Exchange
Income
Corporation

Third Quarter Report

For the three and nine months ended September 30, 2012

President & CEO's Message

Exchange Income Corporation ("EIC" or the "Company") has experienced a period of remarkable growth during fiscal 2011 and 2012. The third quarter was no exception. The recent acquisition of Custom Helicopter, together with the 2011 acquisition of WesTower and the remarkable growth it has experienced since its purchase by EIC, has led to new highs for the third quarter in all financial metrics as set out below:

Sales increased by 51% to $220.8 million

- EBITDA increased by 37% to $30.3 million
- Earnings increased by 37% to $10.0 million
- Adjusted Earnings improved by 53% to $11.6 million
- Free Cash Flow after Maintenance Capital Expenditures increased by 27% to $ 16.2 million

On a basic per share basis

- Earnings increased by 17% to $0.49 per share
- Adjusted Earnings improved by 30% to $0.57 per share
- Free Cash Flow after Maintenance Capital Expenditures increased by 7% to $0.79 per share

We are pleased that the strength of these results enables us to increase our dividend by $0.06 per year or 4%.

The increases in those financial metrics were all achieved in spite of a significant strengthening and deleveraging of the Company's balance sheet through the completion of two significant offerings. In March the Company completed a $57.5 million offering of stock and in September completed a $57.5 million offering of unsecured convertible debentures. As a result, the Company had bank debt net of cash of only $38 million, or less than half of one turn of EBITDA. The Company is poised for significant growth without the need to raise additional equity.

The third quarter was not without its challenges. While our aggregate performance was strong it was the result of exceptional results in our Manufacturing segment which were offset by weaker results in our Aviation segment. The Manufacturing segment saw revenue growth of 100% to $147.3 million and EBITDA expansion of 113% to $15.3 million. There were no acquisitions completed in the Manufacturing segment over this period and the significant growth was organic in nature. WesTower was the largest contributor to this growth, increasing its revenue by 117% to $124.1 million and EBITDA by 148% to $11.3 million. The balance of our manufacturing companies, consisting of Stainless, Alberta Operations, and Overlanders, also experienced excellent growth. Sales grew by 42% to $23.3 million and EBITDA reached $3.9 million, up 51% from the comparative period.

Our Aviation segment experienced a much more challenging quarter with revenue up 1% to $73.5 million and EBITDA up 2% to $17.3 million. This modest growth was largely because of the addition of Custom Helicopter which contributed seasonally strong revenue of $5.5 million and EBITDA of $3.0 million. The decline in the balance of the segment was largely the result of increased competition in certain markets and fleet inefficiencies created by the process of eliminating the SAAB aircraft type from Calm Air's fleet. We have taken steps to deal with these issues. Our fleet consolidation at Calm Air into the ATR platform, together with the Dornier Jets, will be complete late in the fourth quarter. Also our new maintenance facility in Winnipeg is scheduled to be in operations in early 2013. Further ground infrastructure for Calm Air is also under construction in the far north. Perimeter began flying its DASH 8 300 thus increasing its capacity significantly. In short, we are taking the steps necessary to improve the performance of our Aviation segment in future quarters.

We believe that the third quarter is a continued verification of our business strategy. The diversification of our portfolio enables us to achieve strong results in periods when certain subsidiaries face operating challenges. We remain active on the acquisition front and look to deploy our available capital. We will remain diligent in ensuring that future opportunities meet our strict criteria. Access to capital is not a reason to deviate from our proven strategy and the discipline of the Company's acquisition strategy will continue.

We are upbeat about the future. In the short term, the seasonality of some of our operations will have an impact over the winter months. Over the long term, we remain bullish on the fundamentals of both of our operating sectors. Our existing companies continue to perform well and our strong balance sheet will enable us to take advantage of acquisition opportunities quickly when they are discovered. We believe we are well positioned to implement our strategy. Diversification and discipline lead to reliable, growing dividends to our shareholders.

Mike Pyle
President & CEO

Management's Discussion and Analysis

November 12, 2012

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") supplements the unaudited interim condensed consolidated financial statements and related notes for the three and nine months ended September 30, 2012 ("Consolidated Financial Statements") of Exchange Income Corporation ("EIC" or "the Company"). All amounts are stated in thousands of Canadian dollars, except per share data, unless otherwise stated.

These 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 nine months ended September 30, 2012 and its annual MD&A for the year ended December 31, 2011.

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.

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

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

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

Investors are cautioned that EBITDA, Adjusted Net Earnings and Free Cash Flow 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 and Free Cash Flow may differ from that of other entities and therefore may not be comparable to measures utilized by them.

ADDITIONAL INFORMATION

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

1. FINANCIAL HIGHLIGHTS

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

FINANCIAL PERFORMANCE	2012	per share basic	per share fully diluted	2011	per share basic	per share fully diluted
For the three months ended September 30						
Revenue	**$ 220,807**			$ 145,993		
EBITDA	**30,332**			22,153		
Net earnings	**9,972**	**$ 0.49**	**$ 0.46**	7,285	$ 0.42	$ 0.41
Adjusted net earnings	**11,610**	**0.57**	**0.53**	7,583	0.44	0.42
Free cash flow	**24,059**	**1.17**	**0.94**	19,234	1.11	0.92
Free cash flow less maintenance capital expenditures	**16,199**	**0.79**	**0.69**	12,721	0.74	0.63
Dividends declared	**8,351**	**0.405**		6,975	0.405	
For the nine months ended September 30						
Revenue	**$ 569,126**			$ 362,523		
EBITDA	**68,856**			54,105		
Net earnings	**18,641**	**$ 0.94**	**$ 0.93**	13,831	$ 0.83	$ 0.82
Adjusted net earnings	**21,240**	**1.07**	**1.05**	16,508	1.00	0.97
Free cash flow	**56,047**	**2.82**	**2.25**	46,639	2.81	2.34
Free cash flow less maintenance capital expenditures	**32,573**	**1.64**	**1.48**	24,624	1.49	1.32
Dividends declared	**24,162**	**1.215**		19,980	1.20	
FINANCIAL POSITION	**September 30, 2012**			December 31, 2011		
Working capital	**$ 145,064**			$ 67,277		
Capital assets	**257,958**			220,190		
Total assets	**655,621**			478,401		
Senior debt	**50,788**			49,234		
Equity	**291,714**			225,637		
SHARE INFORMATION	**September 30, 2012**			December 31, 2011		
Common shares outstanding	**20,434,363**			17,399,182		

2. OVERVIEW

EXCHANGE INCOME CORPORATION

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

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

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

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

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

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

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

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

Acquisition – Custom Helicopters

On February 1, 2012, the Company closed the acquisition of the shares of Custom Helicopters Ltd. ("Custom"), a privately-owned provider of helicopter-based aviation services in Manitoba and Nunavut. The acquisition price of $28.4 million has been funded through a combination of $24.1 million of cash through debt financing from the Company's credit facility and the issuance of the Company's common shares ("Shares") worth $4.3 million to the vendors of Custom (170,121 Shares).

The acquisition has been immediately accretive to the Company's 2012 key financial metrics, including EBITDA, cash flows, earnings per share and Free Cash Flows. The Company's results for the three and nine months ended September 30, 2012 include Custom's financial results since the closing date of the acquisition.

The acquisition of Custom expands the Company's existing Aviation segment to include helicopter operations. Custom has operated for over 30 years and has a fleet of 24 helicopters operating out of five bases: Winnipeg, Thompson, Gillam, and Garden Hill in Manitoba and Rankin Inlet in Nunavut. Custom has contributed total assets of $38.1 million. Custom operates light, intermediate and medium category helicopters on long- and short-term contracts to government agencies, utilities, First Nations groups, mining companies and other customers.

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

Prior Year's Acquisitions

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

Bearskin

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

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

WesTower

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

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

3. KEY PERFORMANCE INDICATORS

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

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

EBITDA

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

EBITDA	**Three Months Ended**		**Nine Months Ended**	
periods ending September 30	**2012**	2011	**2012**	2011
Earnings before income tax	$ **14,857**	$ 10,184	$ **27,610**	$ 20,610
Depreciation and amortization	**10,168**	8,486	**28,827**	22,798
Finance costs - interest	**3,454**	3,483	**10,176**	8,867
Acquisition costs	**2**	-	**392**	1,830
Impairment loss	**1,851**	-	**1,851**	-
Total EBITDA	$ **30,332**	$ 22,153	$ **68,856**	$ 54,105

FREE CASH FLOW

FREE CASH FLOW	**Three Months Ended**		**Nine Months Ended**	
periods ending September 30	**2012**	2011	**2012**	2011
Cash flows from operations	**$ 7,107**	$ 14,458	**$ (15,342)**	$ 32,859
Change in non-cash working capital items	**16,950**	4,776	**70,997**	11,950
Acquisition costs	**2**	-	**392**	1,830
	$ 24,059	$ 19,234	**$ 56,047**	$ 46,639
per share - Basic	**$ 1.17**	$ 1.11	**$ 2.82**	$ 2.81
per share - Fully Diluted	**$ 0.94**	$ 0.92	**$ 2.25**	$ 2.34

Three Month Free Cash Flow

During the third quarter of 2012 the Company generated Free Cash Flow of $24.0 million, which is $4.8 million or 25% higher than the comparative period in 2011 when the Company generated $19.2 million. The increase is attributed mainly to the 37% increase in EBITDA, which represents an increase of $8.2 million over the comparative period. The addition of Custom in February 2011 with no amounts in the comparative period was a contributing factor to the increase; however, this was mostly offset by a decrease in EBITDA for the pre-existing entities within the Aviation segment. The expansion by WesTower in its US region and the improved results in the pre-existing Manufacturing segment entities were the main contributors to the increase in EBITDA. The EBITDA for the period is analyzed in more detail below in Section 4 – Analysis of Operations. This increase in EBITDA was offset by an increase in cash taxes for the period of $3.6 million but benefited from a net decrease in cash interest paid of $0.1 million. The Company's current tax expense is generated by certain subsidiaries that do not have full access to the Company's non-capital losses. As the income subject to tax in those subsidiaries grows the amount of cash taxes also grows.

On a per share basis, basic Free Cash Flow for the third quarter of 2012 increased to $1.17 (fully diluted $0.94) in comparison to $1.11 for 2011 (fully diluted $0.92). The increase in the Free Cash Flow described above was offset by the increased number of Shares outstanding. The amount of Shares outstanding at September 30, 2012 was 20.4 million, which is 19% higher than the 17.2 million Shares outstanding at September 30, 2011. The increase in Shares outstanding was caused by several factors, but the main reason for the increase was the Shares issued as part of the closing of the March 2012 prospectus offering. Explanations for the increases can be found in Section 6 – Liquidity and Capital Resources.

The increase in Shares outstanding significantly decreases the per share results, and the use by the Company of $50 million of the proceeds from the March 2012 prospectus Share offering to repay debt outstanding in the Company's credit facility further contributed to the decrease in per share results. Similarly, the Company used the net proceeds from the September unsecured debenture offering to repay more of the Company's debt outstanding. These decisions will continue to impact the per share results of the Company until these funds are deployed even though some of it was used for funding the organic growth in the US operations of WesTower. As at September 30, 2012, the deleveraged balance sheet puts the Company in a position to finance approximately a $185 million acquisition without the need for additional equity financing.

Nine Month Free Cash Flow

The Company generated Free Cash Flow of $56.0 million for the nine months ended September 30, 2012, which is $9.4 million higher than the $46.6 million generated in the comparative 2011 period. Consistent with the discussion above for the three month period, the 20% increase in Free Cash Flow is mainly the result of the 27% increase in EBITDA, which is an increase of $14.8 million over the comparative period. The improved EBITDA for the nine month period is a result of the successful acquisition of Custom in the first quarter and the expansion in WesTower's US operations, but it is also a result of the strong performance by the Company's pre-existing entities within the Manufacturing segment, offset by a decrease in EBITDA generated by the Aviation segment's pre-existing entities. The EBITDA for the period is analyzed in more detail below in Section 4 – Analysis of Operations. The increased EBITDA was offset by the increase of $4.9 million of cash taxes for the period and the increase of $0.8 million of cash interest paid, particularly on the higher convertible debenture principal outstanding in the 2012 period.

On a basic per share basis, the increase in absolute Free Cash Flow was offset by the higher share base and as a result was relatively consistent at $2.82 for the nine months ended September 30, 2012 (fully diluted decrease of 4% to $2.25) to $2.81 for the comparative period (2011 fully diluted $2.34). Consistent with the three month discussion above, the increase on the per share basis is significantly less than the increase in the actual Free Cash Flow amounts due to the increased number of shares outstanding year over year and additional convertible debentures outstanding affecting the fully diluted amount.

FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENDITURES

FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENDITURES	Three Months Ended		Nine Months Ended	
periods ending September 30	**2012**	2011	**2012**	2011
Free Cash Flow	**$ 24,059**	$ 19,234	**$ 56,047**	$ 46,639
Maintenance Capital Expenditures	**7,860**	6,513	**23,474**	22,015
	$ 16,199	$ 12,721	**$ 32,573**	$ 24,624
per share - Basic	**$ 0.79**	$ 0.74	**$ 1.64**	$ 1.49
per share - Fully Diluted	**$ 0.69**	$ 0.63	**$ 1.48**	$ 1.32

Three Month Free Cash Flow Less Maintenance Capital Expenditures

The Company generated Free Cash Flow less maintenance capital expenditures of $16.2 million for the third quarter of 2012, which is an increase of $3.5 million or 27% over the $12.7 million generated in the comparative period in 2011. The improvement is mainly due to the 25% increase in Free Cash Flow described above for the third quarter. The maintenance capital expenditures increased by 21% to $7.9 million for the third quarter of 2012 and are described in detail in the Capital Expenditures Section.

It is important to understand that as a result of the change to IFRS, maintenance capital expenditures fluctuate from period to period with greater 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 now treated as capital expenditures when the event takes place. 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 third quarter of 2012 increased to $0.79 ($0.69 fully diluted) in comparison to $0.74 ($0.63 fully diluted) in the 2011 comparative period. The increase of 7% (10% fully diluted) is due to the additional Free Cash Flow less maintenance capital expenditures generated by the Company, offset by an increased base of Shares outstanding for the Company during the 2012 period. The maintenance capital expenditure component of this metric is described further below and accounted for the $0.38 decrease from Free Cash Flow. The maintenance capital expenditures impact for the comparable period in 2011 was also $0.38 per share.

Nine Month Free Cash Flow Less Maintenance Capital Expenditures

Consistent with the discussion above for the third quarter, the Company generated Free Cash Flow less maintenance capital expenditures of $32.6 million for the nine months ended September 30, 2012, which is an increase of $7.9 million or 32% over the $24.6 generated in the comparative period in 2011. The 20% increase in Free Cash Flow described above for the first nine months of 2012 was offset by the 7% increase in maintenance capital expenditures. The expenditures increased to $23.5 million for the first nine months of 2012 and are described in detail in the Capital Expenditures Section.

On a basic per share basis, Free Cash Flow less maintenance capital expenditures for the nine months ended September 30, 2012 increased to $1.64 ($1.48 fully diluted) in comparison to $1.49 ($1.32 fully diluted) in the 2011 comparative period. This is an increase of 10% (12% fully diluted). The maintenance capital expenditure component of this metric is described further below and accounted for the $1.18 decrease from Free Cash Flow. The maintenance capital expenditures impact for the comparable period in 2011 was $1.33 per share.

CAPITAL EXPENDITURES

CAPITAL EXPENDITURES	**Three Months Ended**		**Nine Months Ended**	
periods ending September 30	**2012**	2011	**2012**	2011
Cash maintenance capital expenditures	**$ 7,562**	$ 6,190	**$ 22,537**	$ 21,394
add: finance lease principal payments	**298**	323	**937**	621
Maintenance capital expenditures	**7,860**	6,513	**23,474**	22,015
Growth capital expenditures	**6,900**	2,876	**30,064**	7,196
	$ 14,760	$ 9,389	**$ 53,538**	$ 29,211
Maintenance capital expenditures per share - Basic	**$ 0.38**	$ 0.38	**$ 1.18**	$ 1.33
Growth capital expenditures per share - Basic	**0.34**	0.17	**1.52**	0.43
Total capital expenditures per share - Basic	**$ 0.72**	$ 0.55	**$ 2.70**	$ 1.76

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 comparing to the same period in the prior year. It is important to note that the change from CGAAP to IFRS does not change the cash outflows to maintain the fleet. It does, however, make the period to period results less comparable.

Maintenance Capital Expenditures

Total maintenance capital expenditures for the third quarter of 2012 totaled $7.9 million compared to $6.6 million in the third quarter of 2011, an increase of $1.3 million. The Aviation segment continues to make up the majority, as it spent $6.9 million versus the $1.0 million in the Manufacturing segment.

Custom, which is not in the comparative 2011 period, accounted for $0.3 million of the increase. The maintenance capital expenditures will vary from period to period based on the timing of maintenance events in the Aviation segment. The total maintenance capital expenditures of $7.9 million are at a level that is indicative of an average quarter and were fairly consistent with the first and second quarters of 2012, at $7.3 million and $8.3 million, respectively. The majority of the Aviation segment's maintenance capital expenditures relate to engine overhauls, heavy checks and rotable additions. The expenditures at EIC's various airlines are generally proportionate to the size and number of aircraft they operate. As discussed above the maintenance capital expenditures will fluctuate from quarter to quarter and from year to year.

The Manufacturing segment's capital expenditures were mainly from WesTower which spent $0.7 million during the period and includes $0.3 million of finance lease payments. The Manufacturing segment's capital expenditures are largely equipment and vehicles. As a result of the acquisition of WesTower, the Company now has finance leases for vehicles. These finance lease principal payments do not show up as part of the Free Cash Flow or the capital expenditures that tie into the statement of cash flows. In order to fully reflect the Free Cash Flow after maintenance capital expenditures as the cash flow generated, the Company has disclosed the finance lease principal payments and deducted this from the Free Cash Flow less maintenance capital expenditures calculation.

Total maintenance capital expenditures for the nine months ended September 30, 2012 were $23.5 million, $1.5 million higher than the $22.0 million in 2011. Excluding the maintenance capital expenditures for Custom and the first quarter for WesTower, maintenance capital expenditures were $21.7 million. This is consistent with $22.0 million spent in the comparable companies in 2011. As discussed above, the maintenance capital expenditures are fluid and the Company doesn't expect the maintenance capital expenditures to always be this consistent year over year and quarter to quarter.

Growth Capital Expenditures

The Company invested a net total of $6.9 million in growth capital expenditures during the third quarter of 2012, which consisted of $10.7 million in expenditures less $3.8 million in disposals. The majority of the growth capital expenditures were in the Aviation segment which accounted for net $5.4 million of the growth capital expenditures. The major growth capital expenditures were for additional aircraft and infrastructure for Calm Air's fleet type rationalization. These $5.4 million of aviation growth expenditures are net of the disposal of two aircraft by Calm Air as part of their fleet type rationalization. Calm Air will continue this fleet rationalization in the fourth quarter, which will include the disposal of four more aircraft and the addition of one more ATR 42. Total aircraft growth capital expenditures were $3.3 million, net of the $3.8 million in disposals, which included the final upgrades on Calm Air's ATR 42 acquired in the second quarter and the addition of Calm Air's second Dornier jet that will be utilized in Calm Air's scheduled passenger operations which provides service to the Government of Nunavut under a contract signed in September 2011. In addition to these aircraft expenditures, the Aviation segment spent $2.1 million on ground infrastructure which was largely related to Calm Air's aircraft fleet rationalization and resulting infrastructure required to support the fleet changes in the far north. The Manufacturing segment spent $1.5 million on growth capital expenditures in the second quarter. This entire amount was spent at WesTower to support their growth. The majority of these expenditures are on vehicles and equipment.

For the nine months ended September 30, 2012, the Company invested a total of $30.1 million in growth capital expenditures, which consisted of $33.9 million in expenditures less $3.8 million in disposals. In addition to the items listed above for the three month period, the Company spent an additional $23.2 million in growth capital expenditures during the first six months of 2012. The majority of these growth capital expenditures were for additional aircraft and infrastructure at the James Armstrong Richardson International Airport. Total aircraft growth expenditures for the first six months of 2012 amounted to $15.6 million, which consisted of the addition of a DASH 8 300 to service the growth of Perimeter's major markets, the purchase of a previously leased helicopter for Custom, a new Metro III to service Bearskin's business, and a Dornier Jet, an ATR 42 and a spare ATR 72 engine for Calm Air as part of their fleet type rationalization plan. In addition to these aircraft expenditures, $5.3 million was spent on infrastructure at the James Armstrong Richardson International Airport in Winnipeg. In the Manufacturing segment, WesTower spent $1.7 million on growth capital expenditures to support their significant growth.

DIVIDENDS & PAYOUT RATIO

The amounts and record dates of the dividends declared during the nine months ended September 30, 2012 and the comparative period in 2011 were as follows:

Month	Record date	Per Share	2012 Dividends Amount	Record date	Per Share	2011 Dividends Amount
January	January 31, 2012	$ 0.135	$ 2,390	January 31, 2011	$ 0.13	$ 2,006
February	February 29, 2012	0.135	2,423	February 28, 2011	0.13	2,049
March	March 30, 2012	0.135	2,740	March 31, 2011	0.13	2,064
April	April 30, 2012	0.135	2,749	April 29, 2011	0.135	2,266
May	May 31, 2012	0.135	2,753	May 31, 2011	0.135	2,307
June	June 29, 2012	0.135	2,756	June 30, 2011	0.135	2,313
July	July 31, 2012	0.135	2,781	July 29, 2011	0.135	2,321
August	August 31, 2012	0.135	2,783	August 31, 2011	0.135	2,325
September	September 28, 2012	0.135	2,787	September 30, 2011	0.135	2,329
Total		**$ 1.215**	**$ 24,162**		$ 1.200	$ 19,980

Actual dividends for the third quarter of 2012 totaled $8.4 million, which was an increase of 20% from the comparative period in 2011 when the actual payouts were $7.0 million. Per share dividends for both the third quarter of 2012 and 2011 were consistent and totaled $0.405 for each period. The increase in total dividends is therefore a result of the increase in the Shares outstanding.

Actual dividends for the nine months ended September 30, 2012 totaled $24.2 million, which was an increase of 21% from the comparative period in 2011 when the actual payouts were $20.0 million. Per share dividends for the first nine months of 2012 totaled $1.215, which is an increase of 1% over the dividends paid per share of $1.20 in the comparative period in 2011.

The Company's Board of Directors regularly examines the dividends paid to shareholders. The dividend rate per share was $0.135 per month throughout the first nine months of 2012 but will be increased to $0.14 per month, a 4% increase. The new dividend rate will commence with the November dividend declared. The last dividend increase was in April 2011, also an increase of 4% or $0.005 per share per month. Management expects that the Company will generate sufficient cash for the remainder of 2012 and going forward into 2013 to meet or exceed the new $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	**2012**	**Per share basic**	**Per share fully diluted**	2011	Per share basic	Per share fully diluted
For the three months ended September 30						
Free Cash Flows		***35%***	***43%***		*36%*	*44%*
Free Cash Flows less maintenance capital expenditures		***51%***	***59%***		*55%*	*64%*
For the nine months ended September 30						
Free Cash Flows		***43%***	***54%***		*43%*	*51%*
Free Cash Flows less maintenance capital expenditures		***74%***	***82%***		*81%*	*91%*

The payout ratios for the third quarter of 2012 for both Free Cash Flow and Free Cash Flow less maintenance capital expenditures show improvements over the comparative period amounts as a result of improved absolute amounts and consistent dividends declared per share. For the nine month period ended September 30, 2012, the Free Cash Flow payout ratios are relatively consistent with the comparative period and the Free Cash Flow less maintenance capital expenditures payout ratios for that period have improved as a result of the smaller increase in maintenance capital expenditures between the periods and spread over a larger share base. The payout ratios for the nine month period ended September 30, 2012 also take into consideration the seasonally weak first quarter which generally has the weakest operational results for the Company. 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 September 30, 2012 and the comparative 2011 period.

	Three Months Ended September 30, 2012				Three Months Ended September 30, 2011			
	Aviation	**Manufacturing**	**Head-office(2)**	**Consolidated**	Aviation	Manufacturing	Head-office(2)	Consolidated
Revenue	$ 73,459	$ 147,348	$ -	$ 220,807	$ 72,415	$ 73,578	$ -	$ 145,993
Expenses(1)	56,193	132,084	2,198	190,475	55,419	66,407	2,014	123,840
EBITDA	17,266	15,264	(2,198)	30,332	16,996	7,171	(2,014)	22,153
Depreciation and amortization				10,168				8,486
Finance costs - interest				3,454				3,483
Acquisition costs				2				-
Impairment loss				1,851				-
Earnings before taxes				14,857				10,184
Current income tax expense				3,610				62
Deferred income tax expense				1,275				2,837
Net earnings for the period				$ 9,972				$ 7,285

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

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

On a consolidated basis, total revenue for the Company for the third quarter of 2012 increased by 51% or $74.8 million to $220.8 million when compared to the same period in 2011. The main drivers of the increase in consolidated revenue for 2012 is the organic growth in the Manufacturing segment, in particular at WesTower, and the acquisition of Custom in the Aviation segment which has no comparative in 2011. The revenues for the Aviation segment increased by 1% to $73.5 million and the revenues for the Manufacturing segment increased by 100% to $147.3 million.

On a consolidated basis, EBITDA of the Company for the third quarter of 2012 was $30.3 million, an increase of 37% or $8.2 million when compared to the same period in 2011. Consistent with consolidated revenues, the main driver of the increase in consolidated EBITDA for 2012 was the organic growth in the Manufacturing segment, in particular at WesTower. The EBITDA for the Aviation segment increased by 2% to $17.3 million and the EBITDA for the Manufacturing segment increased by 113% to $15.3 million. Costs incurred at the head-office of the Company increased by 9% to $2.2 million.

AVIATION SEGMENT

Aviation Segment	Three Months Ended September 30,	2012	2011	Variance	Variance %
Revenue		73,459	72,415	1,044	1%
Expenses		56,193	55,419	774	1%
EBITDA		17,266	16,996	270	2%

Revenue generated by the Aviation segment in the third quarter of 2012 increased by $1.1 million or 1% from $72.4 million in 2011 to $73.5 million in 2012 including $5.5 million generated from Custom Helicopter, which was acquired February 1, 2012. The operational results of the pre-existing Aviation subsidiaries experienced a decline in revenues from $72.4 million in 2011 to $68.0 million in 2012, a decline of $4.4 million, or 6%. Revenue generated from passenger services decreased by $3.6 million, which was largely the result of the removal of Keewatin Air's scheduled services effective September 1, 2011, increased competition by two competitors in the eastern region operated by Bearskin, as well as a reduction in travel in Calm Air's market. Charter revenue experienced a small decrease in the third quarter of 2012 compared to the prior year. As noted in prior reports, Calm Air ceased regular charter service to one of their significant mining customers. Calm Air partly mitigated the loss of this business by securing new charter opportunities; however, lack of available aircraft during their fleet renewal process limited Calm Air's ability to capitalize on all charter opportunities and contributed to the decline. The balance of the decline in revenue includes small decreases in cargo activities, aviation support and ancillary service activities. These decreases were partly offset by a small improvement in medevac operations.

Operational expenses for the consolidated Aviation segment increased by $0.8 million, or 1%, from $55.4 million in 2011 to $56.2 million in 2012. Custom Helicopter, which was acquired February 1, 2012, contributed $2.5 million of the operational expense increase. Operational expenses for the pre-existing aviation entities decreased by $1.6 million, or 3%, from $55.4 million in 2011 to

$53.8 million in 2012. The most significant decreases in operational expenses in the third quarter of 2012 compared to the third quarter of 2011 include reductions in fuel, labour and third party aircraft rental. Firstly, average fuel prices increased by approximately 2% putting upward pressure on fuel costs. This was offset by a reduction in fuel consumption driven by a reduction in fleet hours. Changes made to the scheduled operations to address current market conditions as well as reduced charter activity, produced a 5% decline in fuel consumed compared to the third quarter of 2011. Secondly, labour experienced a small decrease compared to the prior year. This decrease is mainly due to changes in scheduled operations including the removal of Keewatin Air's scheduled operations effective September 1, 2011, reductions resulting from the realignment of cargo and ramp operations, as well as decreases in labour associated with reduced flying. Lastly, in the third quarter of 2011, in order to service the Government of Nunavut contract, Calm Air entered into a short term wet lease which resulted in approximately $0.3 million of lease expenses in the third quarter of 2011 with no corresponding expense in the third quarter of 2012.

EBITDA margin for the Aviation segment for the third quarter of 2012 and 2011 was relatively flat at 23.5%. This was the result of the addition of the Custom Helicopter business that has seasonally higher margins in the third quarter which was offset by a decline in margins in the pre-existing operations. Revenues generated by the pre-existing aviation entities decreased at a higher rate than the decrease in operational expenses, thereby placing downward pressure on the EBITDA margin. As discussed above, increased competition reduced both passenger volumes and passenger yields and suppressed margins in the eastern region operated by Bearskin. The medevac operations moved to a provincially administered Central Dispatch System which generated lower margins. Thirdly, reduced flying generated labour cost reductions in the flight operations and direct operating support areas including labour costs associated with pilots, flight attendants, dispatch, cargo and ramp operations; however, these labour cost reductions were partly offset by increases in maintenance labour which resulted from rate increases tied to agreements, as well as increased maintenance personnel to service fleet changes.

MANUFACTURING SEGMENT

Manufacturing Segment	Three Months Ended September 30,	2012	2011	Variance	Variance %
Revenue		$ 147,348	$ 73,578	$ 73,770	100%
Expenses		132,084	66,407	65,677	99%
EBITDA		$ 15,264	$ 7,171	$ 8,093	113%

The Manufacturing segment earned revenues of $147.3 million and EBITDA of $15.3 million for the three months ended September 30, 2012. This represents a $73.8 million increase in revenue and an $8.1 million increase in EBITDA in comparison to the same period in the prior year.

Revenues were up $73.8 million or 100% over the prior year comparable quarter. WesTower contributed the majority of this increase as its revenues continued to be bolstered by the AT&T turf contract that started late in 2011. The work from the turf contract continued to increase each month as WesTower transitioned into construction work in its new territories. Revenues were also strong in Canada as WesTower continues to perform Long-Term Evolution ("LTE") network builds for the major telecom companies.

The other manufacturing companies also contributed strong increases as their revenues increased by $6.8 million over the prior year period, representing a 42% increase. The increases in revenues were driven by both strong shop and field operations, which was supported by multiple large projects in the spirits, food processing and wine industries.

EBITDA was $15.3 million, up $8.1 million or 113% over the prior year comparable quarter. Consistent with the change in revenues, EBITDA increased in 2012 as a result of the strength of WesTower and the continued strength of the remainder of the Manufacturing segment. WesTower contributed over 80% of the EBITDA increase with the other manufacturing entities contributing the remaining increase, representing EBITDA increases of 148% and 51% over the prior year comparable period, respectively. The EBITDA growth was driven by both increased revenue and slightly higher EBITDA margins, which were 10.4% compared to 9.7% in the third quarter of 2011.

The EBITDA margins of the Manufacturing segment, excluding WesTower, increased to 16.9% from 15.9% in the comparable period. The increase in margins was largely the result of the increase in revenues while keeping consistent overheads. EBITDA margins at WesTower were 9.1%, an improvement over the 8.0% realized in the third quarter of 2011 and also a continued improvement over the previous quarters in 2012, which were 4.8% and 7.5%, in the first and second quarters, respectively. As disclosed in previous quarterly reports, WesTower operates in a lower margin business than the other companies in the Manufacturing segment. The US operations of WesTower realized margins of 8.6%, which marks a considerable improvement over the first and second quarters of 2012, which were 1.6% and 6.7%, respectively. As disclosed in previous quarters, the Company expected to see this margin improvement as WesTower transitioned into the AT&T turf contract. The expected margin for WesTower is in the high single digits.

The significant growth of WesTower and the continued strength of the remainder of the Manufacturing segment resulted in the segment contributing 67% of the Company's third quarter consolidated revenues in 2012 compared to 50% in 2011. At the EBITDA level, the Manufacturing segment contributed 47% of the consolidated EBITDA of the Company's segments in comparison to 30% for the comparative in 2011.

HEAD-OFFICE

Head-office Costs Three Months Ended September 30,		2012		2011		Variance	Variance %
Expenses	$	2,198	$	2,014	$	184	9%

The head-office costs increased in the third quarter of 2012 by $0.2 million or 9% over the comparative period in 2011. The increase can be attributed to personnel costs increasing by $0.1 million and also travel related costs by $0.1 million as a result of the increase in the number of head-office personnel.

OTHER NON-EBITDA ITEMS

The following analyzes the changes in the other non-EBITDA income statement items that impacted net earnings for the three months ended September 30, 2012 in comparison to the same period in 2011. Consolidated net earnings for the three months ended September 30, 2012 was $10.0 million, an increase of $2.7 million over the comparative period in 2011.

Three Months Ended September 30,		2012		2011	Variance	Variance %
Depreciation and amortization	$	10,168	$	8,486	1,682	20%

The depreciation and amortization for the Company increased by $1.7 million or 20% in the third quarter of 2012 over the comparative period in 2011. The acquisition of Custom, which closed in February 2012, added additional depreciation and amortization of $0.9 million with no comparative amount in the 2011 period. The other pre-existing subsidiaries contributed the other $0.8 million change, in particular the Aviation segment outside of Custom as a result of the recent significant capital expenditures that have been made in those entities over the past year.

Three Months Ended September 30,		2012		2011		Variance	Variance %
Finance costs - interest	$	3,454	$	3,483	$	(29)	-1%

The finance costs incurred by the Company for the third quarter of 2012 are consistent with the comparative period in 2011. The finance costs include interest on both the Company's outstanding debentures and on its long-term debt. Both periods resulted in consistent amounts of interest even though the Company issued $57.5 million of unsecured convertible debentures near the end of the third quarter with a fixed interest rate of 5.5% on a seven year term. These debentures were outstanding for only 11 days in the third quarter.

The finance costs on the Company's credit facility and finance leases were also consistent with the comparative period. The majority of the net proceeds from the September issuance of the unsecured convertible debentures was used to pay down the Company's outstanding principal in its credit facility. During the quarter the Company also continued to make draws for funding the working capital growth at WesTower's turf contract expansion and the purchase of an aircraft at Calm Air. The standby costs incurred decreased in the 2012 period as a result of the Company's credit facility being utilized more during the period but this was offset by the increase in cash interest costs on the US portion of the credit facility.

Three Months Ended September 30,		2012		2011		Variance	Variance %
Acquisition Costs	$	2	$	-	$	2	-

The Company incurred minimal amounts of external acquisition related costs during the third quarter of 2012 and the comparative 2011 period.

Three Months Ended September 30,		2012		2011		Variance	Variance %
Impairment Loss	$	1,851	$	-	$	1,851	-

The Company recorded an impairment write-down during the third quarter of 2012 in association with several aircraft within the Aviation segment. Calm Air entered into an arrangement to sell its SAAB aircraft as part of its fleet renewal plan. A total of six aircraft were structured to be sold for combined gross proceeds of US$10,575. As a result of entering into the agreement, the Company recorded an impairment write-down of $1,626 on these aircraft during the third quarter to bring the net book value of these aircraft down to the expected net proceeds of the disposals after selling costs. As at September 30, 2012, four of these aircraft have not yet been delivered based on the terms of the agreement and are recorded on the Company's balance sheet as Assets Held for Sale at a value equal to the expected net proceeds from the sales. The Company is scheduled to deliver those aircraft during the fourth quarter of 2012 and is no longer depreciating them.

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

Three Months Ended September 30,		2012		2011		Variance	Variance %
Current income tax expense	$	3,610		62		3,548	5723%
Deferred income tax expense		1,275		2,837		(1,562)	-55%
Income Tax Expense	$	4,885	$	2,899	$	1,986	69%

Income tax expense for the 2012 period was $4.9 million, representing an increase of $2.0 million, or 69%, over the comparative period in 2011. There are two primary reasons for the increase in tax expense. First, earnings before income tax increased by $4.6 million or 46%. Secondly, a larger proportion of earnings before income taxes was earned in jurisdictions with a higher statutory tax rate.

Current tax expense is the expected tax payable on taxable income after applying non-capital losses. Not all of the subsidiaries have access to the non-capital losses. During the period, the income subject to tax of these subsidiaries, before the use of subsidiary losses, was $10.2 million (2011 – $0.2 million). This resulted in current income tax expense of $3.6 million.

During the period, the company offset $6.6 million (2011 – $8.0 million) of taxable income of some of its subsidiaries with non-capital losses. The Company has approximately $132.9 million (2011 – $155 million) of non-capital losses available to offset future taxable income.

Nine Month Results

The following section analyzes the financial results of the Company's operations for the nine months ended September 30, 2012 and the comparative 2011 period.

	Nine Months Ended September 30, 2012				Nine Months Ended September 30, 2011			
	Aviation	**Manufacturing**	**Head-office(2)**	**Consolidated**	Aviation	Manufacturing	Head-office(2)	Consolidated
Revenue	**$ 211,625**	**$ 357,501**	**$ -**	**$ 569,126**	$ 205,563	$ 156,960	$ -	$ 362,523
Expenses(1)	**171,605**	**322,112**	**6,553**	**500,270**	162,134	140,644	5,640	308,418
EBITDA	**40,020**	**35,389**	**(6,553)**	**68,856**	43,429	16,316	(5,640)	54,105
Depreciation and amortization				**28,827**				22,798
Finance costs - interest				**10,176**				8,867
Acquisition costs				**392**				1,830
Impairment loss				**1,851**				-
Earnings before taxes				**27,610**				20,610
Current income tax expense				**4,882**				279
Deferred income tax expense				**4,087**				6,500
Net earnings for the period				**$ 18,641**				$ 13,831

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

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

On a consolidated basis, total revenue for the Company for the nine months ended September 30, 2012 increased by 57% or $206.6 million to $569.1 million when compared to the same period in 2011. The main drivers of the increase in consolidated revenue are consistent with the three month discussion above, but in addition there is no comparative for WesTower for the first three months of 2011 since it was acquired by the Company on April 1, 2011. The revenues for the Aviation segment increased by 3% to $211.6 million and the revenues for the Manufacturing segment increased by 128% to $357.5 million.

On a consolidated basis, EBITDA of the Company for the nine months ended September 30, 2012 was $68.9 million, an increase of 27% or $14.8 million when compared to the same period in 2011. The EBITDA for the Aviation segment decreased by 8% to $40.0 million and the EBITDA for the Manufacturing segment increased by 117% to $35.4 million. Costs incurred at the head-office of the Company increased by 16% to $6.6 million.

AVIATION SEGMENT

Aviation Segment	Nine Months Ended September 30,	2012	2011	Variance	Variance %
Revenue		$ 211,625	$ 205,563	$ 6,062	3%
Expenses		171,605	162,134	9,471	6%
EBITDA		$ 40,020	$ 43,429	$ (3,409)	-8%

The Aviation segment generated revenues of $211.6 million and EBITDA of $40.0 million for the nine months ending September 30, 2012. Revenue generated by the Aviation segment increased by $6.0 million, or 3%, from $205.6 million in 2011 to $211.6 million in 2012 including $12.3 million generated from Custom Helicopter, which was acquired February 1, 2012. The operational results of the pre-existing Aviation subsidiaries experienced a decline in revenues from $205.5 in 2011 to 199.3 million in 2012, a decline of $6.2 million, or 3%. Revenues generated from passenger services decreased by $6.8 million, or 6%, from $120.1 million to $113.3 million. The decrease in passenger revenue is the result of the removal of Keewatin Air's scheduled services effective September 1, 2011, inclement weather conditions experienced in the northern regions in the first four months of 2012, and lastly, increased competition by two competitors in the eastern region operated by Bearskin. These decreases were offset by growth in medevac and charter operations which increased by $1.3 million, or 5%, and $1.2 million, or 6%, respectively. The increase in charter operations was primarily driven by growth in the mining and exploration industry, as well as increases related to evacuation services, while the increase in medevac operations was driven by a combination of growth in Perimeter's medevac operations as well as increases related to Keewatin Air's medical contract. Lastly, revenues for the aviation support group declined $1.8 million compared to 2011; however, the aviation support companies yield lower margins and were primarily established to support the Aviation segment, rather than grow revenues.

Operational expenses for the consolidated Aviation segment increased by $9.5 million, or 6%, from $162.1 million in 2011 to $171.6 million in 2012 including $6.4 million generated from Custom Helicopter. The operational expenses for the pre-existing Aviation subsidiaries increased by $3.2 million, or 2%, from $162.1 million in 2011 to $165.3 million in 2012. The increase is primarily due to three factors. Firstly, average fuel prices increased by approximately 4%, putting significant upward pressure on fuel costs. However, this was partially offset by an overall fuel consumption decline. Secondly, labour costs increased by approximately $2.0 million compared to the same period in the prior year and is primarily explained by three factors. Labour and training costs associated with changes in the scheduled service operations, labour related to developing infrastructure to support Calm Air's contract with the Government of Nunavut, as well as increases related to labour agreements all contributed to the increase in labour costs. As discussed in the outlook and in previous reports, the Company is reviewing the labour complement in order to appropriately realign labour costs to address changes in market conditions across the aviation subsidiaries, as well as address changes in the fleet resulting from Calm Air's fleet rationalization plan. Thirdly, in order to service the Government of Nunavut contract, the Company wet leased a jet until the second quarter of 2012. A wet lease is an arrangement where the Company pays for more than just the aircraft and includes pilot, maintenance and other operational costs such as insurance. Having a jet is a requirement under the three year contract which began in September 2011. Calm Air entered into a short term wet lease while focusing on putting the infrastructure associated with this operation in place including procuring a jet as well as acquiring and training staff. Costs associated with wet leasing resulted in approximately $1.2 million in 2012 compared to $0.3 million in 2011, an increase of $0.9 million. Costs related to aircraft movement fees, parts and infrastructure expenses associated with the medical contracts increased in 2012, however, these costs were more than offset by cost reductions in other areas.

EBITDA margin for the Aviation segment experienced a decline in the first nine months from 21.1% in 2011 to 18.9% in 2012. This was the result of a decline in margins in the pre-existing operations which was slightly offset by the addition of the Custom Helicopter business. As discussed in prior reports, in the first four months of the year, revenues were impacted by poor weather conditions in the northern regions which had a significant impact on passenger movement and flight loads which negatively impacted margins. Secondly, increased competition reduced both passenger volumes and passenger yields and suppressed margins in the eastern region operated by Bearskin. The medevac operations moved to a provincially administered Central Dispatch System which also generated lower margins. Increased fuel cost also impacted margins. The Company monitors fuel cost closely to ensure that fuel surcharges are added to the cost of the ticket for customers when it is considered necessary and feasible. While most of the Company's aviation subsidiaries are able to pass along fuel price increases, the Company and its subsidiaries are mindful of the impact price increases have on the communities they serve. The Company implemented fuel surcharges in some markets at the end of the second quarter of 2012 to offset rising fuel prices; however, increased competition in the eastern region prevented the implementation of fuel surcharges in this market, and therefore some of the fuel increases were not offset. The other cost increases noted above, further explain the reduction in EBITDA margin.

MANUFACTURING SEGMENT

Manufacturing Segment	Nine Months Ended September 30,	2012	2011	Variance	Variance %
Revenue		$ 357,501	$ 156,960	$ 200,541	128%
Expenses		322,112	140,644	181,468	129%
EBITDA		$ 35,389	$ 16,316	$ 19,073	117%

The Manufacturing segment earned revenues of $357.5 million and EBITDA of $35.4 million for the nine months ended September 30, 2012. This represents a $200.5 million increase in revenue and a $19.1 million increase in EBITDA in comparison to the same period in the prior year.

Revenues were up $200.5 million or 128% over the prior year comparable period. There are three main contributors to the increase. Firstly, WesTower was acquired on April 1, 2011 and is only in the comparable period for six of the nine months. WesTower generated revenue of $57.1 million in the first quarter of 2012 with no comparable in 2011. Secondly, WesTower has experienced considerable growth of its US business as a result of the AT&T turf contract that started in December 2011. This contract has led to a significant revenue increase from the prior year, as exemplified by WesTower's 114% growth in revenue in the six month period ended September 30, 2012 compared to the comparable 2011 period. The third reason is the continued improvement of the remainder of the Manufacturing segment. Consistent with the discussion for the three month period, there have been considerable revenue increases in the remainder of the Manufacturing segment's operations during 2012. The Manufacturing segment excluding WesTower increased revenues by 43% over the prior year period as a result of these improvements.

EBITDA was up $19.1 million or 117% over the prior year comparable period. The EBITDA increase was driven by the significant increase in revenue, as well as EBITDA margin increases for the pre-existing manufacturing entities. EBITDA margins for the 9 months decreased to 9.9% from 10.4% as the lower margin WesTower business was included in the results for 9 months in 2012 compared to 6 months in 2011. EBITDA margins for the pre-existing manufacturing entities increased to 18.9% from 17.1% in the 2011 period for the same reasons as discussed above in the third quarter analysis. WesTower margins also increased from 7.3% in 2011 to 7.7% in 2012, despite the 2011 comparable not including the seasonally slow first quarter of the year, as WesTower was acquired on April 1, 2011.

HEAD-OFFICE

Head-office Costs	Nine Months Ended September 30,	2012	2011	Variance	Variance %
Expenses		$ 6,553	$ 5,640	$ 913	16%

The head-office costs increased for the nine months ended September 30, 2012 by $0.9 million or 16% over the comparative period in 2011. The increase is attributable to an increase in personnel costs which comes from more personnel within the head-office team and the increase in share-based compensation programs for the Company's consolidated employee base, executives, and directors. Other professional fees and public company costs have increased by $0.3 million in the 2012 period based on certain events associated with the growth of the Company.

OTHER NON-EBITDA ITEMS

The following analyzes the changes in the other non-EBITDA income statement items that impacted net earnings for the nine months ended September 30, 2012 in comparison to the same period in 2011. Consolidated net earnings for the nine months ended September 30, 2012 were $18.6 million, an increase of $4.8 million over the comparative period in 2011.

Nine Months Ended September 30,	2012	2011	Variance	Variance %
Depreciation and amortization	$ 28,827	$ 22,798	$ 6,029	26%

The Company's depreciation and amortization for the nine months ended September 30, 2012 increased by $6.0 million or 26% over the comparative period in 2011. The acquisition of Custom which closed in February 2012 resulted in additional expense of $2.4 million with no comparative. Additionally, the acquisition of WesTower, which closed in April 2011, results in three months of additional depreciation and amortization within the 2012 period and explains another $1.3 million of the increase in 2012. The remaining $2.3 million of the 2012 increase comes from the pre-existing subsidiaries, in particular entities within the Aviation segment which have made significant capital expenditures.

Nine Months Ended September 30,	2012	2011	Variance	Variance %
Finance costs - interest	$ 10,176	$ 8,867	$ 1,309	15%

The Company incurred additional interest costs for the nine months ended September 30, 2012 of $1.3 million or 15% over the comparative period in 2011. The majority of the reason for the increase in 2012 is a result of additional interest costs on the Company's outstanding convertible debentures and resulted in an additional $1.1 million of costs. During the 2011 comparative period the Company closed the offerings for its Series I (January 2011) and Series J (May 2011) convertible debentures and therefore those series' principal were outstanding for only a portion of the comparative period but were outstanding for all of the 2012 period. Additionally, the Company closed the offering of its September 2012 unsecured convertible debentures of $57.5 million with a 5.5% fixed interest rate near the end of the nine month period. These additional convertible debenture interest items were offset by a decrease in the other principals outstanding on the other series of debentures as a result of conversion to common shares.

The Company's interest on long-term debt and finance leases also increased overall by $0.2 million based on the overall principal amount outstanding in its credit facility.

Nine Months Ended September 30,	2012	2011	Variance	Variance %
Acquisition Costs	$ 392	$ 1,830	$ (1,438)	-79%

The acquisition costs incurred by the Company during the nine months ended September 30, 2012 decreased in comparison to the same period in 2011. The costs incurred in 2012 pertain to the closing of the Custom acquisition, which closed in February 2012, along with costs incurred on some other potential acquisitions. The comparative period's costs in 2011 include costs associated with the acquisition of WesTower, which closed in April 2011, plus certain other external costs related to a significant transaction that the Company chose to walk away from given that it was determined that it didn't meet the Company's acquisition criteria. Bearskin was acquired on the first day of 2011 but the costs pertaining to that acquisition were accrued and expensed in the 2010 period.

Nine Months Ended September 30,	2012	2011	Variance	Variance %
Impairment Loss	$ 1,851	$ -	$ 1,851	-

As described in the analysis for the third quarter above, during that period the Company recorded an impairment write-down in the Aviation segment for entering into an agreement to sell Calm Air's six SAAB aircraft and for the decision to cease using a Beech 99 aircraft at Perimeter. Both write-downs are consistent with the Company's fleet renewal plan.

Nine Months Ended September 30,	2012	2011	Variance	Variance %
Current income tax expense	$ 4,882	$ 279	$ 4,603	1650%
Deferred income tax expense	4,087	6,500	(2,413)	-37%
Income Tax Expense	$ 8,969	$ 6,779	$ 2,190	32%

The Company's income tax expense for the nine months ended September 30, 2012 was $9.0 million, an increase of $2.2 million or 32% over the comparative period in 2011. The primary reason for the increase in tax expense is due to the $7.0 million, or 34%, increase of earnings before tax.

The Company's current tax expense is generated by certain subsidiaries that do not have access to the Company's non-capital losses, and consistent with the variance explanation for the three month period above, the income of these subsidiaries increased, resulting in higher current tax expense.

The Company has the ability to offset some of the taxable income it generates with non-capital losses. During the 2012 period the Company used $15.5 million of non-capital losses ($19.1 million – 2011) and it has approximately $132.9 million of non-capital losses available to offset future taxable income.

5. SUMMARY OF QUARTERLY RESULTS

			2012				2011	2010
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total revenue	$ 220,807	$ 201,636	$ 146,683	$ 147,780	$ 145,993	$ 138,008	$ 78,522	$ 65,160
EBITDA	30,332	24,463	14,061	20,734	22,153	19,738	12,214	11,352
Net earnings / (loss)	9,972	7,759	910	6,914	7,285	4,506	2,040	2,913
Basic	0.49	0.38	0.05	0.40	0.42	0.27	0.13	0.20
Diluted	0.46	0.37	0.05	0.38	0.41	0.27	0.13	0.20
Free cash flow (FCF)	24,059	20,821	11,167	17,470	19,234	16,890	10,515	10,251
Basic	1.17	1.02	0.61	1.00	1.11	1.00	0.68	0.71
Diluted	0.94	0.82	0.54	0.83	0.92	0.83	0.59	0.61
FCF less maintenance capital expenditures	16,199	12,508	3,866	9,845	12,721	8,059	3,844	6,267
Basic	0.79	0.61	0.21	0.57	0.74	0.48	0.25	0.44
Diluted	0.69	0.55	0.21	0.50	0.63	0.43	0.25	0.39

6. LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2012, the Company had a net cash position of $10.9 million (December 31, 2011 of $11.5 million) and net working capital of $145.1 million (December 31, 2011 of $67.3 million), which represents a current ratio of 2.03 to 1 (December 31, 2011 of 1.80 to 1).

	September 30, 2012	December 31, 2011	Change
Cash and cash equivalents	$ 10,944	$ 11,475	$ (531)
Accounts receivable	105,504	69,172	36,332
Costs incurred plus recognized profits in excess of billings	98,094	25,913	72,181
Inventory	57,000	39,853	17,147
Prepaid expenses	7,240	4,879	2,361
Assets held for sale	6,770	-	6,770
Accounts payable and accrued expenses	(109,505)	(57,726)	(51,779)
Income taxes payable	(5,563)	(2,654)	(2,909)
Deferred revenue	(10,786)	(8,909)	(1,877)
Billings in excess of costs incurred plus recognized profits	(13,415)	(13,489)	74
Current portion of long-term debt and finance leases	(1,219)	(1,237)	18
Net working capital	$ 145,064	$ 67,277	$ 77,787

The Company's addition of Custom during 2012 added working capital of $4.0 million as at September 30, 2012 which is not part of the comparative period. The Company's pre-existing entities had a net increase of $73.8 million in working capital over the period which is primarily attributed to the growth in WesTower.

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

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

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

As described in prior periods MD&A, in order to support the growth at WesTower associated with the ramp up of the significant turfing contract, the Company drew funds from its credit facility to provide working capital for this expansion. The Company also drew funds from its credit facility during the third quarter in association with growth capital expenditures which are noted in Section 3 – Key Performance Indicators.

The Company's credit facility has a total of $235 million of credit available. As at September 30, 2012, the Company had US $49.45 million outstanding under its US portion, resulting in over $185 million of credit available to the Company. Working capital requirements associated with the AT&T turfing contract are peaking and no significant draws from the Company's credit facility are expected for WesTower US at their current level of operations.

The finance leases of WesTower's operations continue and as a result the Company made principal payments of US $0.5 million and $0.4 million Canadian during the first nine months of 2012. Also during this period, WesTower entered into new finance leases with a capital asset value and principal of $0.6 million. The Company's cash flow statement does not show the non-cash transaction when a new finance lease is recognized on the balance sheet. Instead, the principal portion of the lease payments are shown as a cash outflow within financing activities and the interest portion is recorded through net income and operating activities.

The Company's dividend reinvestment plan ("DRIP") continued through the 2012 period and during the first nine months the Company received $2.9 million for 118,678 Shares being issued in accordance with the DRIP.

The Company obtained additional cash through the means described above and also generated $56.0 million of Free Cash Flow during the first nine months of 2012. The Company used these funds for significant capital expenditures. See Section 3 – Key Performance Indicators for more information on the capital expenditures made during the 2012 period. The Company's cash flow from operations for the first nine months of 2012 was a cash usage of $15.3 million and is being driven by the change in non-cash working capital items of $71.0 million. As mentioned above, the Company used significant amounts of its credit facility during 2012 to fund the working capital requirements of WesTower's organic growth and this has impacted the overall cash flow from operations for the Company.

The Company's dividends are dependent on its ability to generate cash flow from operations and Free Cash Flow. During the first nine months of 2012 the Company declared dividends totaling $24.2 million in comparison to $20.0 million during the comparative period in 2011. This was a result of an increased number of Shares outstanding and an increase in the monthly dividend rate that became effective April 2011. The Board of Directors has decided to increase the monthly dividend per share 4% to $0.14, which is an increase of $0.06 on an annual basis. This change will become effective for the November dividend declared. In 2011 the Company declared dividends of $0.13 per share per month throughout the first three months of 2011 and raised the monthly dividend to $0.135 per share per month starting with the April 2011 dividend and that monthly rate has continued through the nine month period of 2012.

The following summarizes the changes in the Shares outstanding of the Company during the nine months ended September 30, 2012:

	Date issued	Number of shares
Shares outstanding, beginning of period		17,399,182
Issued for Custom vendors	February 1, 2012	170,121
Prospectus offering	March 6, 2012	2,324,150
Issued under vesting of Reserved Shares	May 15, 2012	28,746
Issued under long-term incentive plan	June 18, 2012	275
Issued upon conversion of convertible debentures	various	366,211
Issued under dividend reinvestment plan (DRIP)	various	118,678
Issued under First Nations community partnership agreements	various	27,000
Shares outstanding, end of period		20,434,363

The following summarizes the convertible debentures outstanding as at September 30, 2012 and the changes in the amount of convertible debentures outstanding during the nine months ended September 30, 2012:

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

Par value	Balance, beginning of period	Issued	Converted	Matured	Balance, end of period
Series F	$ 1,229	$ -	$ (40)	$ -	$ 1,189
Series G	7,894	-	(2,151)	-	5,743
Series H	27,441	-	(4,251)	-	23,190
Series I	35,000	-	(25)	-	34,975
Series J	57,500	-	(20)	-	57,480
Unsecured Debentures - September 2012	-	57,500	-	-	57,500
Total	$ 129,064	$ 57,500	$ (6,487)	$ -	$ 180,077

7. RELATED PARTY TRANSACTIONS

The related party transactions that the Company entered into during the nine months ended September 30, 2012 are consistent with those described in the Company's MD&A for the year ended December 31, 2011.

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, 2011 with the exception of the impairment write-down recorded in the third quarter of 2012. The impairment was recorded on several aircraft and is based on the expected net proceeds to be obtained from the aircraft when they are sold to third parties. There are 4 SAAB aircraft that are still awaiting delivery and transfer of ownership but these aircraft are planned to be delivered before December 31, 2012. The Beech aircraft was written down to an expected salvage value for the major components of the aircraft.

9. ACCOUNTING POLICIES

The critical accounting policies are substantially unchanged from those identified in the MD&A of the Company for the year ended December 31, 2011.

FUTURE ACCOUNTING STANDARDS

Accounting standards issued but not yet effective

IFRS 9 – Financial Instruments

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

IFRS 10, Consolidated Financial Statements

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

IFRS 11, Joint Arrangements

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

IFRS 12, Disclosure of Interests in Other Entities

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

IFRS 13, Fair Value Measurement

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

Amendments to IAS 1, Presentation of Financial Statements

The amendments to IAS 1, Presentation of Financial Statements, issued by the IASB in June 2011, requires companies preparing financial statements to group together items within other comprehensive income ("OCI") on the basis of whether they may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The amendments are effective for annual periods beginning on or after July 1, 2012, with earlier application permitted. The Company has evaluated the impact of the above standard on its financial statements and noted that the changes within IAS had no impact on the Company's financial statements. The Company has adopted the amendments to IAS 1 for the period ended September 30, 2012.

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 September 30, 2012, and based on that evaluation has concluded that such internal controls over financial reporting are not effective, due to the following material weaknesses:

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

A control weakness with regards to the recording of cargo revenue, specifically the completeness of revenue and the timing of revenue recognition, exists within Calm Air. This design weakness has the potential to result in material misstatements of revenue, accounts receivable, deferred revenue, net income and retained earnings. Management continues to focus on implementing enhanced accounting and control procedures with respect to the recording and recognition of cargo revenue. Management continues in carrying out certain additional procedures until these enhanced accounting policies and control procedures have been implemented and are determined to be sufficient.

Due to ongoing process changes in response to WesTower's increased growth, management continues to limit the scope of its evaluation of internal controls over financial reporting to exclude the evaluation of these controls as EIC is actively working with WesTower to enhance their control processes to respond to the increased level of business. Management will continue to take the necessary steps to assess and advance the integration of these changes in a monitored environment by continuing to work closely with WesTower to ensure appropriate controls are being designed and implemented. The effectiveness of these controls will be tested on the results for the year ended December 31, 2012.

WesTower had revenue of $286.7 million and EBITDA of $22.0 million included in the consolidated results of the Company for the nine months ended September 30, 2012. As at September 30, 2012, it also had current assets and current liabilities of $188.5 million and $70.9 million, respectively.

Management has limited the scope of design of internal controls over financial reporting to exclude the evaluation of the design of controls at Custom, purchased February 1, 2012, as it has not determined its impact, if any, on the Company's internal controls over financial reporting.

Custom had revenue of $12.3 million and EBITDA of $5.9 million included in the consolidated results of the Company for the eight month period ended September 30, 2012 since being acquired on February 1, 2012. As at September 30, 2012, it had current assets and current liabilities of $5.7 million and $1.7 million, respectively.

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 September 30, 2012 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, 2011.

12. OUTLOOK

Acquisition strategy

The Company has approximately $185 million in available capital under its $235 million senior credit facility. This capacity gives the Company the ability to respond quickly when the right acquisition presents itself. Referrals for potential acquisition targets continue to be steady.

The anticipated lower rates of economic growth on a go forward basis are tempering the price expectation of sellers. The Company has developed, and is working to expand its network of referral sources that regularly present it with potential acquisitions. The Company believes that its disciplined approach to acquisitions is largely responsible for the success that has been experienced to date. While the deal flow brought to the Company is considered strong, there can be no assurance target companies meeting the Company's standards will be found.

Aviation Segment

During the third quarter the Company operated five aviation companies providing rotor wing and fixed wing scheduled, charter, freight and medevac services within Manitoba, Ontario, and Nunavut.

The Company's subsidiaries act as lifelines in most of the communities served, as it is often the only way to move people, food and supplies in and out of the 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. The Company anticipates that the fourth quarter of 2012, first quarter of 2013 and to a lesser extent, the second quarter of 2013 will represent the normal seasonal lows for Aviation segment business activity. The Aviation segment's financial performance in the winter months, particularly in the far north, is always subject to the possibility of significant, unforeseeable, disruption due to periodic and sometimes prolonged adverse weather conditions beyond the control of the Company.

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. This is especially true with Custom Helicopter, where the company provides the aircraft and crew, and the fuel cost is borne directly by the customer. While most of the Company's aviation subsidiaries are able to eventually pass along price increases, the Company and its subsidiaries are mindful of the impact price increases have on the communities they serve. The Company's airlines providing services to government agencies have provisions whereby fuel is a flow through cost, mitigating the exposure on government related work.

As noted previously, the pricing pressure in eastern markets continues and has been driven by large national and regional airlines competing for market share. The markets served by Bearskin are outside large centers, which are highly competitive, however, deep discounted tickets by the other major airlines do have an effect on Bearskin's customer base. Bearskin is monitoring and responding to competitor seat sales and is maintaining passenger volumes by responding with discounted fares reducing margins.

Calm Air continues to provide services to the Government of Nunavut for medical travel through a subcontract with Canadian North. As a requirement of this agreement, Calm Air acquired the first of two 32 seat Dornier 328 jets for its fleet during the third quarter and the second Dornier 328 jet went into service at the end of October. The addition of this aircraft allowed Calm Air to discontinue the wet leased aircraft that had been an ongoing drag on financial performance.

As previously noted, Calm Air has accelerated its fleet renewal plan. During the fourth quarter Calm Air's sixth and last remaining SAAB 340 will be delivered to new owners. Over the next two quarters the remaining parts and component inventory related to the SAAB 340s will be sold. The reduction of fleet types will assist the company in minimizing cost on all aspects of its operations, scheduled passenger, freight and charter services. The process to streamline these costs, including labour, will occur in a controlled orderly manner over the next few quarters. As a result a significant portion of the financial impact of this fleet rationalization will be realized in steps over the next year. Calm Air's investments in additional ground infrastructure in the far north are continuing on schedule. These new and upgraded facilities will enable 24 hour operations in select locations. The extended operating hours will yield improved efficiency and enhance Calm Air's competitiveness in the far north.

The code share relationship with Calm Air and Canadian North is growing, delivering revenue for Calm Air through channeling traffic between the two carriers. Calm Air's and Canadian North's route structures are complementary so there is no revenue or market cannibalism, rather enhanced profitability through carrying passengers that would not otherwise have been carried.

As noted previously, in the second quarter of 2012, Calm Air stopped providing regular chartered service to one of their significant mining customers. Calm Air partially mitigated the loss of this business by cost cutting and securing new charter opportunities; however, lack of available aircraft during the fleet renewal process limits Calm Air's ability to capitalize on charter opportunities in the short-term. Calm Air will refocus on charter opportunities once the fleet rationalization is completed.

Perimeter continues to grow existing markets. The growth requires additional aircraft, therefore Perimeter recently introduced a DASH 8 300 into service. Although the 300 series is larger than the 100 series, it can be flown and maintained by the same group of employees, ensuring operating efficiency and cost control. Perimeter is experiencing continued steady charter revenue in the fourth quarter. Perimeter will also implement an updated reservation system, fully integrated with other existing IT systems, which will result in immediate administrative efficiencies. Perimeter anticipates introducing the first upgraded Metro III in the fourth quarter. Perimeter has invested in a new glass cockpit taking advantage of the latest navigational equipment. This replaces the original generation of equipment and provides enhanced safety and efficiency in difficult flying conditions. The Metro III upgrade program is expected to reduce the number of weather related aborted landings. This would result in improved customer service and reduced costs related to weather related redirection of flights. The airline continues to see profitable, sustainable organic growth in its core markets being driven by the larger than average growth rates in the communities it services.

In February, the Company successfully closed its acquisition of Custom Helicopter. Custom owns and operates a fleet of 24 rotor wing aircraft. Custom's operating bases are in Winnipeg, Thompson, Gillam and Garden Hill, Manitoba as well as in Rankin Inlet in Nunavut. The Company anticipates that Custom will experience their normal seasonal slowdown during the fourth quarter which continues into the first quarter during the winter months. Custom is also starting to experience industry wide slowdown in mineral exploration as a result of lower commodity prices.

All of the fixed wing aircraft companies are experiencing increased pilot attrition due to hiring by the major airlines. The immediate financial impact of this turnover is slightly positive as the incoming replacement pilots generally start at a lower rate of pay than the more experienced pilots. However, any savings on wages will be more than offset by increased future training costs. If this trend were to accelerate it may be difficult to maintain a full complement of pilots. The Company continues to monitor labour costs in other areas in order to realign them with changes in fleet and operational changes.

Work on the construction of the Company's new heavy maintenance facility in Winnipeg is continuing on schedule. The Company anticipates completion of the facility in early 2013.

Manufacturing Segment

As expected, the economic recovery in the United States continues at a sluggish pace through the second half of 2012. Despite the continued slow growth environment in the broader United States economy, our manufacturing entities continue to experience sustained strong demand across the Company's Manufacturing segment.

In the third quarter, the rollout of the previously announced turfing contract with AT&T continued across all five of the geographical regions awarded to WesTower in the United States. As previously mentioned, there is no specific dollar amount guaranteed as a part of the contract. The Company believes, based on the history of AT&T's infrastructure work in the contract territories, that the additional revenue from the contract could be in excess of $500 million over the three year term of the contract. This estimate is subject to a number of variables, including the fluid nature of the telecom environment and the ongoing introduction of new technology, both of which could significantly impact AT&T's infrastructure requirements. Accordingly, there can be no assurances of the revenues that will be generated from the contract.

The transition from the incumbent contactors to WesTower, under the new turfing contract continued in the third quarter. As expected, WesTower incurred significant start-up costs related to this contract in 2012. Throughout 2012, WesTower developed the management infrastructure and resources to service this contract. These efforts resulted in a strong performance for WesTower in the third quarter and WesTower is well positioned to continue to capitalize on these investments through the remainder of the year.

The AT&T turf contract has generated additional growth opportunities for the Company within AT&T. The continued explosive growth in wireless data traffic, created by advanced generations of smart phones and other mobile devices, continues to drive the entire telecommunications industry to add network capacity throughout North America. In addition to the AT&T relationship, WesTower is well positioned to benefit from the industry wide drive to increase network capacity in both Canada and the United States with the other major telecommunications companies.

Ongoing marketing efforts, high quality and service continue to yield sustained strong demand for Stainless. Stainless continues to see large, quality bid opportunities in its market. The Company has continued to succeed in converting these opportunities into a strong order book going into the fourth quarter. The Company continued to add to both shop and field capacity in the third quarter to ensure that the Company will be able to keep pace with its growth. Management remains cognizant that the slow U.S. recovery could dampen future sales; however, management believes the proper steps are being taken to position the order book to mitigate this risk in the short to medium term.

Alberta Operations continue to experience strong demand, driven by a very active local and regional market resulting in many opportunities to bid for quality projects. As stated in prior reporting periods, the persistent challenge of the Alberta Operations continues to be the limited availability of skilled labour in the region. These chronic shortages put pressure on the Manufacturing segment's ability to maintain costs and deliver an on-time product. This continues to be management's main ongoing challenge in the short term and may put pressure on margins in the Alberta Operations as management seeks solutions. The segment's precision metal business in British Columbia continued to generate strong results from both existing and new clients with a strong order book going into the fourth quarter.

The Manufacturing segment continues to benefit from quality opportunities to bid in most of their markets and has maintained or increased their order backlogs in all of their major markets. While management is encouraged by this activity, they remain cognizant of the continued sluggish growth across the North American economy and the potential for this slow growth to impact on demand. Management continues to believe that the Manufacturing segment is well positioned for the short to medium term based on its current order books.

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited, in thousands of Canadian dollars)

As at	September 30 2012	December 31 2011
ASSETS		
CURRENT		
Cash and cash equivalents	$ **10,944**	$ 11,475
Accounts receivable	**105,504**	69,172
Costs incurred plus recognized profits in excess of billings (Note 11)	**98,094**	25,913
Inventory	**57,000**	39,853
Prepaid expenses	**7,240**	4,879
Assets held for sale (Note 5)	**6,770**	-
	285,552	151,292
CAPITAL ASSETS	**257,958**	220,190
INTANGIBLE ASSETS	**28,063**	23,252
DEFERRED INCOME TAX ASSETS	**11,312**	15,240
GOODWILL	**72,736**	68,427
	$ **655,621**	$ 478,401
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ **109,505**	$ 57,726
Income taxes payable	**5,563**	2,654
Deferred revenue	**10,786**	8,909
Billings in excess of costs incurred plus recognized profits (Note 11)	**13,415**	13,489
Current portion of long-term debt and finance leases (Note 7)	**1,219**	1,237
	140,488	84,015
LONG-TERM DEBT AND FINANCE LEASES (Note 7)	**49,569**	47,997
CONVERTIBLE DEBENTURES (Note 8)	**161,347**	115,394
DEFERRED INCOME TAX LIABILITY	**12,503**	5,358
	363,907	252,764
EQUITY		
SHARE CAPITAL (Note 9)	**264,300**	194,049
CONVERTIBLE DEBENTURES - Equity Component (Note 8)	**9,366**	6,516
CONTRIBUTED SURPLUS - Matured Debentures	**102**	102
DEFERRED SHARE PLAN (Note 13)	**1,845**	1,435
RESERVED SHARES	**1,234**	1,851
RETAINED EARNINGS		
Cumulative Earnings	**122,308**	103,667
Cumulative Dividends (Note 10)	**(107,205)**	(83,043)
	15,103	20,624
ACCUMULATED OTHER COMPREHENSIVE INCOME (Note 15)	**(236)**	1,060
	291,714	225,637
	$ **655,621**	$ 478,401

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

Approved on behalf of the directors by:

Duncan Jessiman, Director
Signed

Donald Streuber, Director
Signed

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

For the periods ended September 30	Three Months Ended 2012	Three Months Ended 2011	Nine Months Ended 2012	Nine Months Ended 2011
REVENUE				
Aviation	$ **73,459**	$ 72,415	$ **211,625**	$ 205,563
Manufacturing	**147,348**	73,578	**357,501**	156,960
	220,807	145,993	**569,126**	362,523
EXPENSES				
Direct operating - excluding depreciation and amortization	**48,486**	47,259	**147,595**	137,861
Cost of goods sold - excluding depreciation and amortization	**122,787**	60,277	**297,233**	125,652
General and administrative	**19,202**	16,304	**55,442**	44,905
Depreciation and amortization	**10,168**	8,486	**28,827**	22,798
	200,643	132,326	**529,097**	331,216
EARNINGS BEFORE THE FOLLOWING	**20,164**	13,667	**40,029**	31,307
Finance costs - interest	**3,454**	3,483	**10,176**	8,867
Acquisition costs	**2**	-	**392**	1,830
Impairment loss (Note 5)	**1,851**	-	**1,851**	-
EARNINGS BEFORE INCOME TAXES	**14,857**	10,184	**27,610**	20,610
INCOME TAX EXPENSE (Note 18)				
Current	**3,610**	62	**4,882**	279
Deferred	**1,275**	2,837	**4,087**	6,500
	4,885	2,899	**8,969**	6,779
NET EARNINGS FOR THE PERIOD attributable to common shareholders	$ **9,972**	$ 7,285	$ **18,641**	$ 13,831
EARNINGS PER SHARE (Note 12)				
Basic	$ **0.49**	$ 0.42	$ **0.94**	$ 0.83
Diluted	$ **0.46**	$ 0.41	$ **0.93**	$ 0.82

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands of Canadian dollars)

Attributable to common shareholders For the periods ended September 30	Three Months Ended 2012	Three Months Ended 2011	Nine Months Ended 2012	Nine Months Ended 2011
NET EARNINGS FOR THE PERIOD	$ **9,972**	$ 7,285	$ **18,641**	$ 13,831
OTHER COMPREHENSIVE INCOME (LOSS),				
Cumulative translation adjustment, net of tax (Note 15)	**(1,411)**	3,094	**(1,296)**	2,731
COMPREHENSIVE INCOME FOR THE PERIOD	$ **8,561**	$ 10,379	$ **17,345**	$ 16,562

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)

							Retained Earnings			
	Share Capital	Warrants	Convertible Debentures - Equity Component	Contributed Surplus - Matured Debentures	Deferred Share Plan	Reserved Shares	Cumulative Earnings	Cumulative Dividends	Accumulated Other Comprehensive Income (Loss)	**Total**
Balance, January 1, 2011	$ 148,046	$ 155	$ 3,036	$ 102	$ -	$ -	$ 85,629	$ (55,943)	$ (688)	$ **180,337**
Shares issued for Bearskin vendors	5,512	-	-	-	-	-	-	-	-	**5,512**
Shares issued for WesTower vendors	11,161	-	-	-	-	1,851	-	-	-	**13,012**
Shares issued for marketing agreement	221	-	-	-	-	-	-	-	-	**221**
Warrants exercised into shares	4,240	(155)	-	-	-	-	-	-	-	**4,085**
Convertible debentures converted into shares	18,462	-	(1,131)	-	-	-	-	-	-	**17,331**
Convertible debentures issued	-	-	4,628	-	-	-	-	-	-	**4,628**
Shares issued under dividend reinvestment plan	2,439	-	-	-	-	-	-	-	-	**2,439**
Deferred share plan amendment	-	-	-	-	1,070	-	-	-	-	**1,070**
Deferred share vesting	-	-	-	-	280	-	-	-	-	**280**
Comprehensive income	-	-	-	-	-	-	13,831	-	2,731	**16,562**
Dividends declared	-	-	-	-	-	-	-	(19,980)	-	**(19,980)**
Balance, September 30, 2011	**$ 190,081**	**$ -**	**$ 6,533**	**$ 102**	**$ 1,350**	**$ 1,851**	**$ 99,460**	**$ (75,923)**	**$ 2,043**	**$ 225,497**
Balance, January 1, 2012	$ 194,049	$ -	$ 6,516	$ 102	$ 1,435	$ 1,851	$ 103,667	$ (83,043)	$ 1,060	$ **225,637**
Shares issued for Custom vendors (Note 4)	4,241	-	-	-	-	-	-	-	-	**4,241**
Prospectus offering	55,689	-	-	-	-	-	-	-	-	**55,689**
Convertible debentures (Note 8)										
Converted into shares	6,330	-	(588)	-	-	-	-	-	-	**5,738**
Issued	-	-	3,438	-	-	-	-	-	-	**3,438**
Shares issued under dividend reinvestment plan	2,874	-	-	-	-	-	-	-	-	**2,878**
Shares issued under First Nations community partnership agreements	495	-	-	-	-	-	-	-	-	**495**
Deferred share vesting (Note 13)	-	-	-	-	415	-	-	-	-	**415**
Deferred share issuance	5	-	-	-	(5)	-	-	-	-	**-**
Shares issued under vesting of reserved shares	617	-	-	-	-	(617)	-	-	-	**-**
Comprehensive income	-	-	-	-	-	-	18,641	-	(1,296)	**17,345**
Dividends declared (Note 10)	-	-	-	-	-	-	-	(24,162)	-	**(24,162)**
Balance, September 30, 2012	**$ 264,300**	**$ -**	**$ 9,366**	**$ 102**	**$ 1,845**	**$ 1,234**	**$ 122,308**	**$ (107,205)**	**$ (236)**	**$ 291,714**

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)

	Three Months Ended		Nine Months Ended	
For the periods ended September 30	**2012**	2011	**2012**	2011
OPERATING ACTIVITIES				
Net earnings for the period	$ **9,972**	$ 7,285	$ **18,641**	$ 13,831
Items not affecting cash:				
Depreciation and amortization	**10,168**	8,486	**28,827**	22,798
Accretion of interest	**658**	683	**1,889**	1,653
Long-term debt discount (paid) accretion	**(13)**	(45)	**(58)**	(45)
Foreign exchange (gain) / loss on debt (unrealized)	**126**	-	**40**	-
Loss/(gain) on sale of disposal of capital assets	**(113)**	(59)	**(37)**	(205)
Deferred income tax	**1,275**	2,837	**4,087**	6,500
Deferred share program share-based vesting	**133**	-	**415**	197
Impairment loss	**1,851**	-	**1,851**	-
Other	**-**	47	**-**	80
	24,057	19,234	**55,655**	44,809
Changes in non-cash operating working capital items (Note 16)	**(16,950)**	(4,776)	**(70,997)**	(11,950)
	7,107	14,458	**(15,342)**	32,859
FINANCING ACTIVITIES				
Proceeds from (repayment of) long-term debt & finance leases, net of issuance costs	**(33,870)**	-	**579**	(24,918)
Proceeds from issuance of debentures, net of issuance costs	**54,646**	43	**54,646**	87,721
Proceeds from issuance of shares, net of issuance costs	**936**	877	**58,464**	6,745
Cash dividends / distributions (Note 10)	**(8,351)**	(6,975)	**(24,162)**	(19,980)
	13,361	(6,055)	**89,527**	49,568
INVESTING ACTIVITIES				
Purchase of capital assets, net of disposals	**(14,459)**	(9,041)	**(50,202)**	(28,538)
Purchase of intangible assets	**(3)**	-	**(2,399)**	(52)
Cash outflow for acquisitions (Note 4)	**(219)**	-	**(24,286)**	(84,294)
Restricted cash	**-**	-	**-**	27,625
Cash acquired in acquisitions (Note 4)	**19**	-	**2,171**	8,774
	(14,662)	(9,041)	**(74,716)**	(76,485)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**5,806**	(638)	**(531)**	5,942
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**5,138**	8,051	**11,475**	1,471
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ **10,944**	$ 7,413	$ **10,944**	$ 7,413
Supplementary cash flow information				
Interest paid	$ **2,046**	$ 2,259	$ **7,716**	$ 5,580
Income taxes paid (recovery)	$ **1,599**	$ 2,756	$ **3,556**	$ 1,369

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

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

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 September 30, 2012, the principal wholly-owned operating subsidiaries of the Company are Perimeter Aviation LP ("Perimeter"), Keewatin Air LP ("Keewatin"), Calm Air International LP ("Calm Air"), Bearskin Lake Air Service LP ("Bearskin"), Custom Helicopters Ltd. ("Custom"), 4873999 Manitoba Ltd., 7328010 Canada Ltd., Overlanders Manufacturing LP ("Overlanders"), Water Blast Manufacturing LP ("Water Blast"), WesTower Communications Ltd. ("WesTower CDA") and EIIF Management USA Inc. ("EIIF USA"). Stainless Fabrication, Inc. ("Stainless") and WesTower Communications Inc. (the US operations of WesTower – "WesTower US") are wholly owned subsidiaries of EIIF USA. Through the Company's subsidiaries, products and services are provided in two business segments: Aviation and Manufacturing.

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

These interim condensed consolidated financial statements are for the nine months ended September 30, 2012, and have been prepared in accordance with IFRS 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, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

The policies applied in these interim condensed consolidated financial statements are based on IFRS's issued and outstanding as of the approval date of these financial statements, which were approved by the Board of Directors of the Company for issue on November 12, 2012.

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, EIIF USA and their respective subsidiaries. All significant inter-company transactions have been eliminated for purposes of these interim condensed consolidated financial statements.

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

b) *Intangible Assets*

As a result of the transactions described in Note 6, the Company recognized an intangible asset associated with the new lease agreement for a section of land at the James Armstrong Richardson International Airport in Winnipeg. This is considered an intangible asset with a finite life and will be amortized on a straight-line basis over the 40 year term of the lease.

4. ACQUISITIONS

Acquisition of Custom Helicopters

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

The results of operations are included in the Company's consolidated interim statement of operations for the Aviation segment for the period since the date of acquisition. During the period since acquisition, Custom contributed third party revenues of $12,300, income before tax of $911, and total assets of $38,056.

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

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

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

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

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

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

Of the $3,734 acquired intangible assets, $2,134 was assigned to brand names, $252 was assigned to customer relationships, $215 was assigned to non-compete agreements, $576 was assigned to contracts, and $557 was assigned to certificates. All the intangibles acquired are subject to amortization with the exception of the brand which is considered to have indefinite life.

None of the goodwill acquired is expected to be deductible for tax purposes.

5. CAPITAL ASSETS

During the third quarter the Company entered into an arrangement to sell several aircraft within Calm Air to third parties in association with Calm Air's fleet renewal plan to sell its SAAB aircraft. A total of six aircraft were structured to be sold for combined gross proceeds of US$10,575. For the nine months ended September 30, 2012, the company realized proceeds on disposal of $3,286 relating to the sale of two SAAB aircraft. As a result of entering into the agreement, the Company recorded an impairment loss of $1,626 during the third quarter to bring the net book value of these aircraft down to the expected net proceeds of the disposals after selling costs. As at September 30, 2012, four of these aircraft have not yet been delivered based on the terms of the agreement and are recorded on the Company's balance sheet as Assets Held for Sale at a value equal to the expected net proceeds from the sales. The Company is scheduled to deliver those aircraft during the fourth quarter of 2012 and is no longer depreciating them.

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

6. INTANGIBLE ASSETS & GOODWILL

The Company entered into a transaction on February 1, 2012, which was announced on January 24, 2012, where the Company purchased certain buildings and entered into lease agreements for land at the James Armstrong Richardson International Airport in Winnipeg, Manitoba. The Company was able to lease the land as a result of a contribution made to the Western Canadian Aviation Museum ("WCAM") who previously leased the land from the Winnipeg Airport Authority. As a result, the consideration paid totaled $4,500 which was allocated to the buildings purchased ($2,160) and to a finite life intangible asset for funds paid to WCAM to terminate its existing lease. The leased land is adjacent to the existing campus of buildings and terminals for a number of the Company's existing aviation entities and will allow the Company to build a maintenance facility on this newly leased land for the large size aircraft in its aircraft fleet. The cost of the intangible asset recognized was $2,340 and will be amortized over the 40 year term of the lease agreement. One of the buildings purchased by the Company in this transaction is being leased out to a third party. The annual lease revenue earned by the Aviation segment as the lessor of the building is $425 and the lease expires in the first quarter of 2017.

As described in Note 4 – Acquisitions, the Company acquired intangible assets totaling $3,734 and goodwill totaling $5,213 with the acquisition of Custom on February 1, 2012. Included in the acquired intangible assets was $2,134 associated with the brand of Custom which was recognized for its reputation in the rotary aircraft industry in central Canada. The reputation for Custom is mostly associated with its business within the Manitoba market with high quality services and a strong safety record over 35 years of operations.

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

7. LONG-TERM DEBT AND FINANCE LEASES

The following summarizes the Company's long-term debt and finance leases as at September 30, 2012 and December 31, 2011:

	September 30 2012	December 31 2011
Revolving term facility		
Canadian dollar amounts drawn	$ -	$ 25,000
United States dollar amounts drawn (US$49,450 and US$21,450, respectively)	48,644	21,815
Total credit facility debt outstanding, principal value	48,644	46,815
less: unamortized transaction costs	(708)	(707)
less: unamortized discount on outstanding Banker's Acceptances	-	(58)
Net credit facility debt	47,936	46,050
Finance leases	2,852	3,184
Total net credit facility debt and finance leases	50,788	49,234
less: current portion of finance leases	(1,219)	(1,237)
Long-term debt and finance leases balance	$ 49,569	$ 47,997

The Company had US $49,450 drawn from the U.S. dollar portion of its credit facility at September 30, 2012 (December 31, 2011 - US $21,450).

Transaction costs of $267 and US $75 were incurred during the nine months ended September 30, 2012 associated with the acquisition of Custom (Note 4) and the amendment to the Company's credit facility to include it as security. Interest expense recorded during the nine months ended September 30, 2012 for the long-term debt and finance leases was $2,734 (2011 – $2,531).

Credit Facility

During the first nine months of 2012, the Company's senior credit facility was amended to consist of a $160,000 portion and a US $75,000 portion. The total credit available under the senior credit facility of $235,000 remained unchanged throughout the first nine months of 2012.

The following is the continuity of long-term debt for the nine months ended September 30, 2012:

	Nine Months Ended September 30, 2012				
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar portion	$ 25,000	$ 50,000	$ (75,000)	$ -	$ -
United States dollar portion	21,815	61,895	(32,954)	(2,112)	48,644
	46,815	111,895	(107,954)	(2,112)	48,644
Unamortized transaction costs	(707)				(708)
Unamortized discount on outstanding BA's	(58)				-
	$ 46,050				$ 47,936

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

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

Summary of the debt component of the convertible debentures:

	2012 Balance, Beginning of Period	Debentures Issued	Accretion Charges	Debentures Converted	Repaid on Maturity	2012 Balance, End of Period	December 31, 2011 Balance
Series F	$ 1,181	$ -	$ 14	$ (38)	$ -	$ 1,157	$ 1,181
Series G	7,520	-	38	(2,020)	-	5,538	7,520
Series H	25,659	-	106	(3,910)	-	21,855	25,659
Series I	33,161	-	299	(24)	-	33,436	33,161
Series J	53,178	-	403	(19)	-	53,562	53,178
Unsecured - 2012	-	52,791	8	-	-	52,799	-
						168,347	120,699
less: unamortized transaction costs						(7,000)	(5,305)
Convertible Debentures - Debt Component, end of period						161,347	115,394
less: current portion						-	-
Convertible Debentures - Debt Component (long-term portion)						$ 161,347	$ 115,394

During the nine months ended September 30, 2012, convertible debentures totaling a face value of $6,487 were converted at various times into 366,211 Shares of the Company (2011 – $18,711 face value into 1,267,099 Shares). Interest expense recorded during the three and nine months ended September 30, 2012 for the convertible debentures was $2,559 and $7,442, respectively (2011 – $2,597 and $6,336, respectively).

September 2012 Unsecured Convertible Debenture Offering

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

At the Company's option, on the maturity date, the debentures (or any portion thereof) shall be convertible into Shares at the Company's forced conversion price equal to 95% of the weighted average trading price of the Shares for the 20 trading days ending five days prior to the maturity date. The Company also has the ability to convert these unsecured debentures, in whole or in part, on or after the third anniversary of the date of issuance of the debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time. After September 30, 2015, but prior to September 30, 2017, the Company has the option to redeem these debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time. On and after September 30, 2017 but prior to the maturity date the Company has the option to redeem these debentures without any weighted average market price thresholds. If the Company elects to redeem the debentures, the debentureholders have the option to convert the debentures into Shares of the Company at the conversion price.

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

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

Convertible Debentures Equity Component

Since all of the outstanding convertible debentures contain a conversion feature available to the debenture-holder to convert debenture principal into Shares of the Company, the debenture obligation is classified partly as debt and partly as shareholders' equity. The debt component represents the present value of interest and principal payments over the life of the convertible debentures discounted at a rate approximating the rate which would have been applicable to non-convertible secured 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:

		September 30 2012		December 31 2011
Series F - 2009	$	61	$	63
Series G - 2009		234		355
Series H - 2010		1,240		1,469
Series I - 2011		1,490		1,492
Series J - 2011		3,136		3,137
Unsecured Debentures - 2012		3,205		-
Convertible Debentures - Equity Component, end of period	$	9,366	$	6,516

9. SHARE CAPITAL

Changes in the Shares issued and outstanding during the nine months ended September 30, 2012 are as follows:

	Number of Shares		2012 Amount
Share capital, beginning of period	17,399,182	$	194,049
Issued for Custom vendors (Note 4)	170,121		4,241
Prospectus offering, March 2012	2,324,150		55,689
Issued under vesting of reserved shares	28,746		617
Issued under deferred share plan	275		5
Issued upon conversion of convertible debentures	366,211		6,330
Issued under dividend reinvestment plan (DRIP)	118,678		2,874
Issued under First Nations community partnership agreements	27,000		495
Share capital, end of period	20,434,363	$	264,300

During the nine months ended September 30, 2012, the Company closed a bought-deal offering of its common stock on March 6, 2012. The prospectus resulted in the Company issuing 2,324,150 of its Shares and the Company obtained $57,523 of gross proceeds. Costs incurred in association with the offering were $2,475 ($1,834 net of tax).

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

10. 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 nine months ended September 30, 2012 and the comparative 2011 period are as follows:

Nine Months Ended September 30		2012		2011
Cumulative dividends, beginning of period	$	83,043	$	55,943
Dividends during the period		24,162		19,980
Cumulative dividends, end of period	$	107,205	$	75,923

The amounts and record dates of the dividends during the nine months ended September 30, 2012 and the comparative 2011 period are as follows:

Month	Record date		Per Share		2012 Dividends Amount	Record date		Per Share		2011 Dividends Amount
January	January 31, 2012	$	0.135	$	2,390	January 31, 2011	$	0.13	$	2,006
February	February 29, 2012		0.135		2,423	February 28, 2011		0.13		2,049
March	March 30, 2012		0.135		2,740	March 31, 2011		0.13		2,064
April	April 30, 2012		0.135		2,749	April 29, 2011		0.135		2,266
May	May 31, 2012		0.135		2,753	May 31, 2011		0.135		2,307
June	June 29, 2012		0.135		2,756	June 30, 2011		0.135		2,313
July	July 31, 2012		0.135		2,781	July 29, 2011		0.135		2,321
August	August 31, 2012		0.135		2,783	August 31, 2011		0.135		2,325
September	September 28, 2012		0.135		2,787	September 30, 2011		0.135		2,329
Total		$	1.215	$	24,162		$	1.200	$	19,980

Subsequent to September 30, 2012 and before these interim condensed consolidated financial statements were authorized, the Company declared a dividend of $0.135 per Share for October 2012.

11. SEGMENTED INFORMATION

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

On February 1, 2012 the Company acquired Custom (Note 4) and results for Custom since the acquisition date are included in the Aviation segment.

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

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

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

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

	Three Months Ended September 30, 2012				Three Months Ended September 30, 2011			
	Aviation	Manufacturing	Company	Consolidated	Aviation	Manufacturing	Company	Consolidated
Revenue	$ 73,459	$ 147,348	$ -	$ 220,807	$ 72,415	$ 73,578	$ -	$ 145,993
EBITDA	17,266	15,264	(2,198)	30,332	16,996	7,171	(2,014)	22,153
Depreciation and amortization				10,168				8,486
Finance costs - interest				3,454				3,483
Acquisition costs				2				-
Impairment loss				1,851				-
Earnings before tax				$ 14,857				$ 10,184

	Nine Months Ended September 30, 2012				Nine Months Ended September 30, 2011			
	Aviation	Manufacturing	Company	Consolidated	Aviation	Manufacturing	Company	Consolidated
Revenue	$ 211,625	$ 357,501	$ -	$ 569,126	$ 205,563	$ 156,960	$ -	$ 362,523
EBITDA	40,020	35,389	(6,553)	68,856	43,429	16,316	(5,640)	54,105
Depreciation and amortization				28,827				22,798
Finance costs - interest				10,176				8,867
Acquisition costs				392				1,830
Impairment loss				1,851				-
Earnings before tax				$ 27,610				$ 20,610

	September 30, 2012				December 31, 2011			
	Aviation	Manufacturing	Company	Consolidated	Aviation	Manufacturing	Company	Consolidated
Total assets	$ 278,241	$ 267,192	$ 110,188	$ 655,621	$ 236,538	$ 171,460	$ 70,403	$ 478,401
Net capital asset additions	47,734	4,732	135	52,601	38,880	3,064	85	42,029
Goodwill	25,996	46,740	-	72,736	20,783	47,644	-	68,427
Total liabilities	48,098	86,203	229,606	363,907	39,108	39,884	173,772	252,764

The following is the geographic breakdown of revenues for the three and nine months ended September 30, 2012 and the 2011 comparative periods, based on location of the customer, and the capital assets and goodwill as at the balance sheet dates:

Revenues	Three Months Ended		Nine Months Ended	
Periods ended September 30	**2012**	**2011**	**2012**	2011
Canada	$ 114,050	$ 110,182	$ 329,587	$ 284,823
United States	106,757	35,811	239,539	77,700
	$ 220,807	$ 145,993	$ 569,126	$ 362,523

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

	As at September 30, 2012		As at December 31, 2011	
	Capital Assets	**Goodwill**	Capital Assets	Goodwill
Canada	**$ 249,870**	**$ 46,013**	$ 212,917	$ 40,800
United States	**8,088**	**26,723**	7,273	27,627
	$ 257,958	**$ 72,736**	$ 220,190	$ 68,427

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

Percentage of Completion Revenues

The operations of Stainless and WesTower within the Manufacturing segment have long-term contracts where revenues are recognized on a percentage-of-completion basis. The percentage complete is calculated based upon contract costs incurred to date compared with total estimated contract costs. The percentage complete is then applied to total anticipated contract revenue to determine the period's revenue. A provision for the estimated loss is made when contract costs are expected to exceed estimated contract revenue. During the three and nine months ended September 30, 2012, the Company recognized revenue on these types of long-term contracts totaling $136,547 and $322,375, respectively (2011 – $66,473 and $130,714, respectively).

The following summarizes the costs and estimated earnings on uncompleted contracts as of September 30, 2012:

As at September 30	**2012**
Costs incurred on uncompleted contracts	**$ 249,158**
Estimated earnings	**80,390**
	$ 329,548
less: Billings to date	**(244,869)**
Total	**$ 84,679**
Costs incurred plus recognized profits in excess of billings	**$ 98,094**
Billings in excess of costs incurred plus recognized profits	**(13,415)**
Total	**$ 84,679**

12. EARNINGS PER SHARE

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

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

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

The computation for basic and diluted earnings per share for the three and nine months ended September 30, 2012 and comparative periods in 2011 are as follows:

	Three Months Ended		Nine Months Ended	
Periods Ended September 30	**2012**	2011	**2012**	2011
Net earnings for the period, available to common shareholders	**$ 9,972**	$ 7,285	**$ 18,641**	$ 13,831
Dilutive effect of convertible debentures	**1,868**	1,911	**5,433**	4,641
Add back impact from anti-dilutive factors	**-**	-	**(4,014)**	(3,899)
Diluted earnings for the period	**$ 11,840**	$ 9,196	**$ 20,060**	$ 14,573
Basic weighted average number of Shares	**20,534,768**	17,258,537	**19,842,354**	16,572,212
Dilutive effect of convertible debentures	**5,118,105**	5,407,427	**5,060,415**	4,855,381
Add back impact from anti-dilutive factors	**-**	-	**(3,292,230)**	(3,770,706)
Dilutive effect of warrants	**-**	-	**-**	45,251
Diluted basis average number of Shares	**25,652,873**	22,665,964	**21,610,539**	17,702,138
Earnings per share:				
Basic	**$ 0.49**	$ 0.42	**$ 0.94**	$ 0.83
Diluted	**$ 0.46**	$ 0.41	**$ 0.93**	$ 0.82

13. DEFERRED SHARE PLAN

During the nine months ended September 30, 2012 the Company granted deferred shares to certain personnel. The fair value of the deferred shares granted was $657 at the time of the grant and was based on the market price of the Company's Shares at that time. During the nine months ended September 30, 2012, the Company recorded compensation expense of $415 for the Company's Deferred Share Plan within the general and administrative expenses of head-office (2011 - $281).

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary. The following describes the risk management areas that are significantly changed from December 31, 2011.

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 $49,450 outstanding on its credit facility (Canadian equivalent of $48,644). The outstanding funds in USD results in currency risk that the future cash flows will fluctuate with the changes in market currency rates. The exposure for the USD portion of its credit facility outstanding is offset by the cash generated through the operations of its Manufacturing segment subsidiaries, in particular, the operations of WesTower US and Stainless throughout the United States. The Company has no outstanding derivative instruments to reduce its exposure to the currency risk.

For the three and nine months ended September 30, 2012, the Company also recorded a currency translation loss of $1,411 and $1,296, respectively (2011 – gain of $3,094 and $2,731, respectively) in Other Comprehensive Income as described below in Note 15.

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

Interest Rates

The Company is subject to the risk that future cash flows associated with the credit facility outstanding (Note 7) 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 September 30, 2012, US $49,450 was outstanding under US LIBOR.

The interest rates of the convertible debentures (Note 8) have fixed interest rates.

15. OTHER COMPREHENSIVE INCOME (LOSS)

During the three and nine months ended September 30, 2012 the Company had other comprehensive loss of $1,411 (net of $82 tax) and loss of $1,296 (net of $76 tax), respectively, that relates to foreign currency translation adjustments of the operations of Stainless and the US operations of WesTower from US dollars to the Canadian dollar reporting currency (2011 – income of $3,094, net of $261 tax and income of $2,731, net of $218 tax, respectively). The resulting translation adjustments are included in other comprehensive income and are only included in the determination of net income when a reduction in the investment in these foreign operations is realized.

16. CHANGES IN WORKING CAPITAL ITEMS

The changes in non-cash operating working capital items during the three and nine months ended September 30, 2012 and the comparative periods in 2011 are as follows:

	Three Months Ended		Nine Months Ended	
Periods Ended September 30	**2012**	2011	**2012**	2011
Accounts receivable	**$ (5,862)**	$ 5,643	**$ (34,574)**	$ 1,283
Costs incurred plus recognized profits in excess of billings	**(25,475)**	(2,320)	**(72,181)**	(10,756)
Inventory	**(9,806)**	(1,314)	**(15,861)**	(3,855)
Prepaid expenses	**(176)**	227	**(2,122)**	532
Accounts payable and accrued charges	**20,150**	(10,402)	**50,760**	(5,182)
Income taxes payable	**3,438**	-	**1,338**	-
Deferred revenue	**723**	141	**1,877**	2,375
Billings in excess of costs incurred plus recognized profits	**661**	1,404	**(74)**	1,896
Foreign currency adjustments	**(603)**	1,845	**(160)**	1,757
Net change in working capital items	**$ (16,950)**	$ (4,776)	**$ (70,997)**	$ (11,950)

17. CAPITAL MANAGEMENT

The Company manages its capital to utilize prudent levels of debt. The Company maintains its level of senior debt within a range of 1.5 – 2.5 times funded senior debt to pro forma earnings before interest, income taxes, depreciation, amortization and other non-cash items.

The Company's objective in managing capital is to:

- ensure flexibility in the capital structure to fund the operations, distributions to shareholders, the capital investments and to support the external growth strategy;
- maintain adequate liquidity at all times; and
- maintain a diversified capital structure.

The Company actively manages and monitors the capital structure and makes adjustments based on the objectives described above in response to changes in economic conditions and the risk characteristics of the underlying assets.

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

The following is considered by the Company as capital and may not be comparable to measures presented by other public companies:

	September 30 2012	December 31 2011
Total senior debt outstanding, principal value	$ 48,644	$ 46,815
Convertible debentures outstanding, face value	180,077	129,064
Shares	264,300	194,049
Reserved shares	1,234	1,851
Total capital	$ 494,255	$ 371,779

The Company considers the existing level of equity capital to be adequate in the context of current operations and the Company's strategic plan. The Company expects that its dividends to its shareholders during the remainder of 2012 will be funded by earnings and operating cash flows generated by its operating subsidiaries.

There are certain capital requirements of the Company resulting from the Company's credit facility that include financial covenants and ratios, including leverage ratios that assess the funded senior debt to adjusted earnings before interest, income tax expense, depreciation, amortization, acquisition costs and other non-cash items ("EBITDA") ratio. Management uses these capital requirements in the decisions made in managing the level and make-up of the Company's capital structure. The Company has been in compliance with all of the financial covenants during the 2012 period.

Changes in the capital of the Company over the nine months ended September 30, 2012 are mainly attributed to the Company's collecting proceeds from its March 2012 Shares offering and using the majority of the net proceeds as a repayment against its outstanding credit facility balance after acquiring Custom.

18. 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 nine months ended September 30, 2012 was 32.5% (nine months ended September 30, 2011: 32.9%). The change in the effective tax rate is detailed in the following table:

Nine Months Ended September 30	2012	2011
Earnings before provision for income taxes	$ 27,610	$ 20,610
Combined Canadian federal and provincial tax rates	27.0%	28.5%
Income tax expense at statutory rates	$ 7,455	$ 5,874
Increase (decrease) in taxes resulting from:		
Permanent differences	348	607
Change in statutory rates	(232)	(15)
Impact of foreign tax rate differences	1,266	144
Other	132	169
Provision for income taxes	$ 8,969	$ 6,779