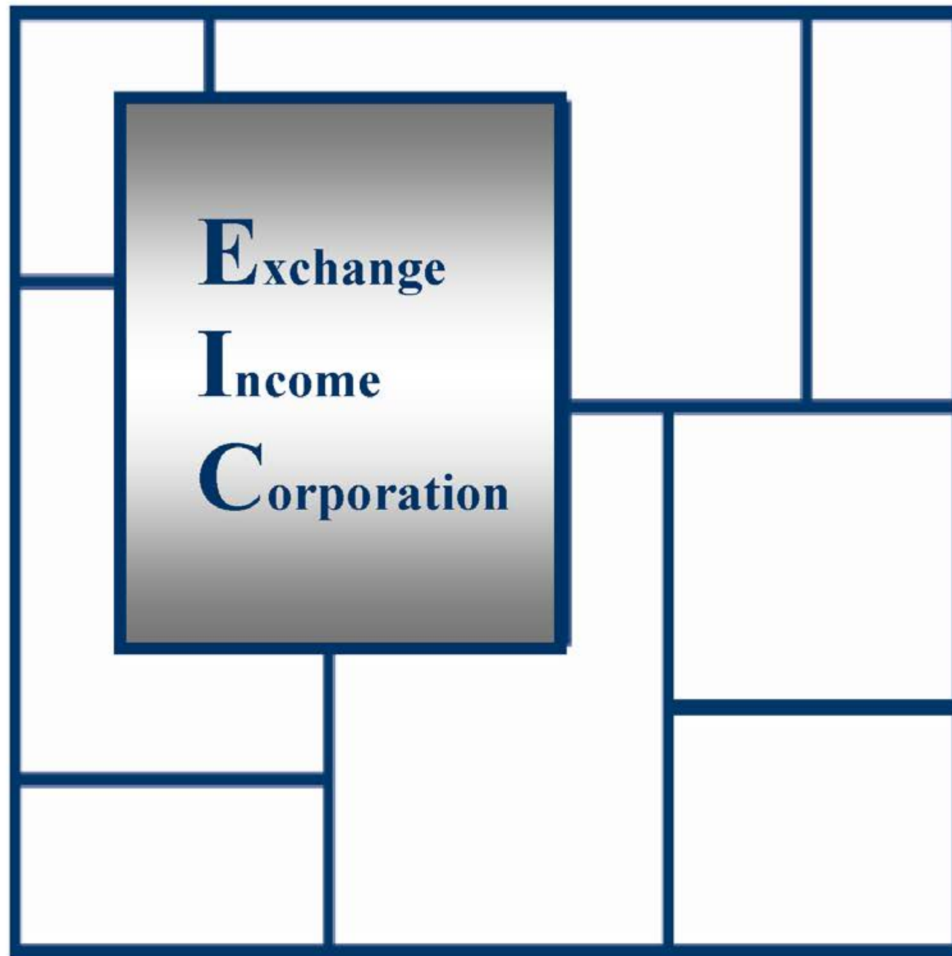


Second Quarter Report

For the three and six months ended June 30, 2012

President & CEO's Message

The second quarter was an excellent one for EIC. We hit new highs in virtually all financial measures. Sales broke the $200 million mark for the quarter, up 46% from 2011. EBITDA reached $24.5 million, up 24% from 2011. Net earnings grew by 72% to $7.8 million and perhaps most importantly, free cash flow after funding maintenance capital requirements grew by 55% to $12.5 million. This growth was almost entirely achieved through the organic growth of our Manufacturing segment. While Custom Helicopters was a part of the second quarter of 2012 and it is not in the comparable quarter of 2011, it contributed only a small portion of this increase.

While we are very pleased with this performance, it is more significant for the insight it provides into our business model than it is a simple indication of performance. We believe that it shows the power of a diversified portfolio, when done on a measured and disciplined basis. In a quick review of the numbers it would be easy to assume that we have had uniform strong performance in all of our business units. This is not the case. Our Aviation segment dealt with increased competition in some of its markets which lead to a decrease in EBITDA of $1.4 million, in spite of the new contribution of approximately $2 million by Custom Helicopters. Our manufacturing segment however generated EBITDA which more than doubled to $13 million, without the benefit of any acquisitions to increase results. The different business cycles of our business units enable EIC to better deal with changes in the economy, resulting in smaller quarterly variations in results, and therefore a reliable dividend to our shareholders. Quite simply, diversification works.

We are working on initiatives for our Aviation segment to lower costs, and improve our customer experience in order to deal with the increase in competition in certain markets and to enhance profitability. We have accelerated the replacement of the SAAB aircraft in our fleet, and replaced them with the larger ATR 42. This will increase capacity while at the same time reduce the complexity of the fleet and the duplication of staffing inherent in multiple aircraft types. We have also purchased our first Dash 8 300 series aircraft to help us deal with the ever growing demand in some of our Manitoba market places. Historically, we had flown smaller Dash 8 100 aircraft, but in a portion of our business they no longer have the necessary uplift to meet customer demand. This aircraft, while larger than the 100, can be flown and maintained by the same group of well trained employees which will give us the benefit of a larger aircraft without a material increase to the complexity of the fleet. It will go into service in the 4th quarter of this year.

The performance of our Manufacturing segment can best be described as remarkable as all of our business units generated stronger results than the preceding year. In particular, Stainless and WesTower had standout results. While the economy in the USA remains fragile, Stainless has increased the size of its order book and has experienced a better mix of factory and on-site build. This has served to increase sales and margins. WesTower has begun to feel the impact of the AT&T contract. Revenues have grown dramatically at WesTower and while we are still ramping up our infrastructure to deal with this demand, we are beginning to see the impact to our bottom line. It will take several quarters to fully digest this new revenue level, but we are pleased that the impact is now beginning to show in our results.

We remain very active on the acquisition front and are excited about some of the opportunities that we are currently examining. While we look to add additional business units to our existing segments or perhaps even add a new segment to our company, we remain cautious through this process and are committed to the disciplined methodology that has been the backbone of our business model since our inception. We are looking for accretive acquisition opportunities, but only those that meet our well defined investment criteria.

We are upbeat about the outlook for the future. Our existing operations are profitable and growing. Our balance sheet is strong with access to capital which allows us to move very quickly when the right opportunities present themselves. We intend to stay true to our model: diversification and discipline lead to reliable growing dividends to our shareholders.

Mike Pyle
President & CEO

Management's Discussion and Analysis

August 10, 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 six months ended June 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 six months ended June 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 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 June 30						
Revenue[(1)]	$ 201,636			$ 138,008		
EBITDA	24,463			19,738		
Net earnings	7,759	$ 0.38	$ 0.37	4,506	$ 0.27	$ 0.27
Adjusted net earnings	8,062	0.39	0.36	5,839	0.34	0.34
Free cash flow	20,821	1.02	0.82	16,890	1.00	0.83
Free cash flow less maintenance capital expenditures	12,508	0.61	0.55	8,059	0.48	0.43
Dividends declared	8,258	0.405		6,886	0.405	
For the six months ended June 30						
Revenue[(1)]	$ 348,319			$ 216,530		
EBITDA	38,524			31,952		
Net earnings	8,669	$ 0.44	$ 0.44	6,546	$ 0.40	$ 0.40
Adjusted net earnings	9,629	0.49	0.49	8,925	0.55	0.54
Free cash flow	31,988	1.64	1.30	27,405	1.69	1.42
Free cash flow less maintenance capital expenditures	16,374	0.84	0.78	11,903	0.73	0.67
Dividends declared	15,811	0.810		13,005	0.795	
FINANCIAL POSITION	June 30, 2012			December 31, 2011		
Working capital	$ 116,284			$ 67,277		
Capital assets	261,887			220,190		
Total assets	609,819			478,401		
Senior debt	85,128			49,234		
Equity	286,692			225,637		
SHARE INFORMATION	June 30, 2012			December 31, 2011		
Common shares outstanding	20,356,982			17,399,182		

Note 1): Certain transactions of the Company's aviation support entities where it is acting as an agent to sell fuel to third parties are measured on a net basis. An adjustment to the prior year's financial results as a result of changing the measurement from a gross basis between revenue and direct operating expenses occurred during the third quarter of 2011. As a result, the comparative 2011 period was reduced by $8.6 million for the three month period and $23.0 for the six month period from what was originally recorded in the second quarter 2011 interim MD&A. This change in measurement had no impact on the financial measures generated for the period above except revenues.

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 service and emergency medical services to communities located in Manitoba, Ontario, Quebec 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 $28.2 million has been funded through a combination of $23.9 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 six months ended June 30, 2012 include Custom's financial results since the closing date of the acquisition. During the period since acquisition, Custom contributed third party revenues of $6.8 million, EBITDA of $2.9 million, and total assets of $36.6 million.

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

Acquisition costs of $0.4 million were incurred by the Company during the first six 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 the 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 the 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		Six Months Ended	
periods ending June 30	**2012**	2011	**2012**	2011
Earnings before income tax	$ **11,455**	$ 7,182	$ **12,753**	$ 10,426
Depreciation and amortization	**9,713**	8,324	**18,659**	14,312
Finance costs - interest	**3,281**	3,281	**6,722**	5,384
Acquisition costs	**14**	951	**390**	1,830
Total EBITDA	$ **24,463**	$ 19,738	$ **38,524**	$ 31,952

FREE CASH FLOW

FREE CASH FLOW	Three Months Ended		Six Months Ended	
periods ending June 30	**2012**	2011	**2012**	2011
Cash flows from operations	**$ (29,349)**	$ 7,625	**$ (22,449)**	$ 18,401
Change in non-cash working capital items	**50,156**	8,314	**54,047**	7,174
Acquisition costs	**14**	951	**390**	1,830
	$ 20,821	$ 16,890	**$ 31,988**	$ 27,405
per share - Basic	**$ 1.02**	$ 1.00	**$ 1.64**	$ 1.69
per share - Fully Diluted	**$ 0.82**	$ 0.83	**$ 1.30**	$ 1.42

Three Month Free Cash Flow

During the second quarter of 2012 the Company generated Free Cash Flow of $20.8 million, which is $3.9 million or 23% higher than the comparative period in 2011 when the Company generated $16.9 million. The increase is attributed mainly to the 24% increase in EBITDA, which represents an increase of $4.7 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. Additionally, the expansion by WesTower in its US region and the improved results in the other Manufacturing segment entities also contributed 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 $0.9 million and 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, Free Cash Flow for the second quarter of 2012 was relatively consistent with the amounts in the comparative period in 2011. The basic per share amount for 2012 is $1.02 (fully diluted $0.82), in comparison to $1.00 for 2011 (fully diluted

$0.82). The increase in the Free Cash Flow described above was offset by the increased number of shares outstanding. The amount of Shares outstanding at June 30, 2012 was 20.4 million, which is 19% higher than the 17.0 million Shares outstanding at June 30, 2011. The increase in Shares outstanding was caused by several factors. 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 result and the share issuance during the first quarter of 2012 where the Company used $50 million of the proceeds to repay debt outstanding in the Company's credit facility at the time contributed to this impact. These decisions will continue to impact the per share results of the Company until these funds are deployed. During the second quarter, the expansion by WesTower's US operations required significant working capital. The Company has drawn funds from the credit facility in order to fund these working capital requirements, and therefore has seen a portion of these funds deployed. As at June 30, 2012, the de-leveraged balance sheet puts the Company in a position to finance approximately a $150 million acquisition without the need for additional equity financing.

Six Month Free Cash Flow

The Company generated Free Cash Flow of $32.0 million for the six months ended June 30, 2012, which is $4.6 million higher than the $27.4 million generated in the comparative 2011 period. Consistent with the discussion above for the three month period, the 17% increase in Free Cash Flow is mainly the result of the 21% increase in EBITDA, which is an increase of $6.6 million over the comparative period. The improved EBITDA for the six 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 existing entities, especially those within the Manufacturing segment. 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 $1.1 million of cash taxes for the period and the increase of $0.9 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 Free Cash Flow was offset by the higher share base and as a result decreased by 3% to $1.64 for the 2012 (fully diluted decrease of 8% to $1.30) from $1.69 for the comparative period (2011 fully diluted $1.42). 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.

FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENDITURES

FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENDITURES	Three Months Ended		Six Months Ended	
periods ending June 30	2012	2011	2012	2011
Free Cash Flow	$ 20,821	$ 16,890	$ 31,988	$ 27,405
Maintenance Capital Expenditures	8,313	8,831	15,614	15,502
	$ 12,508	$ 8,059	$ 16,374	$ 11,903
per share - Basic	$ 0.61	$ 0.48	$ 0.84	$ 0.73
per share - Fully Diluted	$ 0.55	$ 0.43	$ 0.78	$ 0.67

Three Month Free Cash Flow Less Maintenance Capital Expenditures

The Company generated Free Cash Flow less maintenance capital expenditures of $12.5 million for the second quarter of 2012, which is an increase of $4.4 million or 55% over the $8.1 million generated in the comparative period in 2011. The 23% increase in Free Cash Flow described above for the second quarter was helped by a decrease of $0.5 million or 6% in the maintenance capital expenditures. The expenditures decreased to $8.3 million for the second 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 noise 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 second quarter of 2012 increased to $0.61 ($0.55 fully diluted) in comparison to $0.48 ($0.43 fully diluted) in the 2011 comparative period. The increase of 27% (28% fully diluted) is a result of the additional Free Cash Flow less maintenance capital expenditures generated by the Company even with 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 $0.41 decrease from Free Cash Flow. The maintenance capital expenditures impact for the comparable period in 2011 was $0.52 per share.

Six Month Free Cash Flow Less Maintenance Capital Expenditures

Consistent with the discussion above for the second quarter, the Company generated Free Cash Flow less maintenance capital expenditures of $16.4 million for the six months ended June 30, 2012, which is an increase of $4.5 million or 38% over the $11.9 generated in the comparative period in 2011. The 17% increase in Free Cash Flow described above for the first six months of 2012 was slightly offset by the increase of $0.1 million or less than 1% in the maintenance capital expenditures. The expenditures increased to $15.6 million for the first six 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 six months ended June 30, 2012 increased to $0.84 ($0.78 fully diluted) in comparison to $0.73 ($0.67 fully diluted) in the 2011 comparative period. The increase of 15% (16% fully diluted) is a result of the additional Free Cash Flow less maintenance capital expenditures generated by the Company during the second quarter of 2012. The maintenance capital expenditure component of this metric is described further below and accounted for the $0.80 decrease from Free Cash Flow. The maintenance capital expenditures impact for the comparable period in 2011 was $0.96 per share.

CAPITAL EXPENDITURES

CAPITAL EXPENDITURES	Three Months Ended		Six Months Ended	
periods ending June 30	2012	2011	2012	2011
Cash maintenance capital expenditures	$ 7,946	$ 8,533	$ 14,975	$ 15,204
add: finance lease principal payments	367	298	639	298
Maintenance capital expenditures	8,313	8,831	15,614	15,502
Growth capital expenditures	14,857	2,197	23,164	4,320
	$ 23,170	$ 11,028	$ 38,778	$ 19,822
Maintenance capital expenditures per share - Basic	$ 0.41	$ 0.52	$ 0.80	$ 0.96
Growth capital expenditures per share - Basic	0.73	0.13	1.19	0.27
Total capital expenditures per share - Basic	$ 1.14	$ 0.65	$ 1.99	$ 1.22

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

Maintenance Capital Expenditures

Total maintenance capital expenditures for the second quarter of 2012 totaled $8.3 million compared to $8.8 million in the same period in 2011, a decrease of $0.5 million. The Aviation segment continues to make up the majority, as it spent $7.6 million versus the $0.7 million in the Manufacturing segment.

Custom, which is not in the comparable 2011 period, accounted for $0.6 million in the 2012 period. 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 $7.6 million are at a level that is indicative of an average quarter. The majority of the Aviation

segment's maintenance capital expenditures relate to engine overhauls, heavy checks and rotable additions. The expenditures at the Company'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 first two quarters of 2012 were average quarters for maintenance capital expenditures and the Company expects the maintenance capital expenditures for the remainder of the year to be consistent with these quarters.

The Manufacturing segment's capital expenditures were mainly from WesTower which spent $0.5 million during the period, which includes $0.4 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 six months ended June 30, 2012 totaled $15.6 million, consistent with the $15.5 million in 2011. Excluding the maintenance capital expenditures for Custom and the first quarter for WesTower, maintenance capital expenditures were $14.2 million. This is a decrease of $1.3 million from the comparable companies in 2011. As discussed above, this is the result of the fluid nature of the maintenance capital expenditures, which were slightly above normal in the prior year's first six months.

Growth Capital Expenditures

The Company invested a total of $14.9 million in growth capital expenditures during the second quarter of 2012. The majority of the growth capital expenditures were in the Aviation segment which accounted for $13.7 million of the growth capital expenditures. The major growth capital expenditures were for additional aircraft and infrastructure at the James Armstrong Richardson International Airport in Winnipeg. Total aircraft growth capital expenditures were $12.9 million which includes 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, an ATR 42 and a spare ATR 72 engine for Calm as part of their fleet upgrade plan, and modifications of the Dornier jet purchased at the end of 2011 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 $0.8 million was spent on construction costs for a new hangar at the James Armstrong Richardson International Airport in Winnipeg, which will be used as a heavy overhaul facility. The Company will continue to incur these hangar construction costs until the end of 2012, which is when the hangar is anticipated to be fully operational. The Manufacturing segment spent $1.2 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 six months ended June 30, 2012, the Company invested a total of $23.2 million in growth capital expenditures. In addition to the items listed above for the three month period, the Company spent an additional $8.3 million in growth capital expenditures during the first quarter of 2012. The most significant items were $4.5 million spent to acquire the infrastructure at the James Armstrong Richardson International Airport in Winnipeg that was announced in January of 2012, as well as $2.7 million spent on additional aircraft, including the Dornier jet and a Metro III to service Bearskin's business.

DIVIDENDS & PAYOUT RATIO

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

			2012 Dividends			2011 Dividends
Month	Record date	Per Share	Amount	Record date	Per Share	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
Total		$ 0.810	$ 15,811		$ 0.795	$ 13,005

Actual dividends for the second quarter of 2012 totaled $8.3 million, which was an increase of 20% from the comparative period in 2011 when the actual payouts were $6.9 million. Per share dividends for both the second quarter of 2012 and 2011 were consistent and totaled $0.405 for each period.

Actual dividends for the six months ended June 30, 2012 totaled $15.8 million, which was an increase of 22% from the comparative period in 2011 when the actual payouts were $13.0 million. Per share dividends for the first six months of 2012 totaled $0.81, which is an increase of 2% over the dividends paid per share of $0.795 in the comparative period in 2011.

The Company's Board of Directors regularly examines the dividends paid to shareholders. The current dividend rate per share was increased to $0.135 per month starting in April 2011, an increase of 4% or $0.005 per share. The monthly dividend rate of $0.13 was declared for each of the three months ended March 31, 2011. Management expects that the Company will generate sufficient cash going forward into 2012 to meet or exceed the current dividend level of $0.135 per month per share.

The following are the Company's payout ratios using Free Cash Flow and Free Cash Flow less maintenance capital expenditures as a portion 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 June 30						
Free Cash Flows		*40%*	*49%*		*41%*	*49%*
Free Cash Flows less maintenance capital expenditures		*66%*	*74%*		*84%*	*94%*
For the six months ended June 30						
Free Cash Flows		*49%*	*62%*		*47%*	*56%*
Free Cash Flows less maintenance capital expenditures		*96%*	*104%*		*109%*	*119%*

The payout ratios for the second 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 six month period ended June 30, 2012, the Free Cash Flow payout ratios have declined from the comparative period due to the higher dividends per share and a larger amount of Shares outstanding. For the six month period's Free Cash Flow less maintenance capital expenditures, the 2012 payout ratios improved as a result of the stable amount of maintenance capital expenditures between the periods but spread over a larger share base. The payout ratios for the six month period ended June 30, 2012 also takes 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 June 30, 2012 and the comparative 2011 period.

	Three Months Ended June 30, 2012				Three Months Ended June 30, 2011			
	Aviation	Manufacturing	Head-office[2]	Consolidated	Aviation	Manufacturing	Head-office[2]	Consolidated
Revenue	$ 72,412	$ 129,224	$ -	$ 201,636	$ 71,186	$ 66,822	$ -	$ 138,008
Expenses[1]	58,227	116,234	2,712	177,173	55,630	60,685	1,955	118,270
EBITDA	14,185	12,990	(2,712)	24,463	15,556	6,137	(1,955)	19,738
Depreciation and amortization				9,713				8,324
Finance costs - interest				3,281				3,281
Acquisition costs				14				951
Earnings before taxes				11,455				7,182
Current income tax expense				1,138				218
Deferred income tax expense				2,558				2,458
Net earnings for the period				$ 7,759				$ 4,506

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 second quarter of 2012 increased by 46% or $63.6 million to $201.6 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 2% to $72.4 million and the revenues for the Manufacturing segment increased by 93% to $129.2 million.

On a consolidated basis, EBITDA of the Company for the second quarter of 2012 was $24.5 million, an increase of 24% or $4.7 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. Offsetting that growth was a decrease in the overall Aviation segment's EBITDA even with the addition of Custom with no comparative in 2011. The EBITDA for the Aviation segment decreased by 9% to $14.2 million and the EBITDA for the Manufacturing segment increased by 112% to $13.0 million. Costs incurred at the head-office of the Company increased by 39% to $2.7 million.

AVIATION SEGMENT

Aviation Segment	Three Months Ended June 30,	2012	2011	Variance	Variance %
Revenue		72,412	71,186	1,226	2%
Expenses		58,227	55,630	2,597	5%
EBITDA		14,185	15,556	(1,371)	-9%

Revenue generated by the Aviation segment in the second quarter of 2012 increased by $1.2 million or 2% from $71.2 million in 2011 to $72.4 million in 2012 including $4.4 million generated from Custom Helicopter, which was acquired February 1, 2012. The operational results of the pre-existing Aviation subsidiaries experienced a moderate decline in revenues from $71.2 million in 2011 to $68.0 million in 2012, a decline of $3.2 million, or 4%. Revenue generated from passenger services decreased by $2.9 million which was the result of the removal of Keewatin Air's scheduled services effective September 1, 2011, unprecedented poor weather conditions experienced in the northern regions, and lastly, increased competition by two competitors in the eastern region operated by Bearskin. These decreases in revenue were partly offset by growth in the medevac operations which increased by $0.6 million, or 6%, compared to the comparative quarter in 2011. The increase in medevac operations was primarily driven by growth in Perimeter's medevac operations as well as increases related to Keewatin Air's medevac program. Lastly, the aviation support companies experienced a decline in revenues of $0.9 million; however, the 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 $2.6 million, or 5%, from $55.6 million in 2011 to $58.2 million and were entirely driven by the acquisition of Custom Helicopter. Although the pre-existing aviation entities experienced a decline in revenues, corresponding operational expenses remained flat at $55.8 million in the second quarter of both 2011 and 2012. The decline in revenues was not matched by a proportional decline in operational expenses primarily due to three main factors. Firstly, average fuel prices increased by approximately 2% putting upward pressure on fuel costs which increased by approximately $0.3 million over the prior year quarter. Secondly, labour and training costs associated with changes in the scheduled service operations, infrastructure to support Calm Air's contract with the Government of Nunavut and associated training, incurred an additional $0.3 million. Thirdly, in order to service the Government of Nunavut contract, the Company wet leased a jet. 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. This 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 $0.3 million of lease expenses in the second quarter of 2012. This arrangement continued to the end of April 2012. Aircraft movement fees including landing and terminal fees contributed an additional $0.2 million and is largely the result of increases in terminal rates.

EBITDA margin for the Aviation segment experienced a decline in the second quarter from 21.9% in 2011 to 19.6% in 2012. As discussed, revenues were impacted by inclement 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. Thirdly, the increase in fuel impacted margins. The Company's management manages fuel cost closely to ensure that fuel surcharges are added to the cost of the ticket for customers when it is considered necessary while respecting the impact on the First Nations Communities who use the services of the segment as a necessity. Additionally, increased competition in the eastern region also prevented the implementation of fuel surcharges. Although some minor adjustments were made to the fuel surcharge program, fuel increases were not offset. The other cost increases noted above further explain the reduction in EBITDA margin.

MANUFACTURING SEGMENT

Manufacturing Segment	Three Months Ended June 30,	2012	2011	Variance	Variance %
Revenue		$ 129,224	$ 66,822	$ 62,402	93%
Expenses		116,234	60,685	55,549	92%
EBITDA		$ 12,990	$ 6,137	$ 6,853	112%

The Manufacturing segment earned revenues of $129.2 million and EBITDA of $13.0 million for the three months ended June 30, 2012. This represents a $62.4 million increase in revenue and a $6.9 million increase in EBITDA.

Revenues were up $62.4 million or 93% over the prior year comparative quarter. WesTower contributed the majority of this increase as their revenues continued to be bolstered by the AT&T turf contract that started late in 2011. The work from the turf contract continues to increase each month as WesTower transitions into 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 $7.0 million over the prior year period, representing a 42% increase. The increases in revenues were led by the operations of Stainless, which recorded another record quarter. Revenues increased $4.6 million or 66%, driven by strong field operations, including work for a large winery field project in 2012. The Alberta operations' revenue increased by $2.4 million or 36% in the 2012 period as a result of the continued improvement in the Alberta marketplace with all product lines continuing to contribute to the sales increase.

EBITDA was up $6.9 million or 112% 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 two thirds of the EBITDA increase and the other manufacturing entities contributed the remaining one third of the increase, representing EBITDA increases of 142% and 77% over the prior year comparable period, respectively. The EBITDA growth was driven by both increased revenue and slightly higher EBITDA margins, which were 10.1% compared to 9.2% in the second quarter of 2011.

The EBITDA margins of the Manufacturing segment, excluding WesTower showed considerable improvements increasing to 21.5% from 17.2% in the comparable period. The increase in margins was largely the result of the increase in revenues while keeping consistent overheads, as well as the contribution from closing out a couple of large jobs and realizing strong operating margins on them. EBITDA margins at WesTower were 7.5%, an improvement over the 6.5% realized in the second quarter of 2011 and also considerably stronger than the 4.8% EBITDA margins realized in the first quarter of 2012. As previously discussed, WesTower operates in a lower margin business than the other companies in the Manufacturing segment. Consistent with the disclosure in previous quarters, WesTower's US operations have been significantly impacted by the startup of the turf contract which began late in 2011. The US operations of WesTower realized margins of 6.7% in the second quarter, which was a significant improvement over the 1.6% in the first quarter. The expected margin for this business is in the high single digits. WesTower is still in the process of the AT&T transition with the expectations that it will be through this transition by the end of the year.

The significant growth of WesTower and the continued strength of the remainder of the Manufacturing segment resulted in the segment contributing 64% of the Company's second quarter consolidated revenues in 2012 compared to 48% in 2011. At the EBITDA level the Manufacturing segment contributed 47% of the consolidated EBITDA of the Company's segments in comparison to 28% for the comparative in 2011.

HEAD-OFFICE

Head-office Costs	Three Months Ended June 30,	2012	2011	Variance	Variance %
Expenses		$ 2,712	$ 1,955	$ 757	39%

The head-office costs increased in the second quarter of 2012 by $0.8 million or 39% over the comparative period in 2011. The increase can be attributed partially to personnel costs increasing by $0.5 million which comes from more personnel within the head-office team and the increase in share-based compensation programs for the Company's executives, directors and consolidated employee base. 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 three months ended June 30, 2012 in comparison to the same period in 2011. Consolidated net earnings for the three months ended June 30, 2012 was $7.8 million, an increase of $3.3 million over the comparative period in 2011.

Three Months Ended June 30,		2012		2011	Variance	Variance %
Depreciation and amortization	$	9,713	$	8,324	1,389	17%

The depreciation and amortization for the Company increased by $1.4 million or 17% in the second quarter of 2012 over the comparative period in 2011. The acquisition of Custom, which closed in February 2012, added additional depreciation and amortization of $1.0 million with no comparative amount in the 2011 period. The other pre-existing subsidiaries contributed the other $0.4 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 June 30,		2012		2011		Variance	Variance %
Finance costs - interest	$	3,281	$	3,281	$	-	0%

The finance costs incurred by the Company for the second quarter of 2012 are consistent with the comparative period in 2011. The make-up of the total finance costs has changed though between the two periods. The interest on the Company's convertible debentures increased in the 2012 period and can be attributed to overall higher levels of convertible debentures outstanding. In May 2011, the Company issued $57.5 million of Series J convertible debentures with a 6.25% interest rate and therefore those debentures were outstanding for approximately one month in the comparative 2011 period, compared to three months of interest in the current 2012 period. This generated approximately $0.5 million of additional interest in 2012 but was offset by a net decrease of $0.2 million in the other series of convertible debentures outstanding as a result of lower principal outstanding between the periods based on the conversions to common shares.

The Company's interest incurred on long-term debt and finance leases decreased by $0.3 million as a result of lower levels of debt outstanding and better financing rates. The net proceeds from the share offering that the Company closed in the first quarter of 2012 were used to pay down the Company's Canadian portion of its credit facility. Over the second quarter of 2012 the Company made several draws for various items, including growth capital expenditures within the Aviation segment. In the comparative second quarter of 2011, the amount outstanding in the Company's Canadian portion of its credit facility was significantly higher, especially with the closing of the WesTower acquisition on the first day of that period. Offsetting the lower interest on the Canadian portion of the Company's credit facility was a higher level of the Company's US credit facility outstanding during the 2012 period as a result of the Company using that portion of its overall credit facility to fund the working capital requirements of WesTower's turf contract expansion. The Company incurred higher standby costs associated with a larger portion of its credit facility being unutilized during the 2012 period.

Three Months Ended June 30,		2012		2011		Variance	Variance %
Acquisition Costs	$	14	$	951	$	(937)	-99%

The Company incurred minimal amounts of external acquisition related costs during the second quarter of 2012. During the comparative 2011 period, the Company incurred significant costs that were mainly the result of a potential significant transaction that the Company chose to walk away from given that it was determined it didn't meet the acquisition criteria that the Company has established.

Three Months Ended June 30,		2012		2011		Variance	Variance %
Current income tax expense	$	1,138		218		920	422%
Deferred income tax expense		2,558		2,458		100	4%
Income Tax Expense	$	3,696	$	2,676	$	1,020	38%

Income tax expense for the 2012 period was $3.7 million, representing an increase of $1.0 million over the comparative period in 2011. The primary reason for the increase in tax expense is due to an increase in pre tax income of $4.3 million.

Current tax expense is the expected tax payable on taxable income after applying non-capital losses. Not all of the subsidiaries have full access to the non-capital losses. During the period the income of these subsidiaries subject to tax, before the use of subsidiary losses, was $5.7 million. Of this, $2.2 million was offset by subsidiary losses resulting in taxable income of $3.5 million and current tax expense of $1.1 million. The unrestricted subsidiary loss balance at June 30, 2012 is nil. ($1.7 million – 2011)

The Company has the ability to offset much of the taxable income it generates with non-capital losses. During the 2012 period the Company used $7.3 million of non-capital losses ($8.5 million – 2011) and it has approximately $139.3 million of non-capital losses available to offset future taxable income.

Six Month Results

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

	Six Months Ended June 30, 2012				Six Months Ended June 30, 2011			
	Aviation	Manufacturing	Head-office(2)	Consolidated	Aviation	Manufacturing	Head-office(2)	Consolidated
Revenue	$ 138,166	$ 210,153	$ -	$ 348,319	$ 133,148	$ 83,382	$ -	$ 216,530
Expenses(1)	115,412	190,028	4,355	309,795	106,715	74,237	3,626	184,578
EBITDA	22,754	20,125	(4,355)	38,524	26,433	9,145	(3,626)	31,952
Depreciation and amortization				18,659				14,312
Finance costs - interest				6,722				5,384
Acquisition costs				390				1,830
Earnings before taxes				12,753				10,426
Current income tax expense				1,272				217
Deferred income tax expense				2,812				3,663
Net earnings for the period				$ 8,669				$ 6,546

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 six months ended June 30, 2012 increased by 61% or $131.8 million to $348.3 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 4% to $138.2 million and the revenues for the Manufacturing segment increased by 152% to $210.1 million.

On a consolidated basis, EBITDA of the Company for the second quarter of 2012 was $38.5 million, an increase of 21% or $6.6 million when compared to the same period in 2011. Consistent with consolidated revenues for the six month period and the three month discussion above, the main drivers of the increase in consolidated EBITDA for 2012 are consistent with the aforementioned items. The EBITDA for the Aviation segment decreased by 14% to $22.8 million and the EBITDA for the Manufacturing segment increased by 120% to $20.1 million. Costs incurred at the head-office of the Company increased by 20% to $4.4 million.

AVIATION SEGMENT

Aviation Segment Six Months Ended June 30,	2012	2011	Variance	Variance %
Revenue	$ 138,166	$ 133,148	$ 5,018	4%
Expenses	115,412	106,715	8,697	8%
EBITDA	$ 22,754	$ 26,433	$ (3,679)	-14%

Revenue generated by the Aviation segment increased by $5.0 million or 4% from $133.2 million in 2011 to $138.2 million in 2012 including $6.8 million generated from Custom Helicopter, which was acquired February 1, 2012. The operational results of the pre-existing Aviation subsidiaries experienced a moderate decline in revenues from $133.2 in 2011 to 131.3 million in 2012, a decline of $1.9 million, or 1%. Revenues generated from passenger services decreased by $3.2 million, or 4%, from $79.0 million to $75.8 million. The decrease in revenue generated from passenger services is the result of the removal of Keewatin Air's scheduled services effective September 1, 2011, inclement weather conditions experienced in the northern regions, and lastly, increased competition by

two competitors in the eastern region operated by Bearskin. These decreases were offset by growth in charter and medevac operations which increased by $1.9 million, or 15% and $1.2 million, or 7%, respectively. The increase in charter operations was primarily driven by growth in the mining and exploration industry 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 support group of companies declined $1.7 million compared to 2011; however, the 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 $8.7 million, or 8%, from $106.7 million in 2011 to $115.4 million in 2012 including $4.0 million generated from Custom Helicopter. The operational expenses for the pre-existing Aviation subsidiaries increased by $4.7 million, or 4%, from $106.7 million in 2011 to $111.4 million in 2012. The increase is primarily due to three main factors. Firstly, average fuel prices increased by approximately 6% putting significant upward pressure on fuel costs which increased by approximately $1.5 million over the prior year. Secondly, labour and training costs associated with changes in the scheduled service operations, infrastructure to support Calm Air's contract with the Government of Nunavut and associated training, generated an additional $1.3 million. Thirdly, in order to service the Government of Nunavut contract, the Company wet leased a jet. 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. This 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 $1.3 million of lease expenses in the first 6 months of 2012. This arrangement terminated April 2012. The balance of the increase is related to Aircraft movement fees including landing and terminal fees which contributed an additional $0.5 million, and is largely the result of increases in terminal rates, as well as increased costs associated with parts and infrastructure expenses associated with the medical contracts.

EBITDA margin for the Aviation segment experienced a decline in the first six months from 19.9% in 2011 to 16.5% in 2012. 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. Thirdly, increased fuel cost impacted margins. The Company's management manages 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 respecting the impact on the First Nations Communities who use the services of the segment as necessity. Additionally, increased competition in the eastern region also prevented the implementation of fuel surcharges. Although some minor adjustments were made to the fuel surcharge program, the majority of fuel increases were not offset. The other cost increases noted above, further explain the reduction in EBITDA margin.

MANUFACTURING SEGMENT

Manufacturing Segment	Six Months Ended June 30,	2012	2011	Variance	Variance %
Revenue		$ 210,153	$ 83,382	$ 126,771	152%
Expenses		190,028	74,237	115,791	156%
EBITDA		$ 20,125	$ 9,145	$ 10,980	120%

The Manufacturing segment earned revenues of $210.2 million and EBITDA of $20.1 million for the six months ended June 30, 2012. This represents a $126.8 million increase in revenue and an $11.0 million increase in EBITDA.

Revenues were up $126.8 million or 152% over the prior year comparative period. There are three main contributors to the increase. First, WesTower was acquired on April 1, 2011 and is only in the comparative period for three of the six months. WesTower generated revenue of $57.1 million in the first quarter of 2012 with no comparative in 2011. Second, 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 year over year, as exemplified by WesTower's 111% growth in revenue in the second quarter of 2012 compared to the second quarter of 2011. The third reason is the continued improvement of the remainder of the Manufacturing segment. Consistent with the discussion for the three month period above, there have been considerable revenue increases in the US and Alberta economies 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 $11.0 million or 120% over the prior year comparative 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 six months decreased to 9.6% from 11.0% as the lower margin WesTower business was included in the results for six months in 2012 compared to three months in 2011. EBITDA margins for the pre-existing manufacturing entities increased to 20.0% from 17.7% in the 2011 period for the same reasons as discussed above in the second quarter analysis.

HEAD-OFFICE

Head-office Costs	Six Months Ended June 30,	2012	2011	Variance	Variance %
Expenses		$ 4,355	$ 3,626	$ 729	20%

The head-office costs increased for the six months ended June 30, 2012 by $0.7 million or 20% over the comparative period in 2011. The increase is entirely attributable to the second quarter period change. Therefore, it is consistent with the three month period discussion above on head-office costs.

OTHER NON-EBITDA ITEMS

The following analyzes the changes in the other non-EBITDA income statement items that impacted net earnings for the six months ended June 30, 2012 in comparison to the same period in 2011. Consolidated net earnings for the six months ended June 30, 2012 were $8.7 million, an increase of $2.1 million over the comparative period in 2011.

	Six Months Ended June 30,	2012	2011	Variance	Variance %
Depreciation and amortization		$ 18,659	$ 14,312	$ 4,347	30%

The Company's depreciation and amortization for the first six months of 2012 increased by $4.3 million or 30% over the comparative period in 2011. The acquisition of Custom which closed in February 2012 resulted in additional expense of $1.5 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 $1.5 million of the 2012 increase comes from the pre-existing subsidiaries, in particular the entities within the Aviation segment that have made significant capital expenditures recently.

	Six Months Ended June 30,	2012	2011	Variance	Variance %
Finance costs - interest		$ 6,722	$ 5,384	$ 1,338	25%

The Company incurred additional interest costs for the six months ended June 30, 2012 of $1.3 million or 25% over the comparative period in 2011. The majority of the reason for the increase in 2012 is a result of higher 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. This was 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 and also insignificant finance lease interest of less than $0.1 million for the first three months of 2012 with no comparative as these finance lease costs commenced with the acquisition of WesTower on April 1, 2011.

	Six Months Ended June 30,	2012	2011	Variance	Variance %
Acquisition Costs		$ 390	$ 1,830	$ (1,440)	-79%

The acquisition costs incurred by the Company during the first six months of 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 closed acquisition of WesTower in April 2011, plus certain other external costs with 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.

Six Months Ended June 30,	2012	2011	Variance	Variance %
Current income tax expense	$ 1,272	$ 217	$ 1,055	486%
Deferred income tax expense	2,812	3,663	(851)	-23%
Income Tax Expense	$ 4,084	$ 3,880	$ 204	5%

The Company's income tax expense for the six months ended June 30, 2012 was $4.1 million, an increase of $0.2 million or 5% over the comparative period in 2011. The reason for the increase in tax expense is due in part to the $2.3 million or 22% increase of earnings before tax. This was offset by lower non-deductible acquisition related costs.

The Company's current tax expense is generated by certain subsidiaries that do not have full 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 much of the taxable income it generates with non-capital losses. During the 2012 period the Company used $9.1 million of non-capital losses ($12.4 million – 2011) and it has approximately $139.3 million of non-capital losses available to offset future taxable income.

5. SUMMARY OF QUARTERLY RESULTS

	2012		2011				2010	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total revenue	$ 201,636	$ 146,683	$ 147,780	$ 145,993	$ 138,008	$ 78,522	$ 65,160	$ 64,471
EBITDA	24,463	14,061	20,734	22,153	19,738	12,214	11,352	12,363
Net earnings / (loss)	7,759	910	6,914	7,285	4,506	2,040	2,913	4,411
Basic	0.38	0.05	0.40	0.42	0.27	0.13	0.20	0.33
Diluted	0.37	0.05	0.38	0.41	0.27	0.13	0.20	0.31
Free cash flow (FCF)	20,821	11,167	17,470	19,234	16,890	10,515	10,251	10,697
Basic	1.02	0.61	1.00	1.11	1.00	0.68	0.71	0.80
Diluted	0.82	0.54	0.83	0.92	0.83	0.59	0.61	0.65
FCF less maintenance capital expenditures	12,508	3,866	9,845	12,721	8,059	3,844	6,267	6,766
Basic	0.61	0.21	0.57	0.74	0.48	0.25	0.44	0.51
Diluted	0.55	0.21	0.50	0.63	0.43	0.25	0.39	0.43

6. LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2012, the Company had a net cash position of $5.1 million (December 31, 2011 of $11.5 million) and net working capital of $116.3 million (December 31, 2011 of $67.3 million), which represents a current ratio of 2.01 to 1 (December 31, 2011 of 1.80 to 1).

	June 30, 2012	December 31, 2011	Change
Cash and cash equivalents	$ 5,138	$ 11,475	$ (6,337)
Accounts receivable	99,609	69,172	30,437
Costs incurred plus recognized profits in excess of billings	72,619	25,913	46,706
Inventory	47,032	39,853	7,179
Prepaid expenses	7,051	4,879	2,172
Accounts payable and accrued expenses	(88,773)	(57,726)	(31,047)
Income taxes payable	(2,269)	(2,654)	385
Deferred revenue	(10,063)	(8,909)	(1,154)
Billings in excess of costs incurred plus recognized profits	(12,754)	(13,489)	735
Current portion of long-term debt and finance leases	(1,306)	(1,237)	(69)
Net working capital	$ 116,284	$ 67,277	$ 49,007

The Company's addition of Custom during 2012 added working capital of $2.3 million as at June 30, 2012 which is not part of the comparative. The Company's pre-existing entities had a net increase of $46.7 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.

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 second quarter in association with growth capital expenditures which are noted in Section 3 – Key Performance Indicators. Overall the Company drew $46.0 million under its Canadian portion of its credit facility and US $39.5 million under its US portion during the first six months of 2012.

The Company's credit facility has a total of $235 million of credit available. As at June 30, 2012, the Company had $21.0 million outstanding under its Canadian portion of its credit facility and US $60.95 million outstanding under its US portion, resulting in over $150 million of credit available to the Company. Additional working capital requirements are expected to be drawn from the Company's credit facility for the WesTower US operations throughout the third quarter of 2012 when the working capital requirements begin to peak.

The finance leases of WesTower's operations continue and as a result the Company made principal payments of US $0.4 million and $0.3 million Canadian during the first six months of 2012. Also during this period, WesTower entered into new finance leases with a capital asset value and principal of $0.4 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 six months the Company received $1.9 million for 78,881 Shares being issued in accordance with the DRIP.

The Company obtained additional cash through the means described above and also generated $32.0 million of Free Cash Flow during the first six 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 six months of 2012 was cash usage of $22.4 million and is being driven by the change in non-cash working capital items of $54.0 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 six months of 2012 the Company declared dividends totaling $15.8 million in comparison to $13.0 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 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 first six month period of 2012.

The following summarizes the changes in the Shares outstanding of the Company during the six months ended June 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	328,627
Issued under dividend reinvestment plan (DRIP)	various	78,881
Issued under First Nations community partnership agreements	various	27,000
Shares outstanding, end of period		20,356,982

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

Par value	Balance, beginning of period	Issued	Converted	Matured	Balance, end of period
Series F	$ 1,229	$ -	$ (40)	$ -	$ 1,189
Series G	7,894	-	(1,751)	-	6,143
Series H	27,441	-	(4,051)	-	23,390
Series I	35,000	-	(25)	-	34,975
Series J	57,500	-	(20)	-	57,480
Total	$ 129,064	$ -	$ (5,887)	$ -	$ 123,177

7. RELATED PARTY TRANSACTIONS

The related party transactions that the Company entered into during the six months ended June 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.

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 is currently evaluating the impact of the above standard on its financial statements.

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 is currently evaluating the impact of the above standard on its financial statements.

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.

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 is currently evaluating the impact of the above standard on its financial statements.

10. CONTROLS AND PROCEDURES

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining internal controls over financial reporting in order to provide reasonable assurance with regards to the reliability of financial reporting and preparation of financial statements in accordance with GAAP.

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

Management has evaluated the design and operation of the Company's internal controls over financial reporting as of June 30, 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 controlled 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 by the end of the fiscal year.

WesTower had revenue of $162.6 million and EBITDA of $10.6 million included in the consolidated results of the Company for the six months ended June 30, 2012. As at June 30, 2012, it also had current assets and current liabilities of $142.0 million and $53.7 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 $6.8 million and EBITDA of $2.9 million included in the consolidated results of the Company for the five month period ended June 30, 2012 since being acquired on February 1, 2012. As at June 30, 2012, it had current assets and current liabilities of $3.6 million and $1.2 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 June 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 $150 million in available capital under its $235 million senior credit facility after the closing of the $57.5 million share offering during the first quarter of 2012. 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 current slowdown in the global economy and the prospect of lower rates of economic growth on a go forward basis is tempering the price expectation of sellers. The Company believes this will alleviate some of the upward pressure on valuation multiples the Company had observed and noted last quarter. The Company has developed a 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 second quarter the Company operated five aviation companies providing rotor wing and fixed wing scheduled, charter, freight and medevac services within Manitoba, Ontario, Quebec 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.

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.

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 centres which are highly competitive; Bearskin serves adjacent communities within 2-3 hours driving of the large centres. Significantly lower fares in large centres are causing smaller local markets to gravitate to the large centres; people are willing to drive for 2-3 hours to save on airfares.

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. To facilitate the introduction of the aircraft, Calm Air leased one aircraft under the terms of an Aircraft, Crew, Maintenance and Insurance (ACMI) agreement to meet the terms of the subcontract. This wet lease continued through April 2012 causing a drag on financial performance and operating margins in the second quarter.

Calm Air has accelerated its fleet renewal plan. The final piece of the plan is to replace the remaining SAAB 340 aircraft with ATR 42 equipment, thereby reducing the fleet types to just two, ATR and Dornier. The reduction of fleet types will assist the company in minimizing cost on all aspects of its operations, scheduled passenger, freight and charter services. Calm Air is also investing in additional ground infrastructure in the far north that will enable 24 hour operations in select locations. The extended operating hours will yield improved efficiency and enhance Calm's competitiveness in the far north. These initiatives are expected to be completed by the end of 2012.

The code share relationship between 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. A combination of cost cutting and increased capacity will help to limit the impact of this customer loss in the short-term. Management is continuing to work toward redeploying this capacity in other areas over the long-term and continues to see opportunities with new customers.

Perimeter continues to grow existing markets. The growth requires additional aircraft, therefore Perimeter is introducing 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 strong charter revenue in the third quarter due to forest fire evacuations from remote communities. During the second quarter the Province of Manitoba implemented a new centralized dispatch system for Medevac transportation. The Company is satisfied that the new system has not resulted in a reduction of the number of flights being directed to Perimeter. 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 have a strong third quarter as the steady demand for helicopters from Custom's core customers is augmented with higher than average forest fire suppression work.

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.

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

The weak economic recovery in the United States is expected to continue through the second half of 2012. Despite the continued low growth environment in the US, and its impact on manufacturing activity in both the US and Canada, management continues to be optimistic about the prospects for the Manufacturing Segment. This optimism is driven by the continued strength of the order books and ongoing bid opportunities seen across the Company's manufacturing operations.

In the second 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. Although there is no specific dollar amount guaranteed as a part of the contract, the Company believes, based on the history of AT&T 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, progressed rapidly in the second quarter. As expected, WesTower incurred significant start-up costs in the second quarter and will continue to incur some additional start-up cost over the balance of the year. Overall, WesTower is now well positioned to capitalize on these investments through the balance of the year. In the third quarter WesTower anticipates the continued ramp up of work related to the turfing contract in addition to the normal seasonal peak of activity. Management continues to be confident that over the entire year the AT&T turf contract will add significant EBITDA to the Company's consolidated results and will continue to drive the internal growth expected for the Company in 2012.

In addition to the new AT&T contract, the continued explosive growth in data traffic, driven by the adoption of smart phones and other mobile devices has the entire telecommunications industry scrambling to add network capacity throughout North America. WesTower is well positioned to benefit from the drive to increase network capacity in both Canada and the United States and has been actively increasing its activity level throughout its core business.

Ongoing marketing efforts, high quality and service continue to be a priority of Stainless. This, coupled with the quality of bid opportunities, has resulted in a strong order book going into the third quarter. As expected, the large field project that Stainless undertook in the first and second quarter was completed in the second quarter. The Company will continue 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 growing order book. Management remains aware that the weak 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.

Order books in the Alberta Operations remain strong, driven by a very active local and regional market resulting in many opportunities to bid for quality projects. As stated in prior reporting periods, one significant headwind that continues to put pressure on the Manufacturing segment's ability to maintain costs and deliver an on-time product is the tight labour market in Alberta. 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 to the regional labour shortage. 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 third quarter.

Overall, the Manufacturing segment continues to see quality opportunities to bid in many of their markets and has been successful at increasing or maintaining their order backlogs in all of their major markets. While Management is encouraged by this activity, they remain cognizant of the emerging slowdown across the world economy and its potential impact on demand. Management believes, however, that the Manufacturing segment is well positioned for the short to medium term based on our current order books.

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited, in thousands of Canadian dollars)

As at	June 30 2012	December 31 2011
ASSETS		
CURRENT		
Cash and cash equivalents	$ 5,138	$ 11,475
Accounts receivable	99,609	69,172
Costs incurred plus recognized profits in excess of billings (Note 10)	72,619	25,913
Inventory	47,032	39,853
Prepaid expenses	7,051	4,879
	231,449	151,292
CAPITAL ASSETS	261,887	220,190
INTANGIBLE ASSETS	28,609	23,252
DEFERRED INCOME TAX ASSETS	14,176	15,240
GOODWILL	73,698	68,427
	$ 609,819	$ 478,401
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ 88,773	$ 57,726
Income taxes payable	2,269	2,654
Deferred revenue	10,063	8,909
Billings in excess of costs incurred plus recognized profits (Note 10)	12,754	13,489
Current portion of long-term debt and finance leases (Note 6)	1,306	1,237
	115,165	84,015
LONG-TERM DEBT AND FINANCE LEASES (Note 6)	83,822	47,997
CONVERTIBLE DEBENTURES (Note 7)	111,135	115,394
DEFERRED INCOME TAX LIABILITY	13,005	5,358
	323,127	252,764
EQUITY		
SHARE CAPITAL (Note 8)	262,799	194,049
CONVERTIBLE DEBENTURES - Equity Component (Note 7)	6,188	6,516
CONTRIBUTED SURPLUS - Matured Debentures	102	102
DEFERRED SHARE PLAN (Note 12)	1,712	1,435
RESERVED SHARES	1,234	1,851
RETAINED EARNINGS		
Cumulative Earnings	112,336	103,667
Cumulative Dividends	(98,854)	(83,043)
	13,482	20,624
ACCUMULATED OTHER COMPREHENSIVE INCOME (Note 14)	1,175	1,060
	286,692	225,637
	$ 609,819	$ 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 June 30	Three Months Ended 2012	Three Months Ended 2011	Six Months Ended 2012	Six Months Ended 2011
REVENUE				
Aviation	$ 72,412	$ 71,186	$ 138,166	$ 133,148
Manufacturing	129,224	66,822	210,153	83,382
	$ 201,636	$ 138,008	$ 348,319	$ 216,530
EXPENSES				
Direct operating - excluding depreciation and amortization	49,908	47,477	99,109	90,602
Cost of goods sold - excluding depreciation and amortization	107,502	55,046	174,446	65,375
General and administrative	19,763	15,747	36,240	28,601
Depreciation and amortization	9,713	8,324	18,659	14,312
	186,886	126,594	328,454	198,890
EARNINGS BEFORE THE FOLLOWING	14,750	11,414	19,865	17,640
Finance costs - interest	3,281	3,281	6,722	5,384
Acquisition costs	14	951	390	1,830
EARNINGS BEFORE INCOME TAXES	11,455	7,182	12,753	10,426
INCOME TAX EXPENSE (Note 17)				
Current	1,138	218	1,272	217
Deferred	2,558	2,458	2,812	3,663
	3,696	2,676	4,084	3,880
NET EARNINGS FOR THE PERIOD attributable to common shareholders	$ 7,759	$ 4,506	$ 8,669	$ 6,546
EARNINGS PER SHARE (Note 11)				
Basic	$ 0.38	$ 0.27	$ 0.44	$ 0.40
Diluted	$ 0.37	$ 0.27	$ 0.44	$ 0.40

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 June 30	Three Months Ended 2012	Three Months Ended 2011	Six Months Ended 2012	Six Months Ended 2011
NET EARNINGS FOR THE PERIOD	$ 7,759	$ 4,506	$ 8,669	$ 6,546
OTHER COMPREHENSIVE INCOME (LOSS),				
Cumulative translation adjustment, net of tax (Note 14)	766	(48)	115	(363)
COMPREHENSIVE INCOME FOR THE PERIOD	$ 8,525	$ 4,458	$ 8,784	$ 6,183

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	17,380	-	(1,077)	-	-	-	-	-	-	**16,303**
Convertible debentures issued	-	-	4,628	-	-	-	-	-	-	**4,628**
Shares issued under dividend reinvestment plan	1,562	-	-	-	-	-	-	-	-	**1,562**
Deferred share plan amendment	-	-	-	-	1,070	-	-	-	-	**1,070**
Deferred share vesting	-	-	-	-	197	-	-	-	-	**197**
Comprehensive income	-	-	-	-	-	-	6,546	-	(363)	**6,183**
Dividends declared	-	-	-	-	-	-	-	(13,005)	-	**(13,005)**
Balance, June 30, 2011	**$ 188,122**	**$ -**	**$ 6,587**	**$ 102**	**$ 1,267**	**$ 1,851**	**$ 92,175**	**$ (68,948)**	**$ (1,051)**	**$ 220,105**
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	55,729	-	-	-	-	-	-	-	-	**55,729**
Convertible debentures (Note 7)										
Converted into shares	5,765	-	(328)	-	-	-	-	-	-	**5,437**
Shares issued under dividend reinvestment plan	1,898	-	-	-	-	-	-	-	-	**1,898**
Shares issued under First Nations community partnership agreements	495	-	-	-	-	-	-	-	-	**495**
Deferred share vesting (Note 12)	-	-	-	-	282	-	-	-	-	**282**
Deferred share issuance	5	-	-	-	(5)	-	-	-	-	**-**
Shares issued under vesting of reserved shares	617	-	-	-	-	(617)	-	-	-	**-**
Comprehensive income	-	-	-	-	-	-	8,669	-	115	**8,784**
Dividends declared (Note 9)	-	-	-	-	-	-	-	(15,811)	-	**(15,811)**
Balance, June 30, 2012	**$ 262,799**	**$ -**	**$ 6,188**	**$ 102**	**$ 1,712**	**$ 1,234**	**$ 112,336**	**$ (98,854)**	**$ 1,175**	**$ 286,692**

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

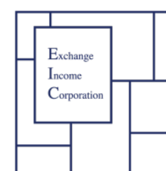
Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of Canadian dollars)

	Three Months Ended		Six Months Ended	
For the periods ended June 30	**2012**	2011	**2012**	2011
OPERATING ACTIVITIES				
Net earnings for the period	**$ 7,759**	$ 4,506	**$ 8,669**	$ 6,546
Items not affecting cash:				
Depreciation and amortization	**9,713**	8,324	**18,659**	14,312
Accretion of interest	**636**	550	**1,231**	970
Long-term debt discount (paid) accretion	**(103)**	-	**(45)**	-
Foreign exchange (gain) / loss on debt (unrealized)	**(18)**	-	**(86)**	-
Loss/(gain) on sale of disposal of capital assets	**79**	-	**76**	(146)
Deferred income tax	**2,558**	2,458	**2,812**	3,663
Deferred share program share-based vesting	**183**	89	**282**	197
Other	**-**	12	**-**	33
	20,807	15,939	**31,598**	25,575
Changes in non-cash operating working capital items (Note 15)	**(50,156)**	(8,314)	**(54,047)**	(7,174)
	(29,349)	7,625	**(22,449)**	18,401
FINANCING ACTIVITIES				
Proceeds from (repayment of) long-term debt & finance leases, net of issuance costs	**58,592**	3,245	**34,449**	(24,918)
Proceeds from issuance of debentures, net of issuance costs	**-**	54,549	**-**	87,678
Proceeds from issuance of shares, net of issuance costs	**1,016**	2,030	**57,528**	5,868
Cash dividends / distributions (Note 9)	**(8,258)**	(6,886)	**(15,811)**	(13,005)
	51,350	52,938	**76,166**	55,623
INVESTING ACTIVITIES				
Purchase of capital assets, net of disposals	**(22,747)**	(10,721)	**(35,743)**	(19,497)
Purchase of intangible assets	**(56)**	(32)	**(2,396)**	(52)
Cash outflow for acquisitions (Note 4)	**-**	(56,669)	**(24,067)**	(84,294)
Restricted cash	**-**	-	**-**	27,625
Cash acquired in acquisitions (Note 4)	**-**	6,170	**2,152**	8,774
	(22,803)	(61,252)	**(60,054)**	(67,444)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(802)**	(689)	**(6,337)**	6,580
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**5,940**	8,740	**11,475**	1,471
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 5,138**	$ 8,051	**$ 5,138**	$ 8,051
Supplementary cash flow information				
Interest paid	**$ 3,573**	$ 1,964	**$ 5,670**	$ 3,321
Income taxes paid (recovery)	**$ 744**	$ (1,380)	**$ 1,957**	$ (1,387)

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



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

1. ORGANIZATION

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

As at June 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.

2. BASIS OF PREPARATION

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 six months ended June 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 August 10, 2012.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) *Principles of Consolidation*
The interim condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Perimeter, Keewatin, Calm Air, Bearskin, Custom, 4873999 Manitoba Ltd., 7328010 Canada Ltd., Overlanders, Water Blast, WesTower, EIIF USA and their respective subsidiaries. All significant inter-company transactions have been eliminated for purposes of these interim condensed consolidated financial statements.

b) *Intangible Assets*
As a result of the transactions described in Note 5, 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 $6,847, income before tax of $257, and total assets of $36,566.

The acquisition price of $28,175 was funded through a combination of $23,934 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 is preliminary and the Company plans to finalize it during the third quarter of 2012.

Consideration given:		
Cash	$	23,934
Issue of 170,121 Shares of the Company at a price of $24.93 per share		4,241
Total purchase consideration	$	28,175

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

Fair value of assets acquired:		
Cash	$	2,152
Accounts receivable		1,725
Inventory		1,124
Prepaid expenses		226
Capital assets		23,485
Intangible assets		3,734
		32,446
Less fair value of liabilities assumed:		
Accounts payable and accrued liabilities		437
Taxes payable		1,715
Long-term debt		802
Deferred taxes		6,530
Fair value of identifiable net assets acquired		22,962
Goodwill		5,213
Total purchase consideration	$	28,175

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. 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.

6. LONG-TERM DEBT AND FINANCE LEASES

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

	June 30 2012	December 31 2011
Revolving term facility		
Canadian dollar amounts drawn	$ 21,000	$ 25,000
United States dollar amounts drawn (US$60,950 and US$21,450, respectively)	62,114	21,815
Total credit facility debt outstanding, principal value	83,114	46,815
less: unamortized transaction costs	(806)	(707)
less: unamortized discount on outstanding Banker's Acceptances	(103)	(58)
Net credit facility debt	82,205	46,050
Finance leases	2,923	3,184
Total net credit facility debt and finance leases	85,128	49,234
less: current portion of finance leases	(1,306)	(1,237)
Long-term debt and finance leases balance	$ 83,822	$ 47,997

The Company had US $60,950 drawn from the U.S. dollar portion of its credit facility at June 30, 2012 (December 31, 2011 - US $21,450).

Transaction costs of $267 and US $75 were incurred during the six months ended June 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 six months ended June 30, 2012 for the long-term debt and finance leases was $1,839 (2011 – $1,645).

<u>Credit Facility</u>

During the first six 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 six months of 2012.

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

	Six Months Ended June 30, 2012				
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar portion	$ 25,000	$ 46,000	$ (50,000)	$ -	$ 21,000
United States dollar portion	21,815	40,254	-	45	62,114
	46,815	86,254	(50,000)	45	83,114
Unamortized transaction costs	(707)				(806)
Unamortized discount on outstanding BA's	(58)				(103)
	$ 46,050	$ 86,254	$ (50,000)	$ 45	$ 82,205

The Company withdrew US $11,000 from the credit facility subsequent to the end of the period for use in the operations of WesTower USA.

7. CONVERTIBLE DEBENTURES

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**

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**	$ -	$ **9**	$ **(38)**	$ -	$ **1,152**	$ 1,181
Series G	**7,520**	-	**30**	**(1,651)**	-	**5,899**	7,520
Series H	**25,659**	-	**75**	**(3,748)**	-	**21,986**	25,659
Series I	**33,161**	-	**191**	**(24)**	-	**33,328**	33,161
Series J	**53,178**	-	**265**	**(19)**	-	**53,424**	53,178
						115,789	120,699
less: unamortized transaction costs						**(4,654)**	(5,305)
Convertible Debentures - Debt Component, end of period						**111,135**	115,394
less: current portion						**-**	-
Convertible Debentures - Debt Component (long-term portion)						$ **111,135**	$ 115,394

During the six months ended June 30, 2012, convertible debentures totaling a face value of $5,887 were converted at various times into 328,627 Shares of the Company (2011 – $17,624 face value into 1,188,530 Shares). Interest expense recorded during the three and six months ended June 30, 2012 for the convertible debentures was $2,426 and $4,883, respectively (2011 – $1,431 and $2,569, respectively).

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:

		June 30 2012		December 31 2011
Series F - 2009	$	61	$	63
Series G - 2009		253		355
Series H - 2010		1,248		1,469
Series I - 2011		1,490		1,492
Series J - 2011		3,136		3,137
Convertible Debentures - Equity Component, end of period	$	6,188	$	6,516

8. SHARE CAPITAL

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

			2012
	Number of Shares		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		55,729
Issued under vesting of reserved shares	28,746		617
Issued under deferred share plan	275		5
Issued upon conversion of convertible debentures	328,627		5,765
Issued under dividend reinvestment plan (DRIP)	78,881		1,898
Issued under First Nations community partnership agreements	27,000		495
Share capital, end of period	20,356,982	$	262,799

During the six months ended June 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 $2,435 ($1,794 net of tax).

9. DIVIDENDS DECLARED

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

Cumulative dividends during the six months ended June 30, 2012 and the comparative 2011 periods are as follows:

Six Months Ended June 30		2012		2011
Cumulative dividends, beginning of period	$	83,043	$	55,943
Dividends during the period		15,811		13,005
Cumulative dividends, end of period	$	98,854	$	68,948

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

			2012 Dividends			2011 Dividends
Month	Record date	Per Share	Amount	Record date	Per Share	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
Total		$ 0.810	$ 15,811		$ 0.795	$ 13,005

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

10. 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, Quebec 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.

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 June 30, 2012				Three Months Ended June 30, 2011
	Aviation	Manufacturing	Company	Consolidated	Aviation	Manufacturing	Company	Consolidated
Revenue	$ 72,412	$ 129,224	$ -	$ 201,636	$ 71,186	$ 66,822	$ -	$ 138,008
EBITDA	14,185	12,990	(2,712)	24,463	15,556	6,137	(1,955)	19,738
Depreciation and amortization				9,713				8,324
Finance costs - interest				3,281				3,281
Acquisition costs				14				951
Earnings before tax				$ 11,455				$ 7,182

	Six Months Ended June 30, 2012				Six Months Ended June 30, 2011			
	Aviation	**Manufacturing**	**Company**	**Consolidated**	Aviation	Manufacturing	Company	Consolidated
Revenue	$ 138,166	$ 210,153	$ -	$ 348,319	$ 133,148	$ 83,382	$ -	$ 216,530
EBITDA	22,754	20,125	(4,355)	38,524	26,433	9,145	(3,626)	31,952
Depreciation and amortization				18,659				14,312
Finance costs - interest				6,722				5,384
Acquisition costs				390				1,830
Earnings before tax				$ 12,753				$ 10,426

	June 30, 2012				December 31, 2011			
	Aviation	**Manufacturing**	**Company**	**Consolidated**	Aviation	Manufacturing	Company	Consolidated
Total assets	$ 274,250	$ 234,879	$ 100,690	$ 609,819	$ 236,538	$ 171,460	$ 70,403	$ 478,401
Net capital asset additions	32,988	2,627	128	35,743	38,880	3,064	85	42,029
Goodwill	25,996	47,702	-	73,698	20,783	47,644	-	68,427
Total liabilities	44,855	66,073	212,199	323,127	39,108	39,884	173,772	252,764

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

Revenues	Three Months Ended		Six Months Ended	
Periods ended June 30	**2012**	2011	**2012**	2011
Canada	$ 113,932	$ 103,420	$ 215,537	$ 174,641
United States	87,704	34,588	132,782	41,889
	$ 201,636	$ 138,008	$ 348,319	$ 216,530

	As at June 30, 2012		As at December 31, 2011	
	Capital Assets	**Goodwill**	Capital Assets	Goodwill
Canada	$ 254,149	$ 46,013	$ 212,917	$ 40,800
United States	7,738	27,685	7,273	27,627
	$ 261,887	$ 73,698	$ 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 six months ended June 30, 2012, the Company recognized revenue on these types of long-term contracts totaling $116,948 and $185,828, respectively (2011 – $56,999 and $64,241, respectively).

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

As at June 30		2012
Costs incurred on uncompleted contracts	$	193,112
Estimated earnings		56,462
	$	249,574
less: Billings to date		(189,709)
Total	$	59,865
Costs incurred plus recognized profits in excess of billings	$	72,619
Billings in excess of costs incurred plus recognized profits		(12,754)
Total	$	59,865

11. EARNINGS PER SHARE

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

Diluted earnings per share is calculated by adjusting the weighted average number of Shares outstanding to assume conversion of all dilutive potential common shares. The Company has 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.

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

	Three Months Ended				Six Months Ended			
Periods Ended June 30		2012		2011		2012		2011
Net earnings for the period, available to common shareholders	$	7,759	$	4,506	$	8,669	$	6,546
Dilutive effect of convertible debentures		1,771		1,596		3,565		2,744
Add back impact from anti-dilutive factors		(1,323)		(1,565)		(3,565)		(2,726)
Diluted earnings for the period	$	8,207	$	4,537	$	8,669	$	6,564
Basic weighted average number of shares		20,447,039		16,943,361		19,492,361		16,222,311
Dilutive effect of convertible debentures		4,961,637		4,955,211		5,031,255		4,574,793
Add back impact from anti-dilutive factors		(3,223,624)		(4,805,125)		(5,031,255)		(4,513,562)
Dilutive effect of warrants		-		14,981		-		68,251
Diluted basis average number of shares		22,185,052		17,108,428		19,492,361		16,351,793
Earnings per share:								
Basic	$	0.38	$	0.27	$	0.44	$	0.40
Diluted	$	0.37	$	0.27	$	0.44	$	0.40

12. DEFERRED SHARE PLAN

During the first six months of 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 six months ended June 30, 2012, the Company recorded compensation expense of $282 for the Company's Deferred Share Plan within the general and administrative expenses of head-office (2011 - $197).

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary.

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 $60,950 outstanding on its credit facility (Canadian equivalent of $62,114). 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 six months ended June 30, 2012, the Company also recorded a currency translation gain of $766 and $115, respectively (2011 – loss of $48 and $363, respectively) in Other Comprehensive Income as described below in Note 14.

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 June 30, 2012, $6,000 was outstanding under Canadian Prime, $15,000 was outstanding under Bankers Acceptances, US $5,000 was outstanding under US Prime, and US $55,950 was outstanding under US LIBOR.

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

14. OTHER COMPREHENSIVE INCOME (LOSS)

During the three and six months ended June 30, 2012 the Company had other comprehensive income of $766 (net of $58 tax) and income $115 (net of $6 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 – loss of $48, net of $15 tax and loss of $363, net of $43 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.

15. CHANGES IN WORKING CAPITAL ITEMS

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

	Three Months Ended		Six Months Ended	
Periods Ended June 30	**2012**	2011	**2012**	2011
Accounts receivable	**$ (37,898)**	$ 251	**$ (28,712)**	$ (4,360)
Costs incurred plus recognized profits in excess of billings	**(32,114)**	(8,486)	**(46,706)**	(8,436)
Inventory	**(3,667)**	1,360	**(6,055)**	(2,541)
Prepaid expenses	**872**	710	**(1,946)**	305
Accounts payable and accrued charges	**18,818**	(3,887)	**30,610**	5,220
Income taxes payable	**(814)**	-	**(2,100)**	-
Deferred revenue	**154**	967	**1,154**	2,234
Billings in excess of costs incurred plus recognized profits	**3,932**	769	**(735)**	492
Foreign currency adjustments	**561**	2	**443**	(88)
Net change in working capital items	**$ (50,156)**	$ (8,314)	**$ (54,047)**	$ (7,174)

16. CAPITAL MANAGEMENT

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

The Company's objective in managing capital is to:

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

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

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

	June 30 2012	December 31 2011
Total senior debt outstanding, principal value	**$ 83,114**	$ 46,815
Convertible debentures outstanding, face value	**123,177**	129,064
Shares	**262,799**	194,049
Reserved shares	**1,234**	1,851
Total capital	**$ 470,324**	$ 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 six months ended June 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.

17. INCOME TAX

Income tax expense is recognized based on management's best estimate of the weighted annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period. The company's consolidated effective tax rate for the six months ended June 30, 2012 was 32.0% (six months ended June 30, 2011: 37.2%). The change in the effective tax rate is detailed in the following table:

Six Months Ended June 30	2012	2011
Earnings before provision for income taxes	$ 12,753	$ 10,426
Combined Canadian federal and provincial tax rates	27.0%	28.5%
Income tax expense at statutory rates	$ 3,443	$ 2,971
Increase (decrease) in taxes resulting from:		
Permanent differences	275	504
Change in effective rate	(219)	117
Impact of foreign tax rate differences	519	184
Other	66	104
Provision for income taxes	$ 4,084	$ 3,880