1,872, respectively, on the foreign currency swap and losses of $2,694 and $2,620, respectively, on the US $74,500 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 13, has not experienced ineffectiveness.

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

15. CHANGES IN WORKING CAPITAL ITEMS

The changes in non-cash operating working capital items during the three and six months ended June 30, 2013 and the comparative periods in 2012 are as follows:

	Three Months Ended		Six Months Ended	
Periods Ended June 30	2013	2012	2013	2012
Accounts receivable	$ (18,194)	$ (37,898)	$ (4,887)	$ (28,712)
Costs incurred plus recognized profits in excess of billings	(33,935)	(32,114)	(49,216)	(46,706)
Inventory	(6,426)	(3,667)	(11,650)	(6,055)
Prepaid expenses	(3,962)	872	(7,259)	(1,946)
Accounts payable and accrued charges	20,504	18,818	22,740	30,610
Income taxes payable	(2,857)	(814)	(6,696)	(2,100)
Deferred revenue	(53)	154	312	1,154
Billings in excess of costs incurred plus recognized profits	8,039	3,932	12,347	(735)
Foreign currency adjustments	1,766	561	3,437	443
Net change in working capital items	$ (35,118)	$ (50,156)	$ (40,872)	$ (54,047)

16. INCOME TAX

Income tax expense is recognized based on management's best estimate of the weighted annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period. The Company's consolidated effective tax rate for the six months ended June 30, 2013 was 31.2% (six months ended June 30, 2012: 32.0%). The change in the effective tax rate is detailed in the following table:

Six Months Ended June 30	2013	2012
Earnings before provision for income taxes	$ 10,641	$ 12,753
Combined Canadian federal and provincial tax rates	27.0%	27.0%
Income tax expense at statutory rates	$ 2,873	$ 3,443
Increase (decrease) in taxes resulting from:		
Permanent differences	26	275
Change in statutory rates	(11)	(219)
Impact of foreign tax rate differences	518	519
Non-taxable capital gains	(11)	-
Other	(72)	66
Provision for income taxes	$ 3,323	$ 4,084