



Third Quarter Report

**For the three and nine months ended
September 30, 2011**

President & CEO's Message

At the start of 2011, I indicated that we were on a threshold of growth that would significantly transform our company – a growth that would turn Exchange into a major company with annual revenue in excess of \$500 million.

Our third quarter results clearly illustrate the progress that we have made to date. We set new record highs in each of the key financial metrics that we use to measure the health of our business. In particular, we generated our highest quarterly revenue total at \$146 million and netted our largest quarterly profit yet at \$7.3 million.

More specifically,

- Revenue grew by 126%;
- EBITDA increased by 79% to \$22.2 million;
- Net earnings grew by 65%; and
- Free Cash Flow increased by 80% to \$19.2 million.

While our growth was primarily driven by the newest companies in the Exchange fold, Bearskin Airlines and WesTower Communications, it was also the result of significant organic growth in our existing businesses. Revenues in our existing manufacturing subsidiaries grew by 15% while EBITDA in the same subsidiaries grew by 30%. Revenues in our existing Aviation subsidiaries increased by 19% and EBITDA expanded by 28%.

Our record results were the culmination of a number of factors. Most notably, they reflect the success of our disciplined acquisition strategy and our ability to provide environments where companies we acquire can fulfill their full potential. It's this unique approach in which we retain key staff, allow each company to continue to operate with a high degree of autonomy and provide funding to support growth initiatives that has helped us to also sustain our forward momentum. In fact, as strong as our results for the third quarter related to Bearskin and WesTower were, it was in many ways more significant that our management philosophy and previous investments in our existing subsidiaries led to remarkable organic growth.

To help sustain our organic growth opportunities, we invested nearly \$2.9 million in capital expenditures in the third quarter. Most of these investments were in our Aviation segment and included a Lear jet for Keewatin's medevac operations, a Fairchild Metro III for Perimeter and vehicles for additional crews at WesTower.

We began flying under the new contract for the Government of Nunavut moving medical patients on scheduled flights in September. In this contract we committed to provide jet service from Rankin to Winnipeg and are currently providing this service with an aircraft provided under a wet lease. We are in the process of acquiring two Dornier jets which we will operate under our own license in mid 2012. Although the wet lease gave us immediate access to the aircraft and staff through a third-party while we procure fleet to our own specifications, it is an expensive program with marginal cost in excess of \$1 million per quarter. This extra cost will place a burden on our margins in the short term but has enabled us to provide the service required by our customer on a timely basis. In time, these wet leases will be replaced with our own equipment. This process will require a ramp up period for regulatory approvals, training of staff and integration within our existing fleet.

Looking ahead we remain optimistic that our diversified business model will help us sustain our recent progress through the balance of 2011 despite uncertain economic conditions. Our Aviation segment has shown to be largely unaffected by day to day changes in the economy and recent investments in new capacity are now generating returns. We are also bullish on the Manufacturing segment's near-term prospects due to our growing sales order backlog and the continued demand for our specialized products, particularly WesTower's communication towers.

Over the longer-term, we are very well capitalized with more than \$200 million in available funding. This extremely strong reserve will allow us to act on acquisition opportunities as they materialize, and expand our growth to even newer heights in 2012 and beyond.

Mike Pyle
President & CEO

Management's Discussion and Analysis

November 9, 2011

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") supplements the unaudited condensed interim consolidated financial statements and related notes for the three and nine months ended September 30, 2011 ("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.

In 2010, the CICA Handbook ("GAAP") was revised to incorporate International Financial Reporting Standards ("IFRS"), and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these condensed interim consolidated financial statements. In these financial statements, "CGAAP" refers to Canadian generally accepted accounting principles before the adoption of IFRS.

These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1. Subject to certain transition elections under the adoption of IFRS, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect, except for the 2009 results presented in Section 5 of the MD&A. Note 4 of the Company's September 30, 2011 unaudited condensed interim consolidated financial statements discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010. This MD&A should be read in conjunction with the Consolidated Financial Statements of the Company for the three and nine months ended September 30, 2011 and also the Company's CGAAP – Part V annual audited financial statements and related notes and its annual MD&A for the year ended December 31, 2010.

As a result of the adoption of IFRS, certain trends in operating results previously experienced under CGAAP may no longer be valid under IFRS. In particular, the accounting for overhaul provisions and aircraft maintenance expenses, deferred tax credits, amortization into deferred income taxes, and capital asset depreciation are significantly impacted by the changeover to IFRS – refer to Section 8 of this MD&A for additional information.

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 annual 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.

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NON-GAAP FINANCIAL MEASURES

EBITDA, Distributable Cash, Free Cash Flow and Adjusted Net Earnings are not recognized measures under 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.

Distributable Cash: is defined as EBITDA less cash interest, cash taxes and the capital expenditures required to maintain the operations at their current level. These sustaining capital expenditures are classed as maintenance capital expenditures. Other capital expenditures which are made to grow the enterprise and are expected to generate additional EBITDA are not included in the calculation of Distributable Cash. Distributable Cash is a performance measure used by management to summarize the funds available for the payment of dividends to shareholders in addition to GAAP's defined measures such as net income for the period.

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, Distributable Cash, 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, Distributable Cash, and Free Cash Flow may differ from that of other corporations or of income funds 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

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1. FINANCIAL HIGHLIGHTS

Effective January 1, 2011, the Company began reporting its financial results in accordance with IFRS, including comparative figures for 2010 – refer to Section 8 of this MD&A for further information. The financial highlights for the Company for the periods indicated are as follows.

FINANCIAL PERFORMANCE	2011			2010		
		per share basic	per share fully diluted		per share basic	per share fully diluted
<u>For the three month period ended September 30</u>						
Revenue (Note 1)	\$ 145,993			\$ 64,471		
EBITDA	22,153			12,363		
Net earnings	7,285	0.42	0.41	4,411	0.33	0.31
Adjusted net earnings	7,583	0.44	0.42	4,634	0.35	0.32
Free cash flow	19,234	1.11	0.92	10,697	0.80	0.65
Free cash flow less maintenance capital expenditures	12,721	0.74	0.63	6,766	0.51	0.43
Dividends/distributions declared	6,975	0.405		5,270	0.39	
<u>For the nine month period ended September 30</u>						
Revenue (Note 1)	\$ 362,523			\$ 179,226		
EBITDA	54,105			32,916		
Net earnings	13,831	0.83	0.82	10,854	0.87	0.83
Adjusted net earnings	16,508	1.00	0.97	11,341	0.91	0.86
Free cash flow	46,639	2.81	2.34	28,385	2.28	1.83
Free cash flow less maintenance capital expenditures	24,624	1.49	1.32	17,956	1.44	1.21
Dividends/distributions declared	19,980	1.200		14,726	1.17	
FINANCIAL POSITION						
	September 30, 2011			December 31, 2010		
Working capital (Note 2)	\$ 61,052			\$ 39,739		
Capital assets	217,800			160,443		
Total assets	472,321			328,946		
Senior debt (Note 2)	41,583			53,100		
Equity	225,497			180,337		
SHARE INFORMATION						
	September 30, 2011			December 31, 2010		
Common shares outstanding	17,165,104			14,518,842		

Note 1): Certain transactions of the Company's aviation support entities where it is acting as an agent to sell fuel to third parties is now measured on a net basis. The adjustment to prior quarter's financial results as a result of changing the measurement from a gross basis between revenue and direct operating expenses is described further in Section 4 below. The adjustment to the six months ended June 30, 2011 was a reduction of \$23.0 million to revenue and direct operating expenses. This change in measurement has no impact on the financial measures generated for the periods above except revenues.

Note 2): The Company drew \$27.6 million to fund the purchase of Bearskin Airlines on January 1, 2011. As at December 31, 2010 this amount is included in long-term debt and as restricted cash in current assets.

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.

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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**, other aviation supporting businesses, and **Bearskin** that was acquired on January 1, 2011; and
- (b) Manufacturing – manufacturing custom tanks for the transportation of oil and gas, at **Jasper Tank**; manufacturing precision sheet metal and tubular products, at **Overlanders**; manufacturing specialized stainless steel tanks, vessels and processing equipment, at **Stainless**; and manufacturing specialized heavy duty pressure washing and steam systems, at **Water Blast**. 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. **WesTower** was acquired on April 1, 2011 and is a manufacturer, installer, and maintenance service provider of communication towers and sites in both Canada and the United States.

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 – 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 \$33.1 million was funded through a combination of \$27.6 million of debt financing from the Company's credit facility and the issuance of the Company's common shares ("Shares") worth \$5.5 million to the vendors of Bearskin (314,047 Shares).

The acquisition has been immediately accretive to the Company's key financial metrics, including EBITDA, cash flows, earnings per share and Free Cash Flow. The acquisition of Bearskin grows the Aviation segment by expanding its operations into select markets in Ontario that are generally under-served. In Northwestern Ontario this includes Thunder Bay, Sioux Lookout, Kenora, Dryden, and Red Lake. In Eastern Ontario this includes Ottawa, Timmins, Sudbury, Waterloo, and in Quebec, this includes Montreal. The acquisition also complements a number of the Aviation segment's existing routes in Manitoba, providing opportunities for synergies and efficiencies for all of our Aviation segment subsidiaries. Consistent with the Company's traditional acquisition criteria, Bearskin was identified because it operates in defensible markets.

Bearskin was founded in 1963 and offers more than 100 scheduled flights daily to 18 destinations. Annual revenue generated by Bearskin in 2010 was approximately \$50 million. Bearskin's bases of operations are in Sioux Lookout and Thunder Bay, Ontario and Winnipeg, Manitoba. Bearskin owns and operates 14 Fairchild Metro aircraft, each with capacity for 19 passengers. Bearskin's major hubs include Thunder Bay and Sudbury in Ontario, and Winnipeg in Manitoba.

The Company's results for the periods ended September 30, 2011 include Bearskin's financial results for the full period since Bearskin was acquired on the first day of the fiscal year. Acquisition costs of \$0.6 million were treated as an expense in the fourth quarter of the 2010 fiscal period under IFRS.

Acquisition– 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 \$76.4 million was funded through a combination of \$63.3 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 acquisition has been immediately accretive to the Company's key financial metrics, including EBITDA, cash flows, earnings per share and Free Cash Flow. The acquisition of WesTower will significantly grow the Company, specifically the Manufacturing segment as WesTower's 2010 annual revenues were approximately \$200 million in total for its combined Canadian and US operations. Consistent with the Company's traditional acquisition criteria, WesTower was identified because it operates in a

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niche portion of a large industry with large barriers to entry, a solid management team and has a national presence in both Canada and the US.

The Company's results for the three and nine months ended September 30, 2011 include WesTower's financial results since WesTower was acquired on the first day of the second quarter. The Company did incur acquisition costs of \$0.9 million associated with the acquisition and these were recorded mainly in the first quarter of 2011 as acquisition costs.

3. KEY PERFORMANCE INDICATORS

The Company has historically used various metrics when evaluating its operational and financial performance under CGAAP. Some of those metrics are not considered useful under IFRS. 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 following section will quantify and analyze the key performance indicators of the Company and describe the changes, if any, on those key performance indicators as a result of the transition to IFRS. See Section 8 for information on the transition to IFRS for the Company.

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 EIC. 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 and further discussion and analysis on the EBITDA results for the periods can be found in Section 4 – Analysis of Operations below.

EBITDA	Three months ended		Nine months ended	
	2011	2010	2011	2010
- periods ending September 30				
Earnings before income tax	\$ 10,184	\$ 6,116	\$ 20,610	\$ 15,190
Depreciation and amortization	8,486	4,287	22,798	11,973
Finance costs - interest	3,483	1,963	8,867	5,799
Acquisition costs	-	9	1,830	26
Foreign exchange gains on debt	-	(12)	-	(72)
Total EBITDA	\$ 22,153	\$ 12,363	\$ 54,105	\$ 32,916

FREE CASH FLOW

FREE CASH FLOW	Three months ended		Nine months ended	
	2011	2010	2011	2010
- periods ending September 30				
Cash flows from operations	\$ 14,458	\$ 14,811	\$ 32,859	\$ 27,744
Change in non-cash working capital items	4,776	(4,123)	11,950	615
Acquisition costs	-	9	1,830	26
	\$ 19,234	\$ 10,697	\$ 46,639	\$ 28,385
per share - Basic	\$ 1.11	\$ 0.80	\$ 2.81	\$ 2.28
per share - Fully Diluted	\$ 0.92	\$ 0.65	\$ 2.34	\$ 1.83

Prior to the change from CGAAP to IFRS, the Company regularly reported Distributable Cash. This was a metric that was relevant when EIC was an income trust. The Company decided to continue to report Distributable Cash after it converted to a corporation because it was felt that this metric was still relevant to the Company as a dividend paying corporation, as well as the fact that this metric was well understood by many of our stakeholders. However the Company also started to report Free Cash Flow, which is equal to cash flow from operating activities adjusted for changes in non-cash working capital and any unusual non-operating one-time items. This is a metric that is directly taken from the Consolidated Statement of Cash Flows and is used by management to assess its primary sources and uses of cash flow, and to assess the Company's ability to sustain its dividend payments. The Company also reported Free Cash Flow less maintenance capital expenditures, which was a metric that was comparable to Distributable Cash.

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After the change to IFRS from CGAAP, Distributable Cash and Free Cash Flow less maintenance capital expenditures will result in materially the same number and, therefore, the metrics are very similar. As a result, management has decided to discontinue reporting Distributable Cash as it would be repetitive and Free Cash Flow can be tied directly into the consolidated financial statements.

Three Month Free Cash Flow

The Company generated Free Cash Flow of \$19.2 million for the three months ended September 30, 2011, which is \$8.5 million higher than the \$10.7 million generated in the comparative 2010 period. The 80% increase in Free Cash Flow is mainly the result of the 79% increase in EBITDA, which represents an increase in EBITDA of \$9.8 million over the comparative period. Driving the EBITDA increase are the successful acquisitions of Bearskin (January 1, 2011) and WesTower (April 1, 2011). The combined EBITDA generated by these two new subsidiaries of the Company was \$5.9 million. The pre-existing other entities also significantly contributed to the increase with both the Aviation segment and Manufacturing segment's each increasing their EBITDA by approximately 30% for the period. 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 interest paid of \$1.2 million and \$0.1 million in other minor cash items.

On a basic per share basis, Free Cash Flow for the 2011 period increased to \$1.11, (\$0.92 fully diluted) compared to \$0.80 (\$0.65 fully diluted) in the comparable 2010 period, which is an increase of 39% (42% fully diluted). 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. The amount of shares outstanding at September 30, 2011 was 17.2 million, which is 24% higher than the 13.9 million shares outstanding at September 30, 2010. The higher share base is primarily the result of the shares issued to the vendors of both Bearskin and WesTower, a significant number of warrants being exercised, and convertible debentures being converted as a result of EIC's share price appreciation over the past year.

The increase in shares outstanding significantly decreases the per share results and the Company has not drawn and invested more debt to maintain a consistent level of leverage. These decisions will continue to impact the per share results of the Company until these funds are deployed. As at September 30, 2011, the de-leveraged balance sheet puts the Company in a position to finance approximately a \$200 million acquisition without the need for additional equity financing. The change in the actual shares outstanding of the Company are analyzed further in Section 6 – Liquidity and Capital Resources.

Nine Month Free Cash Flow

The Company generated Free Cash Flow of \$46.6 million for the nine months ended September 30, 2011, which is \$18.2 million higher than the \$28.4 million generated in the comparative 2010 period. Consistent with the discussion above for the three month period, the 64% increase in Free Cash Flow is mainly the result of the 64% increase in EBITDA, which is an increase in EBITDA of \$21.2 million over the comparative period. The improved EBITDA for the nine month period is a result of the successful acquisitions of Bearskin (January 1, 2011) and WesTower (April 1, 2011) 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.

On a basic per share basis, Free Cash Flow for the 2011 period increased to \$2.81 (\$2.34 fully diluted) compared to \$2.28 (\$1.83 fully diluted) in the comparable 2010 period, which is an increase of 23% (28% fully diluted). 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 -periods ending September 30	Three months ended		Nine months ended	
	2011	2010	2011	2010
Free Cash Flow	\$ 19,234	\$ 10,697	\$ 46,639	\$ 28,385
Maintenance Capital Expenditures	6,513	3,931	22,015	10,429
	\$ 12,721	\$ 6,766	\$ 24,624	\$ 17,956
per share - Basic	\$ 0.74	\$ 0.51	\$ 1.49	\$ 1.44
per share - Fully Diluted	\$ 0.63	\$ 0.43	\$ 1.32	\$ 1.21

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Three Month Free Cash Flow Less Maintenance Capital Expenditures

The Company generated Free Cash Flow less maintenance capital expenditures of \$12.7 million for the three months ended September 30, 2011, which is an increase of \$5.9 million in comparison to the \$6.8 million generated in the 2010 period. The growth is a result of the increase in Free Cash Flow for the 2011 period as described above, less an increase of \$2.6 million in maintenance capital expenditures. The expenditures increased to \$6.5 million from \$3.9 million and the 2011 capital expenditures are described in detail below in the Capital Expenditures Section.

It is important to understand that as a result of the change to IFRS, maintenance capital expenditures will now be more variable from quarter to quarter, as described further in the Capital Expenditures Section below. 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 overhauls for engines and heavy checks that were previously accrued in advance are now treated as capital expenditures. 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 2011 period increased 45% to \$0.74 (\$0.63 fully diluted), compared to \$0.51 (\$0.43 fully diluted) in the 2010 period. The maintenance capital expenditure component of this metric is described further below and accounted for a \$0.38 decrease in this metric versus \$0.29 in comparative period in 2010.

Nine Month Free Cash Flow Less Maintenance Capital Expenditures

The Company generated Free Cash Flow less maintenance capital expenditures of \$24.6 million for the nine months ended September 30, 2011, which is an increase of \$6.6 million in comparison to the \$18.0 million generated in the 2010 period. The increase in Free Cash Flow generated was higher than the increase in the maintenance capital expenditures. The additions of Bearskin for nine months since being acquired and WestTower for six of the nine months contributed to the increased Free Cash Flow as described above. The change in the maintenance capital expenditures is described in detail below in the Capital Expenditures Section.

On a basic per share basis, Free Cash Flow less maintenance capital expenditures for the 2011 period increased to \$1.49 (\$1.32 fully diluted), compared to \$1.44 (\$1.21 fully diluted) in the comparable 2010 period. The maintenance capital expenditure component of this metric is described further below and accounted for a \$1.33 decrease in this metric versus \$0.84 in the comparative period in 2010.

CAPITAL EXPENDITURES

CAPITAL EXPENDITURES - periods ending September 30	Three months ended		Nine months ended	
	2011	2010	2011	2010
Cash maintenance capital expenditures	\$ 6,190	\$ 3,931	\$ 21,394	\$ 10,429
add: finance lease principal payments	323	-	621	-
Maintenance capital expenditures	6,513	3,931	22,015	10,429
Growth capital expenditures	2,876	14,762	7,196	32,804
	\$ 9,389	\$ 18,693	\$ 29,211	\$ 43,233
Maintenance capital expenditures per share - Basic	\$ 0.38	\$ 0.29	\$ 1.33	\$ 0.84
Growth capital expenditures per share - Basic	0.17	1.10	0.43	2.64
Total capital expenditures per share - Basic	\$ 0.55	\$ 1.39	\$ 1.76	\$ 3.48

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 CGAAP. The most significant change is that engine overhauls and aircraft heavy checks were previously accrued

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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 three months ended September 30, 2011 totaled \$6.5 million compared to \$3.9 million in 2010, an increase of \$2.6 million. The Aviation segment continues to make up the majority, as it spent \$5.8 million versus the \$0.7 million in the Manufacturing segment.

Bearskin and WesTower accounted for \$1.7 million and \$0.6 million of the \$2.6 million increase. As discussed in previous quarters, the maintenance capital expenditures will vary from quarter to quarter based on the timing of maintenance events in the Aviation segment. The key maintenance events are engine overhauls and heavy checks. There were more of these events in the first six months of 2011 resulting in the Company incurring maintenance capital expenditures at a level above normal. The maintenance capital expenditures in the third quarter are at a level that is more indicative of an average quarter. The majority of the Aviation segment's maintenance capital expenditures in the third quarter related to rotatable additions, engine overhauls at Perimeter and Bearskin and one heavy check event.

The Manufacturing segment's capital expenditures were mainly from WesTower which spent \$0.6 million in the quarter. 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. For the third quarter of 2011, these finance lease principal payments amounted to \$0.3 million.

Total maintenance capital expenditures for the nine months ended September 30, 2011 totaled \$22.0 million compared to \$10.4 million in 2010. Bearskin and WesTower comprised \$5.2 million and \$1.4 million, respectively, of this \$11.6 million increase. The remaining \$5.0 million increase in maintenance capital expenditures over the prior year period is the result of the items required to be capitalized under IFRS. As discussed in previous quarters, the timing of these items can be lumpy from year to year. The fact that the maintenance capital expenditures are 42% higher at our existing operations despite no significant changes in operations is a testament to the lumpiness generated by the new accounting standards. The maintenance capital expenditures for the remainder of 2011 for the operations that existed in 2010 are expected to be more in line with the comparable fourth quarter of 2010.

Growth Capital Expenditures

The Company invested a total of \$2.9 million in growth capital expenditures during the three months ended September 30, 2011. The majority of the growth capital expenditures were in the Aviation segment which accounted for \$2.5 million of the growth capital expenditures. The major growth capital expenditures included a Lear jet for the medevac division, an additional Metro III to service the growth at Perimeter and an additional ATR 42 aircraft engine to provide backup capacity at Calm Air. The Manufacturing segment spent \$0.4 million on vehicles and manufacturing equipment, which was largely for additional crews at WesTower.

For the nine months ended September 30, 2011, the Company invested a total of \$7.2 million in growth capital expenditures. In addition to the items listed above for the three month period, the Company finished building the new hangar for Keewatin's new medevac contract in the Baffin Island region and modifications were completed to Calm Air's new ATR 72, as well as additional vehicles and equipment for anticipated growth at WesTower.

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DIVIDENDS & PAYOUT RATIO

The amounts and record dates of the dividends declared during the nine months ended September 30, 2011 and comparative period in 2010 were as follows:

Month	Record date	2011 Dividends		2010 Dividends	
		Per Share	Amount	Per Share	Amount
January	January 31, 2011	\$ 0.13	\$ 2,006	January 29, 2010	\$ 0.13 \$ 1,418
February	February 28, 2011	0.13	2,049	February 26, 2010	0.13 1,487
March	March 31, 2011	0.13	2,064	March 31, 2010	0.13 1,545
April	April 29, 2011	0.135	2,266	April 30, 2010	0.13 1,614
May	May 31, 2011	0.135	2,307	May 31, 2010	0.13 1,691
June	June 30, 2011	0.135	2,313	June 30, 2010	0.13 1,701
July	July 29, 2011	0.135	2,321	July 30, 2010	0.13 1,714
August	August 31, 2011	0.135	2,325	August 31, 2010	0.13 1,754
September	September 30, 2011	0.135	2,329	September 30, 2010	0.13 1,802
Total		\$ 1.200	\$ 19,980		\$ 1.17 \$ 14,726

Actual dividends for the three months ended September 30, 2011 totaled \$7.0 million, which was an increase of 32% from the comparative period in 2010 when the actual payouts were \$5.3 million. Per share dividends for the three months ended September 30, 2011 totaled \$0.405, which is an increase of 4% over the dividends paid per share of \$0.39 in the comparative period in 2010.

Actual dividends for the nine months ended September 30, 2011 totaled \$20.0 million, which was an increase of 36% from the comparative period in 2010 when the actual payouts were \$14.7 million. Per share dividends for the nine months ended September 30, 2011 totaled \$1.20, which is an increase of 3% over the dividends paid per share of \$1.17 in the comparative period in 2010.

The Company's Board of Directors regularly examines the dividends paid to shareholders. The current dividend rate per share 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 per month for the three months ended March 31, 2011 and the entire 2010 fiscal year. Management expects that the Company will generate sufficient cash going forward during the remainder of 2011 to meet or exceed this level.

Under the new IFRS accounting policies, the Company will calculate the following 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	2011		2010	
	Per share basic	Per share fully diluted	Per share basic	Per share fully diluted
<u>For the three month period ended September 30</u>				
Free Cash Flows	36%	44%	49%	60%
Free Cash Flows less maintenance capital expenditures	55%	64%	76%	91%
<u>For the nine month period ended September 30</u>				
Free Cash Flows	43%	51%	51%	64%
Free Cash Flows less maintenance capital expenditures	81%	91%	81%	97%

As discussed above, the maintenance capital expenditures were significantly higher in the 2011 periods than in the comparative 2010 periods. This is a result of the lumpy maintenance capital expenditures from period to period and not a reflection of a change in operations or maintenance programs. The payout ratio is considered to be prudent and is reviewed by the Company's Board of Directors on a quarterly basis.

4. ANALYSIS OF OPERATIONS

Three Month Results

The following section analyzes the financial results of the Company's operations for the three months ended September 30, 2011 and comparative 2010 period. The transition to IFRS has resulted in certain comparative balances in the 2010 period being adjusted. See Section 9 for information on the transition adjustments to IFRS for the Company.

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	Three months ended September 30, 2011				Three months ended September 30, 2010			
	Aviation	Manufacturing	Head-office ⁽²⁾	Consolidated	Aviation	Manufacturing	Head-office ⁽²⁾	Consolidated
Revenue	\$ 72,415	\$ 73,578	\$ -	\$ 145,993	\$ 50,240	\$ 14,231	\$ -	\$ 64,471
Expenses ⁽¹⁾	55,419	66,407	2,014	123,840	38,016	12,231	1,861	52,108
EBITDA	16,996	7,171	(2,014)	22,153	12,224	2,000	(1,861)	12,363
Depreciation and amortization				8,486				4,287
Finance costs - interest				3,483				1,963
Acquisition costs				-				9
Foreign exchange gains on debt				-				(12)
Earnings before taxes				10,184				6,116
Current income tax expense (recovery)				62				22
Deferred income tax expense (recovery)				2,837				1,683
Net earnings for the period				\$ 7,285				\$ 4,411

Note 1): Expenses exclude interest expense, depreciation, amortization, acquisition costs, non-cash expenses and 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 three months ended September 30, 2011 increased by 126% or \$81.5 million to \$146.0 million when compared to the same period in 2010. The main drivers of the increase in consolidated revenue for the 2011 period are the 2011 acquisitions of Bearskin in the Aviation segment (January 1, 2011) and of WesTower in the Manufacturing segment (April 1, 2011) that have no comparables in the 2010 period. The revenues for the Aviation segment increased by 44% to \$72.4 million in comparison to the same period in 2010 and the revenues for the Manufacturing segment increased by 417% to \$73.6 million in comparison to 2010.

On a consolidated basis, EBITDA of the Company for the three months ended September 30, 2011 was \$22.2 million, an increase of 79% or \$9.8 million when compared to the same period in 2010. The main drivers of the increase in EBITDA for the 2011 period were the additions of Bearskin and WesTower, and the strong performance of the Company's pre-existing operations. The EBITDA for the Aviation segment increased by 39% to \$17.0 million in comparison to the same period in 2010 and the EBITDA for the Manufacturing segment increased by 259% to \$7.2 million in comparison to the same period in 2010. Costs incurred at the head-office of the Company increased 8% to \$2.0 million when compared to 2010.

AVIATION SEGMENT

Aviation Segment	Three months ended September 30,		Variance	Variance %
	2011	2010		
Revenue	\$ 72,415	\$ 50,240	\$ 22,175	44%
Expenses	55,419	38,016	17,403	46%
EBITDA	\$ 16,996	\$ 12,224	\$ 4,772	39%

During the third quarter of 2011 the Aviation segment earned revenues of \$72.4 million and EBITDA of \$17.0 million. This represents a \$22.2 million increase in revenue and a \$4.8 million increase in EBITDA. The results for the Aviation segment for the quarter were impacted by the January 1, 2011 acquisition of Bearskin, which earned \$12.7 in revenue and generated \$1.3 million of EBITDA. The pre-existing operations were the largest contributor to this increase in sales and EBITDA, as revenues from our pre-existing operations increased \$9.4 million and generated an additional \$3.5 million in EBITDA. The aviation support companies within our pre-existing operations generated \$1.7 million of revenue and \$0.3 million of EBITDA compared to \$1.0 million and \$0.1 million in EBITDA in the third quarter of 2010. It is important to note that the Company made an accounting policy change as it relates to the sales generated by the fuel sales division of the aviation support companies. Previously we had reported all the fuel sales in the gross revenue line, however based on further analysis, it was determined that it is acceptable under IFRS to report the sales on a net basis as the Company is acting as an agent on these fuel sales. Therefore in the third quarter the Company has \$7.4 million in additional fuel sales that have been reported as \$0.1 million net revenue. The prior period results have also been restated so that the results are comparable. Management believes that this accounting policy better reflects the substance of the transactions and more accurately reflects the Aviation segment's margins.

Revenues generated from the segment's pre-existing operations, excluding the aviation support companies, were \$58.0 million, an increase of \$8.8 million or 18% over the comparable period in 2010. All aviation companies had considerable growth over the comparative period, which was driven by volume increases in the majority of our markets as well as rate increases to cover the

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increase in fuel costs. The revenues were also bolstered by the addition of the new medevac contract for Keewatin in the Baffin Island region, which became effective in December 2010, and contributed \$2.8 million in new revenue in the third quarter of 2011. Perimeter also benefited from a higher than normal fire season which resulted in additional charter opportunities moving evacuees out of and back into their communities.

The Aviation segment's pre-existing operations were very successful in turning this increase in revenues into EBITDA, as 37% of the total revenue increase was converted into EBITDA. Operational expenses for the pre-existing operating entities within the Aviation segment, excluding the aviation support companies, increased at a much lower rate than the increase in revenue. The operational expenses increased by \$5.1 million or 14% to \$37.4 million. The increase in expenses is primarily attributed to the increase in revenues, resulting in more input costs including labour, fuel and maintenance. The fuel prices were also significantly higher compared to the third quarter of 2010. The average fuel cost per litre increased by 23% placing significant upward pressure on operating expenses. Management implemented a fuel surcharge to mitigate the impact of rising fuel prices, generating revenue to offset this cost. For the last month of the quarter Calm Air wet leased a jet to service their Government of Nunavut service contract. A wet lease is an arrangement where Calm Air pays for more than just the aircraft. The wet lease payment also covers pilots, maintenance and other operating costs such as insurance. This jet service is a requirement under the new three year contract which began in September, 2011. For the short term, Calm Air has decided to wet lease this aircraft while it procures its own jets and trains pilots and maintenance staff. Wet leasing an aircraft is expensive in the short term and resulted in additional \$0.3 million of expenses in the quarter. This will continue through the next two quarters and will result in an additional \$1.0 million in expense each quarter.

The EBITDA margin for the pre-existing Aviation segment was 26.3% in the third quarter of 2011, a significant increase from the 24.3% generated in the comparable period in 2010. When the lower margin aviation support companies are excluded margins were 26.6% in the quarter versus 24.1% in the comparative prior year period. Overall EBITDA margins, which include the January 1, 2011 acquisition of Bearskin, for the quarter were 23.5%, as Bearskin's EBITDA margin for the quarter was 10.8%. The summer months are seasonal slow months for Bearskin's markets, resulting in these lower margins. Bearskin's margins through the first six months of 2011 were 21.9%. Bearskin's margins for the fourth quarter are expected to be more inline with the first six months of the year. As a result of the increase in sales and the improved margins, EBITDA from the pre-existing Aviation operations increased \$3.5 million to \$15.7 million, representing a 28% increase. Bearskin also added \$1.3 million to EBITDA for a total of \$17.0 million generated by the complete Aviation segment for the 2011 quarter compared to \$12.2 million in 2010.

MANUFACTURING SEGMENT

Manufacturing Segment	Three months ended September 30,		2011	2010	Variance	Variance %	
Revenue	\$	73,578	\$	14,231	\$	59,347	417%
Expenses		66,407		12,231		54,176	443%
EBITDA	\$	7,171	\$	2,000	\$	5,171	259%

During the third quarter of 2011, the Manufacturing segment earned revenues of \$73.6 million and EBITDA of \$7.2 million. This represents a \$59.3 million increase in revenue and a \$5.2 million increase in EBITDA.

The addition of WesTower in the second quarter of 2011 is the main reason for the increase. WesTower contributed revenues of \$57.1 million for the third quarter with no comparable in 2010. The remaining \$2.2 million of the segment's increase in revenues came from pre-existing operations of the segment, specifically by the Alberta operations and Stainless. The Alberta operation's revenues increased by \$1.8 million or 35% in the 2011 period and is a result of the continued improvement in the Alberta market place that contributes to its customers requiring new equipment as their operations grow with the increases in crude oil prices. The operations of Stainless in the U.S. continue to show improvement with an increase in revenues of \$0.8 million or 14%. The stainless steel tank operation generated increased revenues of \$0.8 million in 2011 over the comparable period in 2010. This is the result of a \$1.2 million increase in U.S. sales that was offset by \$0.4 million of foreign currency changes as a result of the weaker U.S. dollar in the 2011 period. The U.S. sales increased by 20% over the comparable period in 2010 and came from a combination of increased sales in both the field and shop operations. The precision metal business of the Manufacturing segment recognized a decrease in revenues of \$0.4 million as a result of lower volumes in 2011 in comparison to the record year for that business in fiscal 2010.

Consistent with the change in revenues, EBITDA increased in 2011 mainly as a result of the addition of WesTower. Overall, the segment's EBITDA increased by \$5.2 million, an increase of 259% which is below the 435% increase in revenues for the segment. WesTower contributed \$4.6 million of the increase and its business is at a lower margin than the pre-existing

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operations of this segment. The industry that WesTower operates in is a lower margin business and the actual margin of 7.6% earned by WesTower during the third quarter is dragged down by the U.S. telecommunications market which is experiencing some uncertainty pertaining to an announced merger of two significant industry players. This uncertainty has caused these players and other telecommunication providers to put on hold and/or delay a number of major contracts, which has resulted in WesTower's U.S. operations performing higher than the normal number of lower margin small contracts.

The pre-existing operations of the Manufacturing segment increased EBITDA by \$0.6 million or 30% through a consistent manner with the increase in revenues as the Alberta and Stainless operations grew and were offset by lower EBITDA generated by the precision metal business due to lower volume. The Alberta operations increased EBITDA by \$0.5 million or 71% from increased volume and realized some benefits coming from the increased purchasing power of the Canadian dollar on U.S. products. The EBITDA and margins at Stainless continued to grow as a result of increased volume through its shop and field work, given the fixed nature of its overhead costs. EBITDA for Stainless grew by \$0.3 million or 59% over the comparable period.

The addition of WesTower and the growth of the pre-existing operations of the Manufacturing segment resulted in the Manufacturing segment contributing 51% of the Company's 2011 consolidated revenues in comparison to 22% in the same period in 2010. At the EBITDA level the Manufacturing segment contributed 30% of the consolidated EBITDA of the Company's segments in comparison to 14% for the same period in 2010.

The transition to IFRS had no impact on the results of the Manufacturing segment.

HEAD-OFFICE

Head-office Costs	Three months ended September 30,	2011	2010	Variance	Variance %
Expenses		\$ 2,014	\$ 1,861	\$ 153	8%

The head-office costs increased in the three months ended September 30, 2011 by \$0.2 million or 8% over the comparative period in 2011. The increase can be attributed to personnel costs coming from a combination of increased personnel within the head-office and the increased share price and higher participation levels in the Company's employee share purchase plan. The employee share purchase plan for all the subsidiaries of the Company are recorded through head-office costs and therefore growth in the size of the consolidated entity results in increased participation.

Effective January 1, 2011 the Company amended its deferred share plan and as a result the program is now accounted for as an equity-settled share-based payment. Prior to the amendment the liability associated with the vested deferred shares was fair valued based on the share price at the period-end date. Under the amended program the deferred shares are expensed based on the share price at the grant date and are not adjusted for changes in the Company's market share price. The expense for the Company's deferred share plan was relatively consistent between both reporting periods.

OTHER NON-EBITDA ITEMS

The following analyzes the changes in the other non-EBITDA income statement items that impacted net earnings for the three months ended September 30, 2011 in comparison to the same period in 2010. Consolidated net earnings for the three months ended September 30, 2011 was \$7.3 million, an increase of \$2.9 million over the comparative period in 2010.

	Three months ended September 30,	2011	2010	Variance	Variance %
Depreciation and amortization		\$ 8,486	\$ 4,287	\$ 4,199	98%

The Company's depreciation and amortization for the 2011 period increased by \$4.2 million or 98% over the comparative period in 2010. With the acquisitions of Bearskin and WesTower in 2011, the depreciation and amortization recorded of \$1.0 million from Bearskin and \$1.7 million from WesTower, have no comparative in the 2010 period. Also contributing to the increase are the significant internal growth initiatives of 2010 totaling \$44.1 million for fiscal 2010 that were depreciated in the 2011 period. The Aviation segment, excluding Bearskin, incurred \$43.1 million of that amount and as a result the combined depreciation and amortization for the Aviation segment entities, excluding Bearskin, increased by \$1.6 million in the 2011 period.

	Three months ended September 30,	2011	2010	Variance	Variance %
Finance costs - interest		\$ 3,483	\$ 1,963	\$ 1,520	77%

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The Company incurred additional interest costs for the 2011 period of \$1.5 million or 77% in comparison to the comparative period in 2010. The increase is mainly a result of the Company incurring more interest on its convertible debentures outstanding and also increased interest on the Company's credit facility.

On January 11, 2011, the Company issued \$35.0 million of Series I convertible debentures that bear interest at 5.75% annually and during the beginning of May 2011 the Company issued the base and overallotment option totaling \$57.5 million of Series J convertible debentures that bear interest at 6.25%. During the 2011 period the Company incurred \$1.8 million of interest on these two new series that has no comparative in the 2010 period.

During the third quarter of 2011 the Series D convertible debentures matured and the interest incurred by the Company on that series decreased by \$0.1 million in comparison to the 2010 period. Also offsetting was the decrease in the principle outstanding on the Series F, G and H convertible debentures as a result of a significant amount of the debenture holders exercising the option to convert the debt into Shares of the Company. The combined decrease in interest on the Series F, G and H convertible debentures in the 2011 period was \$0.5 million.

The Company's interest incurred on long-term debt and finance lease obligations increased by \$0.3 million in the 2011 period as a result of higher debt levels outstanding during the period in comparison to the 2010 period.

	Three months ended September 30,			
	2011	2010	Variance	Variance %
Acquisition costs	\$ -	\$ 9	\$ (9)	-

The Company didn't incur any external costs pertaining to any acquisitions during the third quarter of 2011 and had minimal costs in the comparative period of 2010. Costs pertaining to the acquisition of Bearskin were incurred during the fourth quarter of 2010 for the acquisition of Bearskin that closed on January 1, 2011.

	Three months ended September 30,			
	2011	2010	Variance	Variance %
Foreign exchange gains on debt	\$ -	\$ (12)	\$ 12	-100%

During the comparative period in 2010, the Company recorded less than \$0.1 million of net foreign exchange gains as a result of the conversion of the US dollar based aircraft finance debt that was outstanding during fiscal 2010. The Company repaid the remaining balance of this debt in the fourth quarter of 2010 and, therefore, no foreign exchange gains or losses are recognized during the 2011 period.

The US dollar portion of the Company's credit facility that is outstanding is accounted for differently as a result of it being considered part of the foreign currency translation of the U.S. based operations of Stainless and WesTower. Changes in the foreign currency translation of the net investment in Stainless and WesTower are recorded through Other Comprehensive Income and are only recorded in net earnings when the investment is disposed of.

	Three months ended September 30,			
	2011	2010	Variance	Variance %
Current income tax expense (recovery)	\$ 62	\$ 22	\$ 40	182%
Deferred income tax expense (recovery)	2,837	1,683	1,154	69%
Net Income Tax Expense (Recovery)	\$ 2,899	\$ 1,705	\$ 1,194	70%

Income tax expense for the 2011 period was \$2.9 million, representing an increase of \$1.2 million over the comparative period in 2010. The primary reason for the increase in tax expense is due to an increase in deferred taxes that result from offsetting taxable income with non-capital loss carryforwards. The effective tax rate of 28.5% is equal to the Canadian statutory tax rate of 28.5%. Permanent non-deductible expenses and the impact of higher tax rates in the U.S. caused the effective tax rates of the Company to increase. This increase was offset by the impact of the reversal of temporary differences at lower tax rates in the future.

During the 2011 period, the Company used \$8.0 million of non-capital losses; it has approximately \$155 million of non-capital losses available to offset future taxable income.

Nine Month Results

The following section analyzes the financial results of the Company's operations for the nine months ended September 30, 2011 and comparative 2010 period. The transition to IFRS has resulted in certain comparative balances in the 2010 period being adjusted. See Section 9 for information on the transition adjustments to IFRS for the Company.

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	Nine months ended September 30, 2011				Nine months ended September 30, 2010			
	Aviation	Manufacturing	Head-office ⁽²⁾	Consolidated	Aviation	Manufacturing	Head-office ⁽²⁾	Consolidated
Revenue	\$ 205,563	\$ 156,960	\$ -	\$ 362,523	\$ 139,898	\$ 39,328	\$ -	\$ 179,226
Expenses ⁽¹⁾	162,134	140,644	5,640	308,418	107,302	34,567	4,441	146,310
EBITDA	43,429	16,316	(5,640)	54,105	32,596	4,761	(4,441)	32,916
Depreciation and amortization				22,798				11,973
Finance costs - interest				8,867				5,799
Acquisition costs				1,830				26
Foreign exchange gains on debt				-				(72)
Earnings before taxes				20,610				15,190
Current income tax expense (recovery)				279				23
Deferred income tax expense (recovery)				6,500				4,313
Net earnings for the period				\$ 13,831				\$ 10,854

Note 1): Expenses exclude interest expense, depreciation, amortization, acquisition costs, non-cash expenses and any unusual non-operating one-time items.

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

On a consolidated basis, total revenue for the Company for the nine months ended September 30, 2011 increased by 102% or \$183.3 million to \$362.5 million when compared to the same period in 2010. The revenues for the Aviation segment increased by 47% to \$205.5 million in comparison to the same period in 2010 and the revenues for the Manufacturing segment increased by 299% to \$157.0 million in comparison to 2010. The main drivers of the increase in consolidated revenue for the 2011 period are consistent with the discussion on the three month results above. They include the 2011 acquisitions of Bearskin in the Aviation segment (January 1, 2011) and of WesTower in the Manufacturing segment (April 1, 2011) and also the contributions from the Company's pre-existing operations. The revenues from the pre-existing operations of the Aviation segment increased by 18% and the Manufacturing segment increased by 26%.

On a consolidated basis, EBITDA of the Company for the nine months ended September 30, 2011 was \$54.1 million, an increase of 64% or \$21.2 million when compared to the same period in 2010. Consistent with the discussion on the three month results above, the main drivers of the increase in EBITDA for the 2011 period were the additions of Bearskin and WesTower. The pre-existing operations of both segments of the Company also contributed positively towards the increased EBITDA generated. The EBITDA for the Aviation segment increased by 33% to \$43.4 million in comparison to the same period in 2010 and the EBITDA for the Manufacturing segment increased by 243% to \$16.3 million in comparison to the same period in 2010. The EBITDA generated by the pre-existing operations of the Aviation segment increased by 10% and the Manufacturing segment increased by 78%. Costs incurred at the head-office of the Company increased 27% to \$5.6 million when compared to 2010.

During the third quarter of 2011 the Company adjusted the way the aviation support entities within the Aviation segment measured certain revenue transactions where it was acting as an agent for a fuel supplier. In previous periods the Company reported these sales transactions on a gross measurement basis between revenue and direct operating expenses. These have been adjusted to be measured on a net basis given the characteristics of the arrangements with the customer and the fuel supplier. The financial results for the first and second quarter periods of 2011 have been adjusted in the nine month period results ending September 30, 2011. The revenues and direct operating expenses for the three months ended March 31, 2011 was reduced by \$14.4 million, resulting in net revenues of \$0.2 million. The revenues and direct operating expenses for the three months ended June 30, 2011 was reduced by \$8.6 million, resulting in net revenues of \$0.1 million. The three months ended September 30, 2011 included \$7.4 million of gross sales that are measured on a net basis of \$0.1 million within revenues of the Aviation segment. The change in measurement has no impact on the EBITDA generated for the applicable periods. The following summarizes the time periods when these transactions have occurred and the changes to the impacted periods:

	Quarter 4		Quarter 1		Quarter 2		Quarter 3	
	2010	2011	2011	2011	2011	2011	2011	2011
Gross sales originally recorded as revenues	\$ 3,233	\$ 14,639	\$ 8,665	\$ 7,487				
Direct operating expenses adjusted to decrease revenues	3,184	14,415	8,567	7,401				
Net revenues on agency sales transactions	\$ 49	\$ 224	\$ 98	\$ 86				

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AVIATION SEGMENT

Aviation Segment	Nine months ended September 30,	2011	2010	Variance	Variance %
Revenue		\$ 205,563	\$ 139,898	\$ 65,665	47%
Expenses		162,134	107,302	54,832	51%
EBITDA		\$ 43,429	\$ 32,596	\$ 10,833	33%

Revenues generated by the Aviation segment increased by \$65.7 million or 47% as compared to the same period in the prior year. The EBITDA generated also increased in 2011 by \$10.8 million or 33%. The majority of the increase in revenues and EBITDA is a result of the acquisition of Bearskin on January 1, 2011 which contributed revenues and EBITDA of \$41.0 million and \$7.5 million, respectively, with no comparables in 2010.

For the pre-existing entities within the Aviation segment, revenues increased in 2011 by \$24.6 million to \$164.6 million. The aviation support companies contributed \$4.5 million of this increase. All of the Company's pre-existing aviation entities also contributed significant increases in revenue for the same reasons as discussed above for the three month period. The new Baffin Island medevac contract for Keewatin that commenced in December 2010 contributed an additional \$8.9 million for the nine months of operations during 2011. The EBITDA generated from the pre-existing operations increased by \$3.3 million or 10%.

The operations of the aviation support companies that commenced around the beginning of the second quarter of 2010, increased revenues to third parties by \$4.5 million and generated additional EBITDA of \$0.9 million. As discussed above, the Company adopted a new accounting policy for the fuel sales, which results in certain types of sales being reported on a net basis as the Company acts as an agent on these sales. This resulted in \$30.4 million in additional fuel sales that has been reported as \$0.4 million net revenue during the nine months ended September 30, 2011. The prior period results have also been restated so that the results are comparable.

The EBITDA margins for Aviation segment was 21.1% in comparison to 23.3% for 2010. The decrease in margins is the result of the addition of the slightly lower margin Bearskin operations, which had EBITDA margins of 18.3% for the year to date period. As well, margins have been lower as a result of the increase in fuel prices and the delays experienced in the first three months of the 2011 period with the implementation of the ATR 72's going into service at Calm Air. The ATR 72 implementation delay caused higher labour, fuel and parts costs from utilizing older and less fuel efficient aircraft.

MANUFACTURING SEGMENT

Manufacturing Segment	Nine months ended September 30,	2011	2010	Variance	Variance %
Revenue		\$ 156,960	\$ 39,328	\$ 117,632	299%
Expenses		140,644	34,567	106,077	307%
EBITDA		\$ 16,316	\$ 4,761	\$ 11,555	243%

Revenues generated by the Manufacturing segment increased by \$117.6 million or 299% as compared to the same period in the prior year. EBITDA generated by the Manufacturing segment increased by \$11.6 million or 243% as compared to the same period in the prior year. This increase is mainly the result of the acquisition of WesTower and including its results for the six months after being acquired on April 1, 2011. WesTower contributed revenues of \$107.3 million and EBITDA of \$7.8 million in the 2011 period with no comparison in 2010. The pre-existing operations of the Manufacturing segment contributed an additional \$10.3 million of revenues and \$3.7 million of EBITDA, which is an increase of 26% and 78%, respectively.

Consistent with the discussion for the three month period above, the operations of the pre-existing entities within the Manufacturing segment for the 2011 have also generated combined increases in both revenues and EBITDA as a result of improvements in the U.S. and Alberta economies during 2011. The Alberta operations generated an increase in revenues of \$5.8 million and EBITDA of \$2.1 million. These increases come from the improvements in the Alberta markets over the last year and a half, and benefits from a strengthening Canadian dollar in purchasing U.S. goods that are being sold in the Alberta operations.

The U.S. operations of Stainless recognized increased revenues of \$5.4 million and increased EBITDA of \$2.0 million. The U.S. sales increased by \$6.6 million and were offset by \$1.2 million of foreign currency changes as a result of a weaker U.S. dollar. The U.S. EBITDA increased by \$2.2 million and was offset by \$0.2 million of foreign currency changes. The improvement in the U.S. markets for Stainless has resulted in increasing volumes of work processed by Stainless.

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Offsetting the increases in the Stainless and Alberta operations were lower EBITDA margins in the precision metal manufacturing operations that are lower than the fiscal 2010 record year volume.

The transition to IFRS had no impact on the results of the Manufacturing segment.

HEAD-OFFICE

Head-office Costs	Nine months ended September 30,	2011	2010	Variance	Variance %
Expenses		\$ 5,640	\$ 4,441	\$ 1,199	27%

The head-office costs increased for the nine months ended September 30, 2011 by \$1.2 million or 27% over the comparative period in 2011. Consistent with the discussion for the three month period above, the increase can be attributed mainly to personnel costs coming from a combination of increased personnel within the head-office and share ownership plans for the consolidated group of entities that flow through 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 nine months ended September 30, 2011 in comparison to the same period in 2010. Consolidated net earnings for the nine months ended September 30, 2011 was \$13.8 million, an increase of \$3.0 million over the comparative period in 2010.

	Nine months ended September 30,	2011	2010	Variance	Variance %
Depreciation and amortization		\$ 22,798	\$ 11,973	\$ 10,825	90%

The Company's depreciation and amortization for the 2011 period increased by \$10.8 million or 90% over the comparative period in 2010. With the acquisitions of Bearskin and WesTower in 2011, the depreciation and amortization recorded of \$3.5 million from Bearskin and \$2.9 million from WesTower, have no comparative in the 2010 period. Also contributing to the increase are the significant internal growth initiatives of 2010 that totaled \$44.1 million for fiscal 2010 that were depreciated in the 2011 period. The Aviation segment incurred \$43.1 million of that amount and as a result the combined depreciation and amortization for the Aviation segment entities, excluding Bearskin, increased by \$4.7 million in the 2011 period.

	Nine months ended September 30,	2011	2010	Variance	Variance %
Finance costs - interest		\$ 8,867	\$ 5,799	\$ 3,068	53%

The Company incurred additional interest costs for the 2011 period of \$3.1 million or 53% in comparison to the same period in 2010. Consistent with the discussion above for the three month period, the increase is mainly a result of the Company incurring more interest on its convertible debentures outstanding and also increased interest on the Company's credit facility.

Interest on the Company's convertible debentures increased by \$2.2 million and is a result of the change in the amount of convertible debentures outstanding in 2011. During the 2011 period the Company issued \$35.0 million of Series I convertible debentures that bear interest at 5.75% annually and \$57.5 million of Series J convertible debentures that bear interest at 6.25%. During the 2011 period the Company incurred \$3.6 million of interest on these two new series that has no comparative in the 2010 period. This was offset by a decrease of \$1.4 million in interest on the other series of convertible debentures as a result of conversions of the debentures to shares of the Company and \$0.1 million of Series E debenture interest that resulted from the early redemption in January 2010.

The Company's interest incurred on long-term debt and finance lease obligations increased by \$0.9 million in the 2011 period as a result of higher debt levels outstanding during the period in comparison to the 2010 period and also an additional \$0.2 million of standby fees incurred on the Company's available credit within its facility.

	Nine months ended September 30,	2011	2010	Variance	Variance %
Acquisition costs		\$ 1,830	\$ 26	\$ 1,804	-

The acquisition costs incurred by the Company during the 2011 period came during the first six months of 2011 and pertain to a combination of costs incurred on the closing of the acquisition of WesTower on April 1, 2011 and also costs incurred pertaining to other potential acquisitions. Under IFRS the costs incurred are expensed in the period of occurrence and not

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the period in which an acquisition closes. The Company continually considers acquisitions and must expense any due diligence costs whether or not an acquisition is completed. The costs pertaining to the acquisition of Bearskin on January 1, 2011 were accrued and expensed near the end of the 2010 fiscal period.

	Nine months ended September 30,				
	2011	2010	Variance	Variance %	
Foreign exchange gains on debt	\$ -	\$ (72)	\$ 72	-100%	

Consistent with the explanation for the three month period above, the Company had no US dollar based aircraft finance debt outstanding during the 2011 period that was outstanding during fiscal 2010.

	Nine months ended September 30,				
	2011	2010	Variance	Variance %	
Current income tax expense (recovery)	\$ 279	\$ 23	\$ 256	1113%	
Deferred income tax expense (recovery)	6,500	4,313	2,187	51%	
Net Income Tax Expense (Recovery)	\$ 6,779	\$ 4,336	\$ 2,443	56%	

Consistent with the explanation for the three month period above, the primary reason for the increase in tax expense in the 2011 period is due to an increase in deferred taxes that result from offsetting taxable income with non-capital loss carryforwards. During the 2011 period the Company used \$19.1 million of non-capital losses.

5. SUMMARY OF QUARTERLY RESULTS

	2011			2010				2009	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	(IFRS)	(IFRS)	(IFRS)	(IFRS)	(IFRS)	(IFRS)	(IFRS)	(CGAAP)	(CGAAP)
Total revenue	\$ 145,993	\$ 138,008	\$ 78,522	\$ 65,160	\$ 64,471	\$ 60,894	\$ 53,861	\$ 58,028	\$ 60,175
EBITDA	22,153	19,738	12,214	11,352	12,363	11,905	8,648	9,039	11,128
Net earnings / (loss)	7,285	4,506	2,040	2,913	4,411	4,179	2,264	3,703	3,869
Basic	0.42	0.27	0.13	0.20	0.33	0.33	0.20	0.35	0.39
Diluted	0.41	0.27	0.13	0.20	0.31	0.32	0.19	0.33	0.36
Free cash flow	19,234	16,890	10,515	10,251	10,697	10,563	7,125	7,236	9,966

As described in Section 4 above, during the third quarter of 2011 the Company adjusted the way the aviation support entities within the Aviation segment measured certain revenue transactions where it was acting as an agent for a fuel supplier. In previous periods the Company reported these sales transactions on a gross measurement basis between revenue and direct operating expenses. The financial results for the fourth quarter period of 2010, and the first and second quarter periods of 2011 have been adjusted in the table above and resulted in a reduction to total revenues. Previously reported gross sales for these periods of \$3.2 million, \$14.6 million and \$8.7 million, respectively, have been adjusted to net revenues of less than \$0.1 million, \$0.2 million and \$0.1 million, respectively for each period. The third quarter of 2011 included \$7.5 million of gross sales that are measured on a net basis of \$0.1 million within the revenues of the Aviation segment. The change in measurement has no impact on the EBITDA, net earnings or free cash flow generated for the applicable periods.

6. LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2011, the Company had a net cash position of \$7.4 million (December 31, 2010 of \$1.5 million) and net working capital of \$61.1 million (December 31, 2010 of \$39.7 million), which represents a current ratio of 1.69 to 1 (December 31, 2010 of 1.87 to 1). The net working capital at year-end 2010 included \$27.6 million of restricted cash, as described further below, and the current ratio excluding the restricted cash would be 1.26 to 1.

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	September 30, 2011	December 31, 2010	Change
Cash and cash equivalents	\$ 7,413	\$ 1,471	\$ 5,942
Cash - restricted	-	27,625	(27,625)
Accounts receivable	65,752	29,514	36,238
Costs incurred plus recognized profits in excess of billings	33,200	762	32,438
Inventory	38,778	22,669	16,109
Prepaid expenses	5,024	3,492	1,532
Accounts payable and accrued expenses	(64,379)	(35,413)	(28,966)
Income taxes payable	(4,381)	-	(4,381)
Deferred revenue	(10,521)	(5,643)	(4,878)
Billings in excess of costs incurred plus recognized profits	(8,759)	(3,686)	(5,073)
Current portion of long-term debt and finance leases	(1,075)	-	(1,075)
Current portion of convertible debentures	-	(1,052)	1,052
Net working capital	\$ 61,052	\$ 39,739	\$ 21,313

IFRS Impact

Under IFRS reporting, the following balances no longer are part of the Company's working capital. The current portion of deferred taxes (future income tax under CGAAP) is prohibited and therefore the presentation is only long-term. As well, the deferred tax credit recorded under CGAAP isn't recognizable under IFRS.

Also under IFRS reporting the Company presents its rotatable parts as capital assets due to their nature and useful lives when installed on an aircraft. As a result, \$5.6 million of rotatables that were presented as inventory under CGAAP for December 31, 2010 have been presented as capital assets.

Lastly, under IFRS reporting the Company's deferred revenue was increased to include Perimeter's customer loyalty program, which increases the December 31, 2010 balance by \$1.5 million. See Section 8 for information on the transition to IFRS for the Company.

Analysis

The \$27.6 million of restricted cash pertained to the funds that were drawn from the Company's credit facility just before December 31, 2010 and put into trust with the legal counsel associated with the acquisition of Bearskin on the following day, January 1, 2011. Since the funds were drawn from the company's credit facility, which is presented as a long-term liability, it resulted in a higher working capital ratio for the short period over year-end 2010 that are excluded in the working capital at September 30, 2011.

Even with the restricted cash not in the September 30, 2011 working capital, the Company's working capital increased by \$21.3 million in comparison to year-end 2010 (or \$48.9 million excluding the restricted cash at year-end 2010). This is a direct result of the additions of Bearskin and WesTower during the 2011 period. The combined addition of those operating entities increased the working capital of the Company as at September 30, 2011 by \$45.0 million. The majority comes from WesTower given the larger size of its operating business that contributes approximately \$43 million of working capital as at September 30, 2011. Aside from the additional working capital from the acquired companies, the working capital of the Company as at September 30, 2011 was relatively consistent with year-end 2010, excluding restricted cash.

Also with the addition of WesTower, the Company presents two new working capital line items that are associated with the percentage of completion revenue recognition policies of WesTower and Stainless. Previously, the balance of Stainless as a stand-alone wasn't considered to be significant enough to present on these separate lines and therefore, was previously combined with accounts receivable and accounts payable accordingly. The current asset is called "costs incurred plus recognized profits in excess of billings" and represents the amounts recognized as revenue for construction contracts that are higher than the amounts billed to the customers up to the reporting date. The current liability is called "billings in excess of costs incurred plus recognized profits" and represents the amounts billed to customers that are above the amounts recognized as revenue for construction contracts up to the reporting date.

During the second quarter of 2011 the Company's warrants that were issued in 2009 matured. Prior to maturity, 408,482 of warrants were exercised which generated proceeds of \$4.1 million for the Company. Only 200 of the warrants were not exercised and therefore expired during the second quarter of 2011. No warrants are outstanding as at September 30, 2011.

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At the beginning of the first quarter, the Company closed the offering of its Series I 5.75% five year convertible debentures with a par value of \$35.0 million and generated net proceeds of \$33.1 million. In May, the Company closed the offering of its Series J 6.25% seven year convertible debentures with a par value of \$57.5 million and generated net proceeds of \$54.5 million. These funds were mainly used by the Company in making payments against its outstanding credit facility balance. The conversion prices on these debentures are \$26.00 for Series I and \$30.60 for Series J.

In March 2011, the Company announced the increase to its credit facility from \$106.0 million to \$235.0 million, and the facility was also extended another year, resulting in a maturity of March 31, 2014. The increase in the facility available was done in preparation for the acquisition of WesTower on April 1, 2011 and to give the Company available credit for any other future acquisitions. The split of the amended credit facility is \$200.0 million facility in Canadian funds and \$35.0 million facility in US funds. As at September 30, 2011, the Company had \$19.5 million outstanding under the Canadian portion and US \$19.45 million outstanding under the US portion. The Company drew \$56.5 million Canadian and US \$11.0 million as payment for the acquisition of WesTower. During the nine months of 2011, the Company has made three payments against the credit facility balance outstanding totaling \$91.0 million and withdrew \$76.5 million, mainly for the acquisition of WesTower, resulting in a net decline in the balance outstanding of \$14.5 million.

As part of the acquisition of WesTower, the Company assumed the obligations of WesTower, which included vehicle equipment leases. These leases are treated as finance leases for IFRS reporting and as a result an asset and obligation are recorded on the balance sheet with lease payments being split between principal repayments and interest expense. The finance lease assumed on acquisition were US\$1.8 million and \$0.6 million Canadian. 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 is shown as a cash outflow within financing activities and the interest portion is recorded through net income and operating activities. During the period since the acquisition, WesTower has paid US\$0.4 million and \$0.2 million Canadian of principal payments. Also during that period, WesTower entered into new finance leases with a capital asset value and principal obligation of \$0.9 million.

The Company has multiple series of convertible debentures outstanding as outlined below. During the nine months of 2011 the Company had a combined total of \$18.7 million of principal converted into Shares of the Company, see tables below. During August 2011 the Company's Series D convertible debentures matured and prior to maturity the remaining debentures were converted into Shares of the Company by the debenture holders.

The Company obtained additional cash through the means described above and also generated \$32.9 million from its operations during the nine months of operations for the period ended September 30, 2011 (or \$46.6 million of Free Cash Flow). The Company used these funds for significant capital expenditures and the repayment of certain debt items, enabling the Company to fund future acquisitions through its credit facility. See Section 3 for more information on the capital expenditures made during the 2011 period.

The Company's dividends are dependent on its ability to generate cash flow from operations and Free Cash Flow. The monthly dividend paid in absolute dollars continued to grow with the trend that lead to the debenture holders and warrant holders converting their instruments into Shares of the Company. 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 for a total \$1.20 per share during the 2011 period. The Company has been able to do this through the cash flow generated from operations and Free Cash Flow as described above.

The following summarizes the changes in the Shares outstanding of the Company during the nine months ended September 30, 2011:

	Date issued	Number of shares
Shares outstanding, beginning of period		14,518,842
Issued upon conversion of convertible debentures	various	1,267,099
Issued for Bearskin vendors	January 1, 2011	314,047
Issued for WesTower vendors	April 1, 2011	520,341
Issued from warrants exercised	various	408,482
Issued under dividend reinvestment plan (DRIP)	various	123,565
Issued to Tribal Councils Investment Group (1)	April 15, 2011	12,728
Shares outstanding, end of period		17,165,104

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Note 1): Amounts earned by the Tribal Councils Investment Group, a related party of the Company, were paid in Shares of the Company in accordance with the marketing agreement between the parties.

The following summarizes the changes in the warrants outstanding of the Company during the nine months ended September 30, 2011:

	Date issued	Number of warrants
Warrants outstanding, beginning of period		408,682
Warrants exercised	various	(408,482)
Expired		(200)
Warrants outstanding, end of period		-

The following summarizes the convertible debentures outstanding as at September 30, 2011 and the changes in the amount of convertible debentures outstanding during the nine months ended September 30, 2011:

Series - Year of Issuance	Maturity	Interest Rate	Conversion Price
Series D - 2006	August 12, 2011	8.0%	\$ 13.25
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 D	\$ 1,075	\$ -	\$ (1,075)	\$ -	\$ -
Series F	1,974	-	(377)	-	1,597
Series G	24,034	-	(15,185)	-	8,849
Series H	30,000	-	(2,074)	-	27,926
Series I	-	35,000	-	-	35,000
Series J	-	57,500	-	-	57,500
Total	\$ 57,083	\$ 92,500	\$ (18,711)	\$ -	\$ 130,872

The contractual obligations of the Company and its subsidiaries as at September 30, 2011 have increased significantly from those described in the MD&A of the Company as at December 31, 2010 as a result of the additions of Bearskin and WesTower. The minimum lease payments for Bearskin are approximately \$400 for the next several years. The minimum lease payments of WesTower are as follows:

WesTower Commitments as at September 30, 2011	
Remainder of 2011	\$ 648
2012	2,161
2013	1,155
2014	646
2015	274
Thereafter	34
	\$ 4,918

7. RELATED PARTY TRANSACTIONS

The related party transactions that the Company entered into during the nine months ended September 30, 2011 are consistent with those described in the Company's MD&A for the year ended December 31, 2010 with the exception of some building leases with vendors of both Bearskin and WesTower. There are no impacts from the transition to IFRS on the Company's related party transactions from the treatment under CGAAP.

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8. ACCOUNTING POLICIES

Effective January 1, 2011 and as further described in the Company's interim unaudited Consolidated Financial Statements and related notes for the three and nine months ended September 30, 2011, the Company began reporting its financial results in accordance with IFRS.

As part of the transition to IFRS, the Company applied IFRS 1 that is the requirement for preparing IFRS compliant financial statements in the first reporting period after the changeover date. IFRS 1 applies only at the time of changeover, and includes a requirement for retrospective application of IFRS, as if they were always in effect. IFRS 1 also mandates certain exceptions to retrospective application and provides a series of optional exemptions from retrospective application to ease the transition to the full set of IFRS.

The Company has applied the following transition exceptions and exemptions to full retrospective application of IFRS:

Business combinations

The Company uses the IFRS 1 election to not restate any business combinations that occurred prior to January 1, 2010. Goodwill arising from business combinations occurring before transition will not be adjusted from the carrying value predetermined under CGAAP except as required under IFRS 1. No business combinations occurred during the 2010 year and the acquisitions of Bearskin Airlines and WesTower took place in 2011 (Note 6)

Fair value as deemed cost for capital assets

The Company adjusted certain aircraft net book values as at January 1, 2010 to fair values at that time based on market prices for the aircraft type. This was done in accordance with IFRS 1 election to measure these items upon transition at fair value.

Borrowing costs

The Company elected in accordance with IFRS 1 to not restate borrowing costs on qualifying assets incurred prior to January 1, 2010.

Share-based payments

The Company is using the IFRS 1 election to not restate share-based compensation for share options vesting before January 1, 2010.

Cumulative translation differences

The Company elected in accordance with IFRS 1 that cumulative translation differences for all foreign operations be deemed zero at the date of transition to IFRS, instead of recalculating from inception.

Leases

As part of the transition to IFRS the Company used the IFRS 1 exemption to allow the Company to determine whether an arrangement contains a lease based on the facts and circumstances as at the transition date rather than at the lease inception date. There was no impact on the Company's leases outstanding at the transition date or during the 2010 year.

Designation of previously recognized financial instruments

The Company chose not to change the classification of any financial instruments existing at the transition date which was available under IFRS 1.

Presentation Changes

The Company revised the presentation of certain operating items on the statement of operations. Revenues between the Aviation segment and the Manufacturing segment are presented separately. A new line item for the Manufacturing segment's cost of goods sold that was previously combined into a single direct operating expenses line that included direct operating expenses of the Aviation segment is now presented separately from the direct operating expenses of the Aviation segment. Some transactions within the Aviation segment that were previously presented net are now presented gross under IFRS. This pertains to certain funds collected from customers and expenses paid to airports. This results in an increase in revenues and a corresponding combined increase in direct operating expenses and general and administrative costs. Transaction costs that are

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associated with the acquisition of businesses are expensed when incurred under IFRS. The Company created a new line for these acquisition costs on the statement of operations. The depreciation of capital assets and amortization of intangible assets are combined into a single line on the statement of operations for the Company.

The elimination of the Company's current portion of deferred income taxes (previously called future income taxes under CGAAP), overhaul provision and deferred tax credit results in those lines no longer being presented in the Company's statement of financial position.

Not as a result of the changeover to IFRS, but as a result of the acquisition of WesTower, the Company has started to present two new lines on the statement of financial position. As a result of the accounting policies associated with the revenue recognition on long-term construction contracts, a current asset and current liability are created that represent the difference between the revenues recognized and the amounts billed to the customers of these long-term contracts. Stainless has historically had these balances but they previously were combined within accounts receivable and accounts payable given the similar characteristics. With the acquisition of WesTower, the consolidated amounts are considered material to present separately as line items on the statement of financial position. The current asset is called "Costs incurred plus recognized profits in excess of billings" and the current liability is called "Billings in excess of costs incurred plus recognized profits". The December 31, 2010 statement of financial position was adjusted accordingly to present the Stainless balances in a consistent manner.

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The following describes the impact of the transition between CGAAP and IFRS on the Company's historical comparative statements of financial position:

	December 31, 2010			September 30, 2010		
	CGAAP	ADJ	IFRS	CGAAP	ADJ	IFRS
ASSETS						
CURRENT						
Cash and cash equivalents	\$ 1,471	\$ -	\$ 1,471	\$ 6,216	\$ -	\$ 6,216
Cash - restricted	27,625	-	27,625	-	-	-
Accounts receivable	29,514	-	29,514	27,536	-	27,536
Costs incurred plus recognized profits in excess of billings	762	-	762	1,765	-	1,765
Inventory	28,269	(5,600)	22,669	28,016	(5,362)	22,654
Prepaid expenses	3,809	(317)	3,492	5,359	(260)	5,099
Deferred income tax	6,154	(6,154)	-	4,568	(4,568)	-
	97,604	(12,071)	85,533	73,460	(10,190)	63,270
CAPITAL ASSETS	158,439	2,004	160,443	148,950	606	149,556
INTANGIBLE ASSETS	12,842	(588)	12,254	12,466	(26)	12,440
DEFERRED INCOME TAX	28,444	2,594	31,038	30,946	1,248	32,194
GOODWILL	39,678	-	39,678	40,198	-	40,198
	\$ 337,007	\$ (8,061)	\$ 328,946	\$ 306,020	\$ (8,362)	\$ 297,658
LIABILITIES						
CURRENT						
Accounts payable and accrued expenses	\$ 35,210	\$ 203	\$ 35,413	\$ 33,139	\$ 94	\$ 33,233
Deferred revenue	4,133	1,510	5,643	7,005	1,480	8,485
Billings in excess of costs incurred plus recognized profits	3,686	-	3,686	3,102	-	3,102
Current portion of long-term debt	-	-	-	2,449	-	2,449
Current portion of convertible debentures	1,052	-	1,052	2,052	-	2,052
Current portion of debentures	-	-	-	-	-	-
Current portion of deferred credit	4,700	(4,700)	-	3,464	(3,464)	-
	48,781	(2,987)	45,794	51,211	(1,890)	49,321
LONG-TERM DEBT	53,100	-	53,100	18,276	-	18,276
CONVERTIBLE DEBENTURES	49,461	254	49,715	54,606	254	54,860
OVERHAUL ACCRUAL	11,103	(11,103)	-	10,646	(10,646)	-
DEFERRED INCOME TAX	-	-	-	15	(15)	-
DEFERRED CREDIT	31,714	(31,714)	-	33,800	(33,800)	-
	194,159	(45,550)	148,609	168,554	(46,097)	122,457
EQUITY						
SHARE CAPITAL	148,046	-	148,046	139,261	-	139,261
CONVERTIBLE DEBENTURES EQUITY COMPONENT	4,484	(1,448)	3,036	5,035	(1,561)	3,474
WARRANTS	155	-	155	196	-	196
CONTRIBUTED SURPLUS	102	-	102	102	-	102
CUMULATIVE EARNINGS	46,018	39,611	85,629	42,746	39,970	82,716
CUMULATIVE DIVIDENDS	(55,943)	-	(55,943)	(50,327)	-	(50,327)
ACCUMULATED OTHER COMPREHENSIVE INCOME	(14)	(674)	(688)	453	(674)	(221)
	142,848	37,489	180,337	137,466	37,735	175,201
	\$ 337,007	\$ (8,061)	\$ 328,946	\$ 306,020	\$ (8,362)	\$ 297,658

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The following are the main items impacting the Company's balance sheet on the transition to IFRS:

- Current assets were impacted by the change in presentation of rotatable parts from inventory to capital assets, reclassifying the current portion of deferred income taxes to long term, and the removal of certain pilot training bonds that were presented as prepaid expenses.
- A net increase in capital assets as a result of a few items. Firstly, capital assets increased from the change in presentation of the rotatable parts from inventory. Secondly, the Company identified a certain number of aircraft related assets with significant component parts within the Aviation segment that are depreciated separately as significant components under IFRS. Under CGAAP, a number of these components were depreciated together as part of the aircraft. Thirdly, previously expensed overhaul and maintenance costs on certain aircraft under the Company's CGAAP overhaul provision accounting policy were capitalized and amortized on each balance sheet date using a useful life that extends until the next overhaul event is planned to occur. Lastly, several aircraft within the Aviation segment's fleet were adjusted to fair value.
- Intangible assets were reduced for certain acquisition costs relating to the acquisition of Bearskin that are expensed in the period incurred under IFRS.
- Deferred income taxes shows a net increase to the long-term asset as a result of reclassifying the current portion and the tax impact of all the other IFRS balance sheet conversion items.
- Current liabilities were impacted by the addition of certain accruals within accounts payable and accrued liabilities, the recognition of Perimeter's customer loyalty program that will be used for future flights, and the removal of the current portion of the deferred tax credit.
- As mentioned above, the Company's policy on aircraft related assets' overhaul and maintenance events, which were previously accrued over the period of use of the aircraft until the next overhaul event, is no longer done under IFRS. As a result, the overhaul provision is removed and net book values of the last overhauls are recognized as capital assets.
- The deferred tax credit is prohibited under IFRS and removed from the Company's balance sheet.
- Equity items were adjusted on the transition for the recognition of certain deferred income tax amounts on the outstanding convertible debenture conversion options, the IFRS 1 election to reset the cumulative translation adjustment within accumulated other comprehensive income, and the net impact of the other IFRS transition balance sheet adjustments through opening retained earnings and the earnings for fiscal 2010.

See the Company's interim MD&A for the three months ended March 31, 2011 for more information on the adjustments to the comparative results for the Company consolidated statement of financial position as at January 1, 2010, March 31, 2010 and December 31, 2010.

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The following describes the impact of that transition between CGAAP and IFRS on the Company's historical comparative statements of operations:

	Three Months Ended September 30, 2010			Nine Months Ended September 30, 2010		
	CGAAP	ADJ	IFRS	CGAAP	ADJ	IFRS
REVENUE						
Aviation	\$ 49,357	\$ 883	\$ 50,240	\$ 137,735	\$ 2,163	\$ 139,898
Manufacturing	14,231	-	14,231	39,328	-	39,328
	63,588	883	64,471	177,063	2,163	179,226
EXPENSES						
Direct operating - excluding depreciation and amortization	32,146	(2,620)	29,526	89,088	(6,242)	82,846
Cost of goods sold - excluding depreciation and amortization	9,269	-	9,269	25,518	-	25,518
General and administrative	13,387	(74)	13,313	38,153	(207)	37,946
Depreciation and amortization	2,707	1,580	4,287	7,793	4,180	11,973
	57,509	(1,114)	56,395	160,552	(2,269)	158,283
EARNINGS BEFORE THE FOLLOWING	6,079	1,997	8,076	16,511	4,432	20,943
Finance costs - interest	2,094	(131)	1,963	6,186	(387)	5,799
Acquisition costs		9	9	-	26	26
Foreign exchange gains on debt	(12)	-	(12)	(72)	-	(72)
EARNINGS BEFORE INCOME TAXES	3,997	2,119	6,116	10,397	4,793	15,190
INCOME TAX EXPENSE (RECOVERY)						
Current	22	-	22	23	-	23
Deferred	369	1,314	1,683	752	3,561	4,313
	391	1,314	1,705	775	3,561	4,336
NET EARNINGS FOR THE PERIOD	\$ 3,606	\$ 805	\$ 4,411	\$ 9,622	\$ 1,232	\$ 10,854
OTHER COMPREHENSIVE INCOME (LOSS), net of tax						
Cumulative translation adjustment	(450)	-	(450)	(221)	-	(221)
COMPREHENSIVE INCOME FOR THE PERIOD	\$ 3,156	\$ 805	\$ 3,961	\$ 9,401	\$ 1,232	\$ 10,633

The following are the main items impacting the Company's statements of operations on the transition to IFRS:

- Revenues increased by the presentation changes on certain items that were shown net of cost within the Aviation segment and under IFRS the gross amounts are recorded between aviation revenue, direct operating expenses and general and administrative expenses. The increase from the gross presented revenues was offset by the net decrease associated with the deferral of a portion of Perimeter's revenues as its customers earn customer loyalty points to be used in future flight operations.
- Direct operating expenses of the Aviation segment decreased mainly as a result of the removal of overhaul costs that were accrued under CGAAP. Under IFRS these amounts are capitalized when completed and amortized over the period until the next overhaul is scheduled.
- Depreciation and amortization increased under IFRS as a result of the capitalization of overhaul costs and changes in the depreciation rates resulting from certain aircraft related assets being disaggregated into significant components.
- Interest costs were reduced as a result of the Company's new policy that capitalizes borrowing costs on certain qualifying self-constructed capital assets. The capitalized borrowing costs are depreciated over the life of the capital asset and commence when the capital asset is put into use.

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- Acquisition costs is a new line presented and includes costs incurred by the Company in association with an acquisition, or attempted acquisition. These costs are expensed in the period incurred where as the Company's policy under CGAAP was to include these costs as part of the consideration of the purchase price.
- Deferred income taxes were adjusted accordingly for the above income statement items.

See the Company's interim MD&A for the three months ended March 31, 2011 for more information on the adjustments to the comparative results for the Company consolidated statement of operations for the three months ended March 31, 2010 and the year ended December 31, 2010.

The following gives the quarterly and full year unaudited historical consolidated statements of operations under IFRS:

	Q1-2010	Q2-2010	Q3-2010	Q4-2010	Fiscal 2010
REVENUE					
Aviation	\$ 41,602	\$ 48,056	\$ 50,240	\$ 49,115	\$ 189,013
Manufacturing	12,259	12,838	14,231	16,045	55,373
	53,861	60,894	64,471	65,160	244,386
EXPENSES					
Direct operating - excluding depreciation and amortization	25,265	28,055	29,526	28,744	111,590
Cost of goods sold - excluding depreciation and amortization	7,899	8,350	9,269	10,661	36,179
General and administrative	12,049	12,584	13,313	14,403	52,349
Depreciation and amortization	3,794	3,892	4,287	4,625	16,598
	49,007	52,881	56,395	58,433	216,716
EARNINGS BEFORE THE FOLLOWING	4,854	8,013	8,076	6,727	27,670
Interest	1,818	2,018	1,963	1,677	7,476
Acquisition costs	17	-	9	640	666
Foreign exchange gains on debt	(83)	23	(12)	17	(55)
EARNINGS BEFORE INCOME TAXES	3,102	5,972	6,116	4,393	19,583
INCOME TAX EXPENSE (RECOVERY)					
Current	-	1	22	(23)	-
Deferred	838	1,792	1,683	1,503	5,816
	838	1,793	1,705	1,480	5,816
NET EARNINGS FOR THE PERIOD	\$ 2,264	\$ 4,179	\$ 4,411	\$ 2,913	\$ 13,767
OTHER COMPREHENSIVE INCOME (LOSS), net of tax					
Cumulative translation adjustment	(422)	651	(450)	(467)	(688)
COMPREHENSIVE INCOME FOR THE PERIOD	\$ 1,842	\$ 4,830	\$ 3,961	\$ 2,446	\$ 13,079

As described in Section 4 above, during the third quarter of 2011 the Company adjusted the way the aviation support entities within the Aviation segment measured certain revenue transactions where it was acting as an agent for a fuel supplier. In previous periods the Company reported these sales transactions on a gross measurement basis between revenue and direct operating expenses. The financial results for the fourth quarter period of 2010 have been adjusted in the table above and resulted in a reduction of \$3,184 to total revenues and direct operating expenses. The change in measurement has no impact on the EBITDA, net earnings or free cash flow generated for the applicable periods.

Internal Control over Financial Reporting and Disclosure Controls and Procedures

The impact on the Company's internal controls under IFRS, including the transition adjustments, was considered and the internal controls over financial reporting and disclosure controls and procedures have not been materially affected. The majority of the

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changes have been around the reporting of the Aviation segment's capital assets recognition and depreciation, the recognition and measurement of Perimeter's loyalty program, and certain income tax related amounts.

Financial Reporting Expertise, Including Training Requirements

Certain members of senior management have attended external training seminars on relevant IFRS standards and their potential impact. The Company worked with its Board of Directors, Audit Committee and other employees, as appropriate in educating them on the identified differences for the Company. The senior management team, the Audit Committee and the Board of Directors were provided formal updates as required on the progress and decision making surrounding the transition to IFRS.

Business Activities

The transition to IFRS has not required the Company to have any significant changes made in contractual arrangements, including debt covenants, executive compensation arrangements or other arrangements.

Key IT and Data Systems Requirements

No significant changes have been required for the Company's information technology infrastructure for reporting under IFRS. The changes would be limited mainly to certain capital asset ledger systems in the Aviation segment to track the additional capitalized items under IFRS.

FUTURE ACCOUNTING STANDARDS

Accounting standards issued but not yet effective

IFRS 1 – First-time Adoption of International Financial Reporting Standards

IFRS 1 has been amended to create additional exemptions (i) for when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS, and (ii) to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. These amendments are effective for annual periods beginning on or after July 1, 2011. The Company has not fully assessed the impact of adopting IFRS 1; however, it anticipates that there will be no impact on the Company.

IFRS 7 – Financial Instruments: Disclosures

The Accounting Standards Board ("AcSB") approved the incorporation of the IASB's amendments to IFRS 7 Financial Instruments: Disclosures and the related amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards into Part I of the Handbook. These amendments were made to Part I in January 2011 and are effective for annual periods beginning on or after July 1, 2011. Earlier application is permitted. The amendments relate to required disclosures for transfers of financial assets to help users of the financial statements evaluate the risk exposures relating to such transfers and the effect of those risks on an entity's financial position. The Company has not fully assessed the impact of adopting the amendments of IFRS 7; however, it anticipates that there will be no impact on the Company.

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, 2013, 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.

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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.

IAS 12 – Income Taxes

Amendments regarding Deferred Tax: Recovery of Underlying Assets

IAS 12 has been amended to introduce an exception to the existing principle for the measurement of deferred tax assets and liabilities arising on investment property measured at fair value. These amendments are effective for annual periods beginning on or after January 1, 2012. The Company has not fully assessed the impact of adopting the amendments of IAS 12; however, it anticipates that there will be no impact on the Company.

9. CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions about future events that may affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods presented. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described in the Company's MD&A for the year ended December 31, 2010 and in Note 5 of the interim condensed consolidated financial statements for the three and nine months ended September 30, 2011. The Company bases its assumptions and estimates on parameters available when the consolidated financial statements are prepared. Existing circumstances and assumptions about future developments however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

There were no significant changes to the Company's critical accounting estimates from those described in the Company's MD&A for the year ended December 31, 2010 except for the following items:

Business Combination

The Company's acquisitions have been accounted for using the purchase method of accounting. Under the purchase method, the acquiring company adds to its balance sheet the estimated fair values of the acquired company's assets and liabilities. There are various assumptions made when determining the fair values of the acquired company's assets and liabilities. The most significant assumptions, and those requiring the most judgment, involve the estimated fair values of intangible assets. The intangible assets acquired that require critical accounting estimates are customer contracts, customer relationships, customer lists, certifications and brand name. To determine the fair value of these intangible assets, the Company adopted the excess earning method. This valuation technique values the intangible assets based on the capitalization of the earnings, which are

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calculated to be in excess of what a reasonable amount of earnings would be on the tangible assets used to generate the earnings associated with the intangible asset. Significant assumptions include, among others, the determination of projected revenues, cash flows, customer retention rates, discount rates and anticipated average income tax rates.

Overhaul Provision

Under CGAAP, the Aviation segment accrued an overhaul liability as aircraft assets are used in operations and a corresponding charge to direct operating expenses. Then when the overhaul event took place the liability was relieved. The purpose of the reserve was to ensure that the cost to overhaul a capital component of an aircraft and to perform the hot section inspection was expensed evenly over the period that the item was used and generated income. In accordance with IFRS, the Company doesn't accrue for a future overhaul but rather the cost of the overhaul event will be added to the cost of the related capital asset and amortized over the period to the next planned major overhaul. As a result, this is no longer a critical accounting estimate for the Company under IFRS.

Deferred Income Taxes

Under CGAAP, the Company recognized a deferred tax credit as a result of the conversion to a corporation in 2009 that related to the tax benefits acquired. Generally, a deferred credit isn't recognized under IFRS as it is inconsistent with the conceptual framework. As a result, the deferred credit balance doesn't exist and that portion of the Company's deferred income taxes is no longer a critical accounting estimate for the Company under IFRS.

Under IFRS, the Company recognizes deferred tax assets, related tax-loss carryforwards and other deductible temporary differences where it is probable that sufficient future taxable income can be generated in order to fully utilize such losses and deductions. This requires significant estimates and assumptions regarding future earnings, and the ability to implement certain tax planning opportunities in order to assess the likelihood of utilizing such losses and deductions. These estimates and assumptions are subject to uncertainty and if changed, could materially affect the assessment of the ability to fully realize the benefit of the deferred tax assets.

The Company is subject to income taxes in both Canada and the United States. Significant judgment is required in determining the provision for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company maintains provisions for uncertain tax positions that are believed to appropriately reflect our risk with respect to tax positions under discussion, audit, dispute, or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company regularly assesses the adequacy of these provisions at the end of the reporting period. However it is possible that at some future date an additional liability could result from audits by the relevant taxing authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

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 of the Company's internal controls over financial reporting as of September 30, 2011, 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 controls, including controls around change management, security, and access controls. This weakness in information technology general controls has the potential to result in material misstatements in the financial statements as well as inappropriate authorizations of transactions. Although the information

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technology control design has been completed for some of the subsidiaries during 2010, further design of information technology controls on the remaining subsidiaries has yet to be completed. The Company continues to work on the design, evaluation and implementation of information technology controls.

The assessment of control design was completed for Calm Air, which was purchased during 2009. Control weakness was identified with regards to the recording of revenue, specifically the completeness of revenue and the timing of revenue recognition. This design weakness has the potential to result in material misstatements of revenue, accounts receivable, deferred revenue, net income and retained earnings. Management is implementing enhanced accounting and control procedures with respect to the recording and recognition of revenue. Management has also engaged in carrying out certain additional procedures until these enhanced accounting policies and control procedures have been implemented and are determined to be sufficient.

The assessment of control design was completed during the first quarter for Bearskin, which was purchased during the first quarter of 2011. Management has evaluated the design of the controls and no material control weaknesses have been noted. The effectiveness of these controls has not yet been tested. The effectiveness of the controls will be tested during the remainder of the year.

Bearskin had revenue of \$41.0 million and EBITDA of \$7.5 million included in the consolidated results of the Company for the nine month period ended September 30, 2011 since being acquired on January 1, 2011. As at September 30, 2011, it also had current assets and current liabilities of \$11.0 million and \$8.9 million, respectively.

The assessment of control design was completed during the quarter for Westower, which was purchased during the second quarter of 2011. Management has evaluated the design of the controls and no material control weaknesses have been noted. The effectiveness of these controls has not yet been tested. The effectiveness of the controls will be tested during the remainder of the year.

Westower had revenue of \$107.3 million and EBITDA of \$7.8 million included in the consolidated results of the Company for the six month period ended September 30, 2011 since being acquired on April 1, 2011. As at September 30, 2011, it also had current assets and current liabilities of \$75.1 million and \$32.2 million, respectively.

Due to the transition from CGAAP to IFRS, there have been material changes in the internal controls over financial reporting. These changes are presented in the following process areas:

- Capital assets
- Provisions (overhaul accrual accounting)
- Revenue (customer loyalty program)
- Accounting policy disclosures

Considering the control risks of the transition to IFRS, management has performed procedures to obtain reasonable assurance on the design of the internal controls over financial reporting that are new or significantly modified as a result of the transition.

Disclosure Controls and Procedures

Management has established and maintained disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to management in a timely manner and that information required to be disclosed by the Company is reported within the time periods prescribed by applicable securities legislation. Due to the substantial overlap between internal controls over financial reporting and disclosure controls and procedures, management has concluded that disclosure controls and procedures as at September 30, 2011 were not effective.

11. RISK FACTORS

Except as noted below, there were no changes to the Company's significant business risks from those reported in the Company's MD&A for the year ended December 31, 2010.

Risk Management

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. The following sections summarize the principal risks and uncertainties that have changed significantly from those reported in the Company's MD&A for the year ended December 31, 2010 and that could affect the Company's future business results going forward with an explanation for how these risks are managed to an acceptable level.

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Acquired New Industries

With the acquisition of WesTower Communications on April 1, 2011, the Company is exposed to the risk of having operations in a new industry starting in the second quarter of 2011. For the WesTower acquisition, the Company is exposed to the telecommunications industry which is where the majority of WesTower's business operations are within. The telecommunications industry within North America consists of both highly innovative items and basic infrastructure. WesTower is primarily focused on the metal manufacturing products and services for communication towers within this industry.

12. OUTLOOK

Acquisition strategy

In fiscal 2011, the Company closed the acquisitions of Westtower Communications for \$76.4 million and Bearskin for \$33.1 million. Despite the \$109.5 million combined value of the acquisitions within the first four months of 2011, the Company maintains approximately \$200 million in available capital under its senior credit facility.

Referrals for potential acquisition targets continue to be steady. The Company expects this trend to continue as potential vendors who waited out the downturn in the financial markets are now entering the market place. Offsetting the increased number of sellers, the Company is seeing upward pressure on valuation multiples.

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

The Company's existing aviation markets which include Manitoba, Northern Ontario, Quebec and Nunavut, rely on aviation transport as an essential service, for passenger travel and freight bringing food and supplies into the communities. Unlike conventional aviation companies, demand for air service in most of the communities served is not predicated on the strength of the economy. With the exception of the mining sector, which has some impact on demand particularly on Calm Air, and most of Bearskin's market, the demand for service remains stable within the Company's aviation markets. One of the mitigating factors for Bearskin is that it services 18 communities spread over three provinces, which provides some geographic diversification. The vast geographic territories and long distances between business centers limit vehicle travel as a competitor, especially for those travelers wanting to do business and return home the same day.

The Government of Nunavut has now completed and awarded contracts for the medevac services in the Kivalliq and Baffin regions to Keewatin. Keewatin was the incumbent in the Kivalliq region but the Baffin region contract is new to them. Both contracts are five year contracts. Keewatin was also the successful recipient for the lone market it bid for medical travel. Keewatin is now focused on the segments of its business which provide its highest profitability. Keewatin will continue the process of streamlining its business in response to the decision to exit scheduled flight operations. This may result in one-time costs over the next two quarters as the operations are rationalized. The required capital expenditures to operate these lines of business have now been incurred, and Keewatin is in a strong operational position going forward.

Calm Air has successfully retained the vast majority of the medical travel contract with the Government of Nunavut through a subcontract with Canadian North but on better terms and conditions than it previously held. The contract is a three-year contract with two one-year government options. As part of this contract, Calm Air will be adding two 32 seat jets to its fleet. The two jets are expected to be added during the second quarter of 2012. In the interim, Calm Air is wet leasing one aircraft to meet the terms of the contract. This wet lease will negatively impact margins until the jets are purchased. In addition to the jets for the Government of Nunavut's medical contract, Calm Air plans to replace its last Hawker 748 aircraft with its third ATR 72 aircraft. The Hawker 748 is less efficient and much more expensive to operate. The third ATR 72 is expected to replace the last Hawker 748 in the fourth quarter of 2012.

In addition to the subcontract with Canadian North on the Government of Nunavut medical travel contract, Calm Air has successfully negotiated a code share and connection marketing agreement with Canadian North. These agreements enhance customer service by providing a seamless connection for travelers across both the Calm Air and Canadian North networks. By channeling the traffic to code share partners, traffic and revenue that would otherwise disperse indiscriminately across a number of competitors is channeled onto Calm Air or Canadian North. Calm Air and Canadian North's route structures are

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complementary so there is no cannibalism of Calm Air's market, rather enhanced profitability through carrying passengers that would not otherwise have been carried. Since implementing this code share, Calm Air has seen an increased amount of connecting traffic on its routes. A combination of newer aircraft, a renewal of the Government of Nunavut medical contract, and the code share agreement with Canadian North has strengthened Calm Air's competitive position.

Perimeter has added two Metro III aircraft in 2011 to provide additional capacity throughout its network and is evaluating acquiring a fourth Dash 8 aircraft to provide additional capacity in its largest market and charter capabilities. Perimeter's market continues to be stable with organic growth being driven by the larger than average growth rates in the communities it services.

Traffic on Bearskin's scheduled service continues to be strong as is overall demand across Bearskin's network. Bearskin has addressed its capacity constraints and expects to add an additional Metro 23 aircraft. The Saab 340 aircraft that Bearskin is utilizing from Calm Air will be dispatched in its higher density markets. Despite the benefits of higher traffic numbers, Bearskin continues to see discount pricing from the larger carriers in eastern Canadian markets. While it does not compete directly on its routes with the larger carriers, it is cognizant of the effects lower pricing can have across the entire region.

Fuel prices have stabilized in recent months resulting in fuel surcharges catching up to the past increases in the price of oil. The expectation is for fuel prices to remain stable in the short term. Should fuel prices increase materially, further fuel price surcharges may be necessary. All of the Company's airlines are able to pass along price increases, however they are mindful of the impact price increases have on the communities they serve. The Aviation segment is in a competitively strong position for fuel purchases as it has entered into an agreement to combine the fuel purchases of its four subsidiaries with a common supplier.

Management believes the outlook for the Aviation segment continues to be positive.

Manufacturing Segment

Despite continued economic uncertainty across the U.S. and many of its markets, management continues to be optimistic about the Manufacturing segment. This optimism is based on the continued strength of the order books and bidding opportunities.

Enhanced marketing efforts and a high quality product have resulted in a stronger order book for Stainless for both its shop and field operations. While management is aware that the fragile U.S. economy could dampen future sales, management believes steps taken to structure the order book in terms of size, duration and delivery of future orders mitigate this risk in the short-to-medium term. Stainless expects a strong fourth quarter and also has sales booked into 2012.

Despite continued weakness in the natural gas markets, the stability and longer term optimism of oil prices has led to sales levels and order books at both Water Blast and Jasper Tank approaching 2008 levels. A tight labour market in Alberta serves to slow down not only overall demand in the marketplace but also the Company's ability to meet the demand. The strength in the current order book is expected to continue beyond the fourth quarter into 2012.

Overlanders' production has leveled off in 2011 as expected after record results in 2010. Several customers had ramped up production for new product runs to build up inventory. Those customers are continuing to right-size their inventory levels in 2011. This is expected to continue into the beginning of 2012.

In early 2011, the two largest telecommunications providers, AT&T and T-Mobile, announced plans to merge. To date the merger has not been approved by the U.S. regulators. The uncertainty has caused the U.S. industry to put a hold on major capital projects and infrastructure upgrades, and has delayed many contracts WesTower was expected to start. While ongoing maintenance to the telecommunications systems continues, many new upgrades are not expected to be started until the AT&T and T-Mobile deal is resolved. This is not expected to be resolved until sometime during the first quarter of 2012. While the U.S. market is softer, the Canadian market continues to be busy. WesTower's order book and position in the Canadian marketplace continues to be strong.

While the US economy remains the largest uncertainty in the short and mid term, management remains optimistic about the strength of the Manufacturing segment.

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited, in thousands of Canadian dollars)

As at	September 30 2011	December 31 2010
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 7,413	\$ 1,471
Cash - restricted (Note 6)	-	27,625
Accounts receivable	65,752	29,514
Costs incurred plus recognized profits in excess of billings (Note 3)	33,200	762
Inventory	38,778	22,669
Prepaid expenses	5,024	3,492
	150,167	85,533
CAPITAL ASSETS	217,800	160,443
INTANGIBLE ASSETS	23,726	12,254
DEFERRED INCOME TAX ASSETS	11,791	31,038
GOODWILL	68,837	39,678
	\$ 472,321	\$ 328,946
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	\$ 64,379	\$ 35,413
Income taxes payable (Note 6)	4,381	-
Deferred revenue	10,521	5,643
Billings in excess of costs incurred plus recognized profits (Note 3)	8,759	3,686
Current portion of long-term debt and finance leases (Note 9)	1,075	-
Current portion of convertible debentures (Note 10)	-	1,052
	89,115	45,794
LONG-TERM DEBT AND FINANCE LEASES (Note 9)	40,508	53,100
CONVERTIBLE DEBENTURES (Note 10)	116,492	49,715
DEFERRED INCOME TAX LIABILITY	709	-
	246,824	148,609
EQUITY	225,497	180,337
	\$ 472,321	\$ 328,946

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 OPERATIONS

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

For the periods ended September 30	Three months ended		Nine months ended	
	2011	2010	2011	2010
REVENUE				
Aviation (Note 3a)	72,415	50,240	\$ 205,563	\$ 139,898
Manufacturing	73,578	14,231	156,960	39,328
	\$ 145,993	\$ 64,471	\$ 362,523	\$ 179,226
EXPENSES				
Direct operating - excluding depreciation and amortization	47,259	29,526	137,861	82,846
Cost of goods sold - excluding depreciation and amortization	60,277	9,269	125,652	25,518
General and administrative	16,304	13,313	44,905	37,946
Depreciation and amortization	8,486	4,287	22,798	11,973
	132,326	56,395	331,216	158,283
EARNINGS BEFORE THE FOLLOWING	13,667	8,076	31,307	20,943
Finance costs - interest	3,483	1,963	8,867	5,799
Acquisition costs (Note 6)	-	9	1,830	26
Foreign exchange gains on debt	-	(12)	-	(72)
EARNINGS BEFORE INCOME TAXES	10,184	6,116	20,610	15,190
INCOME TAX EXPENSE (RECOVERY)				
Current	62	22	279	23
Deferred	2,837	1,683	6,500	4,313
	2,899	1,705	6,779	4,336
NET EARNINGS FOR THE PERIOD, attributable to common shareholders	\$ 7,285	\$ 4,411	\$ 13,831	\$ 10,854
EARNINGS PER SHARE (Note 15)				
Basic	\$ 0.42	\$ 0.33	\$ 0.83	\$ 0.87
Diluted	\$ 0.41	\$ 0.31	\$ 0.82	\$ 0.83

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands of Canadian dollars)

Attributable to common shareholders For the periods ended September 30	Three months ended		Nine months ended	
	2011	2010	2011	2010
NET EARNINGS FOR THE PERIOD	\$ 7,285	\$ 4,411	\$ 13,831	\$ 10,854
OTHER COMPREHENSIVE INCOME (LOSS),				
Cumulative translation adjustment, net of tax (Note 21)	3,094	(450)	2,731	(221)
COMPREHENSIVE INCOME FOR THE PERIOD	\$ 10,379	\$ 3,961	\$ 16,562	\$ 10,633

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited, in thousands of Canadian dollars)

	Share Capital	Warrants	Convertible Debentures - Equity Component	Contributed Surplus - Matured Debentures	Deferred Share Plan	Reserved Shares	Retained Earnings		Accumulated Other Comprehensive Income/(Loss)	Total
							Cumulative Earnings	Cumulative Dividends		
Balance, January 1, 2010	\$ 104,451	\$ 952	\$ 2,759	\$ 61	\$ -	\$ -	\$ 71,862	\$ (35,601)	\$ -	\$ 144,484
Warrants exercised into shares	20,652	(756)	-	-	-	-	-	-	-	19,896
Convertible debentures converted into shares	12,694	-	(861)	-	-	-	-	-	-	11,833
Convertible debentures issued	-	-	1,617	-	-	-	-	-	-	1,617
Convertible debentures matured	-	-	(41)	41	-	-	-	-	-	-
Shares issued under dividend reinvestment plan	1,127	-	-	-	-	-	-	-	-	1,127
Shares issued under marketing agreement	337	-	-	-	-	-	-	-	-	337
Comprehensive income	-	-	-	-	-	-	10,854	-	(221)	10,633
Dividends declared	-	-	-	-	-	-	-	(14,726)	-	(14,726)
Balance, September 30, 2010	\$ 139,261	\$ 196	\$ 3,474	\$ 102	\$ -	\$ -	\$ 82,716	\$ (50,327)	\$ (221)	\$ 175,201
Balance, January 1, 2011	\$ 148,046	\$ 155	\$ 3,036	\$ 102	\$ -	\$ -	\$ 85,629	\$ (55,943)	\$ (688)	\$ 180,337
Shares issued for Bearskin vendors (Note 6)	5,512	-	-	-	-	-	-	-	-	5,512
Shares issued for WesTower vendors (Note 6)	11,161	-	-	-	-	1,851	-	-	-	13,012
Shares issued for marketing agreement	221	-	-	-	-	-	-	-	-	221
Warrants exercised into shares	4,240	(155)	-	-	-	-	-	-	-	4,085
Convertible debentures converted into shares	18,462	-	(1,131)	-	-	-	-	-	-	17,331
Convertible debentures issued	-	-	4,628	-	-	-	-	-	-	4,628
Shares issued under dividend reinvestment plan	2,439	-	-	-	-	-	-	-	-	2,439
Deferred share plan amendment (Note 17)	-	-	-	-	1,070	-	-	-	-	1,070
Deferred share vesting	-	-	-	-	280	-	-	-	-	280
Comprehensive income	-	-	-	-	-	-	13,831	-	2,731	16,562
Dividends declared	-	-	-	-	-	-	-	(19,980)	-	(19,980)
Balance, September 30, 2011	\$ 190,081	\$ -	\$ 6,533	\$ 102	\$ 1,350	\$ 1,851	\$ 99,460	\$ (75,923)	\$ 2,043	\$ 225,497

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of Canadian dollars)

For the periods ended September 30	Three months ended		Nine months ended	
	2011	2010	2011	2010
OPERATING ACTIVITIES				
Net earnings for the period	\$ 7,285	\$ 4,411	\$ 13,831	\$ 10,854
Items not affecting cash:				
Depreciation and amortization	8,486	4,287	22,798	11,973
Accretion of interest	683	443	1,653	1,238
Long-term debt discount (paid) accretion	(45)	-	(45)	124
Foreign exchange (gain) / loss on debt (unrealized)	-	(261)	-	(106)
Loss/(gain) on sale of disposal of capital assets	(59)	125	(205)	(37)
Deferred income tax	2,837	1,683	6,500	4,313
Deferred share program share-based vesting	-	-	197	-
Other	47	-	80	-
	19,234	10,688	44,809	28,359
Changes in non-cash operating working capital items (Note 18)	(4,776)	4,123	(11,950)	(615)
	14,458	14,811	32,859	27,744
FINANCING ACTIVITIES				
Proceeds from (repayment of) long-term debt & finance leases, net of issuance costs	-	10,825	(24,918)	(7,944)
Proceeds from issuance of debentures, net of issuance costs (Note 10)	43	12	87,721	28,430
Payment of matured debentures	-	(564)	-	(10,255)
Proceeds from issuance of shares, net of issuance costs	877	3,010	6,745	21,357
Cash dividends / distributions (Note 14)	(6,975)	(5,270)	(19,980)	(14,726)
	(6,055)	8,013	49,568	16,862
INVESTING ACTIVITIES				
Purchase of capital assets, net of disposals	(9,041)	(18,693)	(28,538)	(43,233)
Purchase of intangible assets	-	(14)	(52)	(14)
Cash outflow for acquisitions and acquisition costs (Note 6)	-	-	(84,294)	-
Restricted cash (Note 6)	-	-	27,625	-
Cash acquired in acquisitions (Note 6)	-	-	8,774	-
	(9,041)	(18,707)	(76,485)	(43,247)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(638)	4,117	5,942	1,359
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	8,051	2,099	1,471	4,857
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 7,413	\$ 6,216	\$ 7,413	\$ 6,216
Supplementary cash flow information				
Interest paid	\$ 2,259	\$ 1,868	\$ 5,580	\$ 5,602
Income taxes paid (recovery)	\$ 2,756	\$ (273)	\$ 1,369	\$ (1,872)

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

Notes to the Interim Condensed Consolidated Financial Statements

(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 September 30, 2011, 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”), 4873999 Manitoba Ltd., 7328010 Canada Ltd., Jasper Tank Ltd. (“Jasper”), Overlanders Manufacturing LP (“Overlanders”), Water Blast Manufacturing LP (“Water Blast”), and WesTower Communications Ltd. (“WesTower”). Stainless Fabrication, Inc. (“Stainless”) and WesTower Communications Inc. (the US operations of WesTower) are wholly owned subsidiaries of Jasper. Through the Company’s subsidiaries, products and services are provided in two business segments: Aviation and Manufacturing.

2. BASIS OF PREPARATION AND ADOPTION OF IFRS

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”, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these condensed consolidated interim financial statements. In these financial statements, “CGAAP” refers to Canadian GAAP before the adoption of IFRS. These interim condensed consolidated financial statements are presented in thousands of Canadian dollars, except per share information.

These condensed consolidated interim financial statements are for the three and nine months ended September 30, 2011 and have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1. Subject to certain transition elections disclosed in Note 4, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on the Company’s reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company’s consolidated financial statements for the comparative reporting periods ending and as at September 30, 2010.

The policies applied in these condensed consolidated interim financial statements are based on IFRS’s issued and outstanding as of November 9, 2011, the date the Board of Directors of the Company approved the statements. Any subsequent changes to IFRS that are given effect in the Company’s annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim condensed consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The interim condensed consolidated financial statements should be read in conjunction with the Company’s CGAAP annual financial statements for the year ended December 31, 2010. Note 4 discloses IFRS information for the comparative results for the three and nine months ended September 30, 2010 that is material to an understanding of these condensed consolidated interim financial statements. These interim condensed consolidated financial statements should also be read in conjunction with the Company’s interim condensed consolidated financial statements for the three months ended March 31, 2011 that includes additional information on the transition to IFRS for the three months ended March 31, 2010, the year ended December 31, 2010, and January 1, 2010 which is the date of transition.

3. SIGNIFICANT ACCOUNTING POLICIES

These condensed interim consolidated financial statements have been prepared using the accounting policies described in the Company's condensed interim consolidated financial statements for the three months ended March 31, 2011 except for the following:

a) Revenue Recognition

Long-term Contracts

Revenues from long-term contracts associated with manufacturing products are recognized on a percentage-of-completion basis. The operations of Stainless and WesTower (acquired April 1, 2011) within the Manufacturing segment include these contracts. The percentage complete is calculated based upon contract costs incurred to date compared with total estimated contract costs. The percentage complete is then applied to total anticipated contract revenue to determine the period's revenue. A provision for the estimated loss is made when contract costs are expected to exceed estimated contract revenue.

As a result of the acquisition of WesTower, the Company now presents two new lines on the statement of financial position. As a result of the accounting policies associated with the revenue recognition on long-term construction contracts, a current asset and current liability are recorded that represent the difference between the revenues recognized and the amounts billed to the customers of these long-term contracts. Stainless has historically had these balances but they previously were combined within accounts receivable and accounts payable given the similar characteristics. With the acquisition of WesTower, the consolidated amounts are considered material to present separately as line items on the statement of financial position. The current asset is called "Costs incurred plus recognized profits in excess of billings" and the current liability is called "Billings in excess of costs incurred plus recognized profits". The comparative December 31, 2010 statement of financial position was adjusted accordingly to present the Stainless balances in a consistent manner.

Agency Sales

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

During the third quarter of 2011, the company adjusted the previously reported results for the first six months of 2011 and the last three months of 2010 for the change in these certain fuel agency sales transactions from a gross measurement method that recorded amounts in both revenues and direct operating expenses. The Aviation segment's revenues decreased by the direct operating expenses originally recorded on these certain fuel sales transactions and the adjustments to each of the applicable periods impacted are as follows:

	Quarter 4 2010	Quarter 1 2011	Quarter 2 2011	Quarter 3 2011
Gross sales originally recorded as revenues	\$ 3,233	\$ 14,639	\$ 8,665	\$ 7,487
Direct operating expenses adjusted to decrease revenues	3,184	14,415	8,567	7,401
Net revenues on agency sales transactions	\$ 49	\$ 224	\$ 98	\$ 86

b) Foreign Currency Translation

Functional and presentation currency

Items included in the financial statements of each consolidated entity in the EIC group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

The financial statements of entities that have a functional currency different from that of the Company ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the statement of financial position, and income and expenses – at the average rate of the period (as this is considered a reasonable approximation to actual rates). All resulting changes are recognized in other comprehensive income as cumulative translation adjustments. For these consolidated financial statements, the functional currency of Stainless and the US

operating entity of WesTower's US operations are US dollars.

If the Company disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognized in profit or loss. If the Company disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary are reallocated between controlling and non-controlling interests.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the statement of operations.

c) *Leases*

Leases are classified as finance leases when the lease arrangement transfers substantially all the risks and rewards of ownership to the lessee. A finance lease results in a depreciable capital asset and a liability associated with the future payments of the lease being recognized. All other leases are classified as operating leases with total lease rental payments recognized as an expense over the term of the lease.

Gains and losses on sale and operating leaseback transactions are recognized immediately in the statement of operations when it is clear that the transactions are established at fair value. If the sale price is below fair value, any loss shall be recognized immediately except that, if the loss is compensated for by future lease payments at below market price, it shall be deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the gain shall be deferred and amortized over the period for which the asset is expected to be used. In the context of sale and finance leaseback transactions, any gain on the sale is deferred and recognized as interest income over the lease term.

d) *Employee Benefits*

Stock-Based Compensation – Deferred Share Plan

Certain employees of the Company participate in a stock-based compensation plan of the Company's shares (Note 17). The plan consists of individuals being granted "deferred shares" which are essentially phantom shares that are tracked but not actually issued out of treasury or bought on the market until the time at which the deferred shares are redeemed. The deferred shares vest evenly over a three-year period.

Prior to the amendment made effective January 1, 2011, the participant had the ability to redeem the vested deferred shares for Company shares, cash or a combination of the two. As a result, this plan was accounted for under the liability method in that a liability is generated over the vesting period and the liability was revalued at each period-end based on the market price of the Company's shares at that time. Any changes in market value of the vested deferred shares liability was charged through compensation expense in that period. If the deferred shares are redeemed for Company shares, then the settlement of the liability is recorded as equity.

The dividend rate declared by the Company on issued Company shares is also applied on the deferred shares. The dividend amount on the deferred shares is converted into additional deferred shares based on the market value of the Company's shares at the time of the dividend. These additional deferred shares vest at the same time as the deferred shares that the dividend rate was applied on and the value is charged to compensation expense over the vesting period.

Effective January 1, 2011, the Deferred Share Plan was amended and the amendment removes the participant's ability to choose the redemption method and the only option under the amended Deferred Share Plan is for the participant to receive shares of the Company. As a result, the amended Deferred Share Plan is accounted for as an equity-settled method. Under this method the deferred shares granted are fair valued at the grant date when the grant is approved by the Company's board. As the deferred shares vest the Company records an expense and increases equity in accordance with the graded vesting. Potential common shares that have vested but haven't been issued under the deferred share plan are included in the weighted average shares outstanding in the Company's earnings per share calculation.

The amendment of the Deferred Share Plan effective January 1, 2011 is accounted for as an exchange of the pre-amended

plan under the liability method for an equity award with the same fair value. This resulted in the reclassification of the liability recorded under the pre-amended plan being reclassified to equity as of the effective date of the amendment.

Any forfeited deferred shares are adjusted for as a recovery to compensation expense in the period of the forfeiture to the extent that the liability has been recognized.

e) *Reserved Shares*

As part of the acquisition of WesTower (Note 6), the Company assumed an obligation associated with certain employees of WesTower. The payment of the obligation will be done with the issuance of the Company's shares. As a result the Company presents the equity-settled share-based obligation as reserved shares in equity. When the shares are issued, the obligation is reclassified to Common shares also within equity.

f) *Earnings per Share*

Basic earnings per share ("EPS") is calculated by dividing the net income (loss) for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period, including deferred shares that have vested under the Company's Deferred Share Plan and any reserved shares.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to warrants is computed using the treasury stock method. The Company's potential dilutive common shares comprise of warrants and convertible debentures, and the dilutive impact is calculated using the "if converted" method.

Accounting standards issued but not yet effective

IFRS 1 – First-time Adoption of International Financial Reporting Standards

IFRS 1 has been amended to create additional exemptions (i) for when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS, and (ii) to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. These amendments are effective for annual periods beginning on or after July 1, 2011. The Company has not fully assessed the impact of adopting IFRS 1; however, it anticipates that there will be no impact on the Company.

IFRS 7 – Financial Instruments: Disclosures

The Accounting Standards Board ("AcSB") approved the incorporation of the IASB's amendments to IFRS 7 Financial Instruments: Disclosures and the related amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards into Part I of the Handbook. These amendments were made to Part I in January 2011 and are effective for annual periods beginning on or after July 1, 2011. Earlier application is permitted. The amendments relate to required disclosures for transfers of financial assets to help users of the financial statements evaluate the risk exposures relating to such transfers and the effect of those risks on an entity's financial position. The Company has not fully assessed the impact of adopting the amendments of IFRS 7; however, it anticipates that there will be no impact on the Company.

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, 2013, 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.

IAS 12 – Income Taxes

Amendments regarding Deferred Tax: Recovery of Underlying Assets

IAS 12 has been amended to introduce an exception to the existing principle for the measurement of deferred tax assets and liabilities arising on investment property measured at fair value. These amendments are effective for annual periods beginning on or after January 1, 2012. The Company has not fully assessed the impact of adopting the amendments of IAS 12; however, it anticipates that there will be no impact on the Company.

4. TRANSITION TO IFRS

The effect of the Company’s transition to IFRS, described in Note 2, is summarized in this note as follows. The following disclosure should be read in conjunction with the Company’s same note (Note 4) within the interim condensed consolidated financial statements for the three months ended March 31, 2011 that includes additional information on the transition to IFRS for the opening statement of financial position as at January 1, 2010, for the three months ended March 31, 2010 and the year ended December 31, 2010.

- (i) Transition elections
- (ii) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS
- (iii) Detail and description of adjustments
- (iv) Impact on cash flows

(i) Transition elections

The Company has applied the following transition exceptions and exemptions to full retrospective application of IFRS:

IFRS 1 Exemptions	Referenced sub-note (iii) below
Business combinations	(l)
Fair value as deemed cost for capital assets	(d)
Borrowing costs	(h)
Share-based payments	(m)

Cumulative translation differences	(g)
Leases	(m)
Designation of previously recognized financial instruments	(m)
Compound financial instruments.....	(m)

In accordance with IFRS 1 mandatory exceptions, accounting estimates required under IFRS's that were made under CGAAP are not adjusted on transition except to reflect differences in accounting policies or unless there is objective evidence that the estimates were in error.

(ii) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS as at:

		September 30, 2010		
4(ii)		CGAAP	ADJ	IFRS
ASSETS				
CURRENT				
Cash and cash equivalents		\$ 6,216	\$ -	\$ 6,216
Cash - restricted		-	-	-
Accounts receivable		27,536	-	27,536
Costs incurred plus recognized profits in excess of billings		1,765		1,765
Inventory	a	28,016	(5,362)	22,654
Prepaid expenses	b	5,359	(260)	5,099
Deferred income tax	c	4,568	(4,568)	-
		73,460	(10,190)	63,270
CAPITAL ASSETS	d,h	148,950	606	149,556
INTANGIBLE ASSETS	l	12,466	(26)	12,440
DEFERRED INCOME TAX	c,j	30,946	1,248	32,194
GOODWILL		40,198	-	40,198
		\$ 306,020	\$ (8,362)	\$ 297,658
LIABILITIES				
CURRENT				
Accounts payable and accrued expenses		\$ 33,139	\$ 94	\$ 33,233
Deferred revenue	e	7,005	1,480	8,485
Billings in excess of costs incurred plus recognized profits		3,102		3,102
Current portion of long-term debt		2,449	-	2,449
Current portion of convertible debentures		2,052	-	2,052
Current portion of debentures		-	-	-
Current portion of deferred credit	f	3,464	(3,464)	-
		51,211	(1,890)	49,321
LONG-TERM DEBT		18,276	-	18,276
CONVERTIBLE DEBENTURES	n	54,606	254	54,860
OVERHAUL ACCRUAL	d	10,646	(10,646)	-
DEFERRED INCOME TAX	j	15	(15)	-
DEFERRED CREDIT	f	33,800	(33,800)	-
		168,554	(46,097)	122,457
EQUITY				
SHARE CAPITAL		139,261	-	139,261
CONVERTIBLE DEBENTURES EQUITY COMPONENT	j,n	5,035	(1,561)	3,474
WARRANTS		196	-	196
CONTRIBUTED SURPLUS		102	-	102
CUMULATIVE EARNINGS	k	42,746	39,970	82,716
CUMULATIVE DIVIDENDS		(50,327)	-	(50,327)
ACCUMULATED OTHER COMPREHENSIVE INCOME	g	453	(674)	(221)
		137,466	37,735	175,201
		\$ 306,020	\$ (8,362)	\$ 297,658

		Three Months Ended September 30, 2010			Nine Months Ended September 30, 2010		
		CGAAP	ADJ	IFRS	CGAAP	ADJ	IFRS
REVENUE	4(iii)						
Aviation	e,i	\$ 49,357	\$ 883	\$ 50,240	\$137,735	\$ 2,163	\$ 139,898
Manufacturing		14,231	-	14,231	39,328	-	39,328
		63,588	883	64,471	177,063	2,163	179,226
EXPENSES							
Direct operating - excluding depreciation and amortization	b,d,i	32,146	(2,620)	29,526	89,088	(6,242)	82,846
Cost of goods sold - excluding depreciation and amortization		9,269	-	9,269	25,518	-	25,518
General and administrative	i	13,387	(74)	13,313	38,153	(207)	37,946
Depreciation and amortization	d	2,707	1,580	4,287	7,793	4,180	11,973
		57,509	(1,114)	56,395	160,552	(2,269)	158,283
EARNINGS BEFORE THE FOLLOWING		6,079	1,997	8,076	16,511	4,432	20,943
Finance costs - interest	h	2,094	(131)	1,963	6,186	(387)	5,799
Acquisition costs	l		9	9	-	26	26
Foreign exchange gains on debt		(12)	-	(12)	(72)	-	(72)
EARNINGS BEFORE INCOME TAXES		3,997	2,119	6,116	10,397	4,793	15,190
INCOME TAX EXPENSE (RECOVERY)							
Current	j	22	-	22	23	-	23
Deferred	f	369	1,314	1,683	752	3,561	4,313
		391	1,314	1,705	775	3,561	4,336
NET EARNINGS FOR THE PERIOD		\$ 3,606	\$ 805	\$ 4,411	\$ 9,622	\$ 1,232	\$ 10,854
OTHER COMPREHENSIVE INCOME (LOSS), net of tax							
Cumulative translation adjustment	g	(450)	-	(450)	(221)	-	(221)
COMPREHENSIVE INCOME FOR THE PERIOD		\$ 3,156	\$ 805	\$ 3,961	\$ 9,401	\$ 1,232	\$ 10,633

Earnings per share information under IFRS

Period	Basic	Diluted
Three months ended September 30, 2010	\$0.33	\$0.31
Nine months ended September 30, 2010	\$0.87	\$0.83

(iii) Detail and description of adjustments

The following are the explanatory notes that describe the adjustments as part of the reconciliations in sub-note (ii) above:

- Rotable Parts:** certain rotatable parts within the Aviation segment that were previously presented as aircraft parts inventory will be reclassified as capital assets due to their nature and useful lives. As at September 30, 2010, this adjustment reduced inventory and increased capital assets by \$5,362.
- Pilot Training Bonds:** certain arrangements exist as part of a retention program at Keewatin for certain pilots where the Company agrees to cover certain training costs of the pilots as long as the pilots remain on staff with Keewatin. Under CGAAP these training costs were expensed over the period that the pilots agree to remain with Keewatin. Under IFRS these costs are expensed when incurred. The September 30, 2010 adjustment removes the prepaid balance of \$260 that was outstanding. Direct operating costs of the Aviation segment increased during the three and nine months ended September 30, 2010 by \$59 and \$206, respectively.
- Current Portion of Deferred Tax:** under IFRS the presentation of current portion of deferred income tax assets and liabilities are prohibited (under CGAAP called Future Income Tax). The September 30, 2010 adjustment reclassifies the \$4,568 future

income tax asset current balance to long-term.

- (d) Capital Assets and Overhaul Accruals: significant components of the Company's capital assets are identified and depreciated over each component's respective useful life. As part of the conversion to IFRS, the Company has identified a certain number of aircraft related assets with significant component parts within the Aviation segment that are depreciated separately as significant components under IFRS. Under CGAAP, a number of these components were depreciated together as part of the overlying aircraft.

Under CGAAP the Aviation segment accrued an overhaul liability as aircraft assets are used in operations and a corresponding charge to direct operating expenses. Then when the overhaul event takes place the liability is relieved. In accordance with IFRS, the Company doesn't accrue for a future overhaul but rather the cost of the overhaul event will be added to the cost of the related capital asset and amortized over the period to the next planned major overhaul. As a result a September 30, 2010 adjustment removes the overhaul accrual balance of \$10,646 and recognizes the net book value for the most recent overhaul events amortized up to that date. Direct operating expenses of the Aviation segment for the three and nine months ended September 30, 2010 decreased by \$3,464 and \$8,363, respectively, as a result of overhaul and maintenance related costs being capitalized under IFRS and not expensed.

The Company also adjusted certain aircraft net book values as at January 1, 2010 to fair values at that time based on market prices for the aircraft type. This was done in accordance with IFRS 1 election to measure these items upon transition at fair value. For these certain aircraft the Company adjusted the CGAAP net book values down by approximately \$5,067 through retained earnings.

The overall September 30, 2010 adjustment to increase capital assets of the Aviation segment was \$606 which includes the recognition of IFRS capitalized overhaul events, the adjustment for significant components accumulated depreciation and fair value adjustments on certain aircraft related assets. Depreciation of capital assets of the Aviation segment for the three and nine months ended September 30, 2010 increased by \$1,580 and \$4,180, respectively.

- (e) Loyalty Program: CGAAP does not provide specific guidance on accounting for customer loyalty programs. Perimeter offers a customer loyalty program, where, under CGAAP, it would record a liability for the cost of the program and given the characteristics of the program, the cost was not considered significant when the Perimeter customer redeemed the loyalty points. In accordance with IFRS, the fair value attributed to the awarded customer loyalty program is deferred as a liability and will be recognized as revenue on redemption of the award by the participant to whom the awards are issued. The balance sheet adjustment for September 30, 2010 to deferred revenue representing the fair value of the points outstanding at that time was \$1,480. The revenues recognized in the Aviation segment for the three and nine months ended September 30, 2010 was adjusted by a net decrease of \$35 and \$165, respectively.
- (f) Deferred Tax Credit: as a result of the conversion to a corporation in 2009 the Company recognized a deferred tax credit related to acquired tax benefits in accordance with CGAAP. Generally a deferred credit isn't recognized under IFRS as it is inconsistent with the conceptual framework. Under IFRS this event would result in a gain being recognized in the period of the event as compared to the CGAAP requirement to amortize the credit to income tax expense in proportion to the net reduction in the deferred income tax asset that gave rise to the deferred credit. The September 30, 2010 adjustment removes the current and long-term portions of the deferred tax credit totaling \$37,264. The deferred income tax expense recognized for the three and nine months ended September 30, 2010 increased by \$1,314 and \$3,561, respectively.
- (g) Cumulative Translation Adjustment: the Company elected in accordance with IFRS 1 that cumulative translation differences for all foreign operations be deemed zero at the date of transition to IFRS, instead of recalculating from inception. The January 1, 2010 adjustment of \$674 reduced accumulated other comprehensive income to zero through retained earnings. The cumulative translation adjustment was the only item recorded within accumulated other comprehensive income (September 30, 2010 – \$674). There was no impact on the 2010 other comprehensive income of the Company.
- (h) Borrowing Cost: the Company elected in accordance with IFRS 1 to not restate borrowing costs on qualifying assets incurred prior to January 1, 2010. During 2010 certain projects in the Aviation segment qualified under the Company's new accounting policy for capitalizing borrowing costs for the qualifying self-constructed assets. As a result, interest expense recognized during the three and nine months ended September 30, 2010 was decreased by \$131 and \$387, respectively, which increased capital assets and will be depreciated over the useful life of the asset.
- (i) Netted Items: certain transactions within the Aviation segment that previously were netted between the revenues and costs incurred are now split due to the characteristics of the transaction. As a result, revenues and combined direct operating

costs and general and administrative expenses increase for the three and nine months ended September 30, 2010 by \$918 and \$2,328, respectively. There is no impact on operating profit as a result of this presentation reclassification.

- (j) **Deferred Income Taxes:** the following summarizes the adjustments to the Company's deferred income tax balances as a result of the conversion adjustments:

	Reference	September 30 2010
Net deferred income tax asset under CGAAP		\$ 35,499
Capital assets	(d)	(260)
Borrowing costs	(h)	104
Rotable parts	(a)	1,450
Pilot training bonds	(b)	70
Loyalty program	(e)	400
Overhaul accrual	(d)	(2,877)
Indefinite life intangible assets	below	(605)
Convertible debenture conversion option	below	(1,174)
Non-deductible portion of intangible assets	below	(413)
Net deferred income tax asset under IFRS		\$ 32,194

The Company has decided to use the 'recovery through use' method for determining the temporary difference associated with indefinite life intangible assets identified as part of a share acquisition. This results in a nil tax base being recognized, thereby increasing the taxable temporary difference resulting in an increase to the deferred tax liability.

The equity component of convertible debentures is considered a permanent difference under CGAAP. Under IFRS the equity component is considered a temporary taxable difference, and as such a deferred tax liability is recognized. As interest is accreted relating to the equity component, the temporary difference reverses.

The non-tax deductible portion of intangible assets purchased in an asset acquisition is considered a permanent difference under CGAAP. Under IFRS this difference is considered a temporary taxable difference. As intangible assets are amortized the temporary difference reverses.

- (k) **Retained Earnings:** the following is a summary of the transition adjustments to the Company's retained earnings from CGAAP to IFRS:

	Reference	September 30 2010
Retained earnings under CGAAP		\$ 42,746
Pilot training bonds - removal	(b)	(260)
Deferred tax credit - removal	(f)	37,264
Capital assets - capitalized overhaul costs & revaluation	(d)	(5,143)
Overhaul accrual - reversal	(d)	10,646
Customer loyalty program - recognized deferred revenue	(e)	(1,480)
Capital assets - capitalized borrowing costs	(h)	387
Acquisition costs - expensed	(l)	(26)
Deferred income taxes	(j)	(1,998)
Cumulative translation adjustment	(g)	674
Other		(94)
Retained earnings under IFRS		\$ 82,716

- (l) **Acquisition Costs:** the Company's accounting policy under IFRS for acquisition costs is to expense these costs when incurred. Under CGAAP the Company would include these costs as part of the consideration of the purchase price allocated to the assets acquired. Acquisition costs incurred by the Company during the three and nine months ended September 30, 2010 were \$9 and \$26, respectively, and pertain to the acquisition of Bearskin that closed on January 1, 2011.

The Company uses the IFRS 1 election to not restate any business combinations that occurred prior to January 1, 2010. Goodwill arising from business combinations occurring before transition will not be adjusted from the carrying value

predetermined under Canadian GAAP except as required under IFRS 1. No business combinations occurred during the 2010 year and the acquisitions of Bearskin Airlines and WesTower Communications took place in 2011 (Note 6)

(m) Other IFRS 1 Items:

The Company is using the IFRS 1 election to not restate share-based compensation for share options vesting before January 1, 2010.

As part of the transition to IFRS the Company used the IFRS 1 exemption to allow the Company to determine whether an arrangement contains a lease based on the facts and circumstances as at the transition date rather than at the lease inception date. There was no impact on the Company's leases outstanding at the transition date or during the 2010 year.

The Company chose not to change the classification of any financial instruments existing at the transition date which was available under IFRS 1.

For the convertible debentures of the Company that matured prior to January 1, 2010, which are compound financial instruments, the Company used the IFRS 1 exemption to not apply retrospective accounting and there are no adjustments for these matured debentures.

- (n) Offering Costs: The transaction costs incurred by the Company on convertible debentures issued are allocated proportionately to the liability and equity portions of the compound financial instruments. Previously under CGAAP these transaction costs were presented against the liability portion. The September 30, 2010 adjustment increases convertible debentures and decreases the equity portion of the convertible debentures by \$254.

(iv) **Impact on cash flows**

The Company's cash flow statement is impacted mainly by the change in capitalizing overhaul and maintenance events on aircraft within the Company's Aviation segment. As described further above, under CGAAP the Company accrued overhaul costs and that was treated as a direct operating expense that flowed through cash flow from operations. Under IFRS the cash flows are presented as capital expenditures within investing activities.

5. ADDITIONAL IFRS INFORMATION

The interim condensed consolidated financial statements for the three months ended March 31, 2011 included IFRS disclosures relating to the year ended December 31, 2010 in addition to the following that pertain to the three and nine months ended September 30, 2011 that are material to an understanding of these interim financial statements.

Critical accounting estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions about future events that may affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods presented. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Business Combination

The Company's acquisitions have been accounted for using the purchase method of accounting. Under the purchase method, the acquiring company adds to its balance sheet the estimated fair values of the acquired company's assets and liabilities. There are various assumptions made when determining the fair values of the acquired company's assets and liabilities. The most significant assumptions and those requiring the most judgment involve the estimated fair values of intangible assets. The intangible assets acquired that require critical accounting estimates are customer contracts, customer relationships, customer lists, certifications and brand name. To determine the fair value of these intangible assets, the

Company adopted the excess earning method. This valuation technique values the intangible assets based on the capitalization of the earnings, which are calculated to be in excess of what a reasonable amount of earnings would be on the tangible assets used to generate the earnings associated with the intangible asset. Significant assumptions include, among others, the determination of projected revenues, cash flows, customer retention rates, discount rates and anticipated average income tax rates.

No business combinations took place for the Company during the 2010 year. See Note 6 for the acquisition of Bearskin on January 1, 2011 and the acquisition of WesTower on April 1, 2011.

Long-term Contract Revenue Recognition

Stainless and WesTower operate under long-term contracts of production and revenue is recognized on a percentage-of-completion basis. The percentage of completion for each contract is based on contract costs incurred to date compared with total estimated contract costs. The percentage complete is then applied to total anticipated revenues for that contract to determine the period's revenue recognized. The percentage complete, estimated contract costs and estimated contract revenues are reviewed monthly by management. Any changes from management's review of these estimates are recorded in that period.

Aviation Segment Revenue Recognition

The Company performs regular evaluations on the deferred revenue liability for passenger tickets purchased in advance within the Aviation segment's operating entities. The deferred revenue liability also includes the value of Perimeter's customer loyalty program. These evaluations may result in adjustments being recognized as revenue. Due to the complexity of the pricing and systems, historical experience, and other factors including refunds, exchanges and unused tickets, certain amounts are recognized as revenue based on estimates. Events and circumstances may produce actual results that are different from estimates.

Deferred Income Taxes

The Company recognizes deferred tax assets, related tax-loss carryforwards and other deductible temporary differences where it is probable that sufficient future taxable income can be generated in order to fully utilize such losses and deductions. This requires significant estimates and assumptions regarding future earnings, and the ability to implement certain tax planning opportunities in order to assess the likelihood of utilizing such losses and deductions. These estimates and assumptions are subject to uncertainty and if changed could materially affect the assessment of the ability to fully realize the benefit of the deferred tax assets.

The Company is subject to income taxes in both Canada and the United States. Significant judgment is required in determining the provision for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company maintains provisions for uncertain tax positions that are believed to appropriately reflect our risk with respect to tax positions under discussion, audit, dispute, or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company regularly assesses the adequacy of these provisions at the end of the reporting period. However it is possible that at some future date an additional liability could result from audits by the relevant taxing authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

During fiscal 2010, the Company's effective tax rate was 30% of income (loss) before tax. A 1% increase in the effective tax rate would have increased the tax expense by \$1,958 for fiscal 2010.

During the three and nine months ended September 30, 2011, the Company's effective tax rate was 28% and 33%, respectively, of earnings before income taxes (three and nine months ended September 30, 2010 was 28% and 29%, respectively). For the three and nine months ended September 30, 2011, a 1% increase in the effective tax rate would have increased the tax expense by \$102 and \$206, respectively (1% increase on three and nine months ended September 30, 2010 – \$61 and \$152, respectively).

6. ACQUISITIONS

Acquisition of Bearskin Airlines

On January 1, 2011, the Company purchased the airline operations and assets of Bearskin Lake Air Service Ltd. ("Bearskin"). Bearskin was a privately-owned commuter airline providing passenger service in Ontario and Manitoba.

The results of operations are included in the Company's consolidated statement of operations since the date of acquisition and Bearskin is part of the Aviation segment. Revenues of approximately \$41 million have been generated by Bearskin during the period since acquisition and have been recognized in the Company's consolidated results.

The acquisition price of \$33,137 million was funded through a combination of \$27,625 of debt financing from the Company's credit facility, which was presented as a deposit in trust as at December 31, 2010, and the issuance of the Company's common shares worth \$5,512 to the vendors of Bearskin (314,047 shares). The shares issued were valued in the purchase consideration at the market price of the Company's stock on the closing date.

As at December 31, 2010, the Company's deposit in trust presented as restricted cash relating to the Bearskin acquisition was used in the closing proceeds for the transaction on January 1, 2011.

The agreed working capital was finalized during the second quarter and was consistent with the preliminary estimate.

Consideration given:	
Cash	\$ 27,625
Issue of 314,047 shares of the Company at a price of \$17.55 per share	5,512
Total purchase consideration	\$ 33,137

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

Fair value of assets acquired:	
Cash	\$ 2,604
Accounts receivable	964
Inventory	4,963
Prepaid expenses	118
Capital assets	27,820
Intangible assets	2,769
	39,238
Less fair value of liabilities assumed:	
Accounts payable and accrued liabilities	3,773
Deferred revenue	2,504
Deferred taxes	7,010
Fair value of identifiable net assets acquired	25,951
Goodwill	7,186
Total purchase consideration	\$ 33,137

Of the \$2,769 acquired intangible assets, \$2,129 was assigned to brand names, \$236 was assigned to customer relationships, \$145 was assigned to non-compete agreements, \$177 was assigned to contracts, and \$82 was assigned to booked tickets. 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.

Acquisition of WesTower Communications

On April 1, 2011, the Company purchased the shares of WesTower Communications, consisting of two companies that make up the operations in the US and Canada. 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 results of operations are included in the Company's consolidated statement of operations since the date of acquisition and WesTower is part of the Manufacturing segment. Revenues of approximately \$107 million have been generated by WesTower during the period since acquisition and have been recognized in the Company's consolidated results.

The acquisition price of \$76,357 was funded through a combination of \$63,345 of cash primarily from debt financing through the Company's credit facility, the issuance of the Company's common shares worth \$11,161 to the vendors of WesTower (520,341 shares) and \$1,851 of reserved shares of the Company that will be issued evenly over the next three anniversaries of the closing date (86,238 shares). The shares issued and the reserved shares were valued in the purchase consideration at the market price of the Company's stock on the closing date.

The agreed working capital is being finalized and any adjustment needed will be finalized during the fourth quarter of 2011.

Consideration given:	
Cash	\$ 63,345
Issue of 520,341 shares of the Company at a price of \$21.45 per share	11,161
Reserved shares (86,238 shares of the Company at a price of \$21.45 per share)	1,851
Total purchase consideration	\$ 76,357

The consideration given included 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 WesTower vendors for certain liabilities that may become due if certain circumstances occur. The indemnity asset and the provision established are \$3.3 million.

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	\$ 6,170
Accounts receivable	31,949
Costs incurred plus recognized profits in excess of billings	21,683
Inventory	7,291
Prepaid expenses	1,946
Capital assets	20,831
Intangible assets	9,725
	99,595
Less fair value of liabilities assumed:	
Accounts payable and accrued liabilities	18,959
Income taxes payable	5,460
Billings in excess of costs incurred plus recognized profits	3,177
Finance leases	2,399
Long-term debt	8,786
Deferred taxes	4,882
Fair value of identifiable net assets acquired	55,932
Goodwill	20,425
Total purchase consideration	\$ 76,357

Of the \$9,725 acquired intangible assets, \$6,445 was assigned to brand names, \$2,304 was assigned to customer relationships, \$717 was assigned to non-compete agreements, and \$259 was assigned to backlog items. 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.

7. CAPITAL ASSETS

As described in Note 6, the Company acquired capital assets totaling \$27,820 with the acquisition of Bearskin on January 1, 2011 and \$20,831 with the acquisition of WesTower on April 1, 2011.

Depreciation for the three and nine months ended September 30, 2011 was \$8,066 and \$21,414, respectively (2010 – \$3,994 and \$11,048, respectively).

8. INTANGIBLE ASSETS & GOODWILL

As described in Note 6, the Company acquired intangible assets totaling \$2,769 and goodwill totaling \$7,186 with the acquisition of Bearskin on January 1, 2011 and intangible assets totaling \$9,725 and goodwill totaling \$20,425 with the acquisition of WesTower on April 1, 2011.

Amortization of intangible assets for the three and nine months ended September 30, 2011 was \$420 and \$1,384, respectively (2010 – \$293 and \$925, respectively).

9. LONG-TERM DEBT AND FINANCE LEASES

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

	September 30 2011	December 31 2010
Revolving term facility		
Canadian dollar amounts drawn	\$ 19,500	\$ 46,000
United States dollar amounts drawn (US\$19,450 and US\$7,450, respectively)	20,206	7,410
Total credit facility debt outstanding, principal value	39,706	53,410
less: unamortized transaction costs	(945)	(310)
less: unamortized discount on outstanding BA's	(45)	-
Net credit facility debt	38,716	53,100
Finance leases	2,867	-
Total net credit facility debt and finance leases	41,583	53,100
less: current portion of finance leases	(1,075)	-
Long-term debt and finance leases balance	\$ 40,508	\$ 53,100

Credit Facility

The following is the continuity of long-term debt for the nine months ended September 30, 2011:

	Nine months ended September 30, 2011				
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar portion	\$ 46,000	\$ 64,500	\$ (91,000)	\$ -	\$ 19,500
United States dollar portion	7,410	12,000	-	796	20,206
	53,410	76,500	(91,000)	796	39,706
Unamortized transaction costs	(310)				(945)
Unamortized discount on outstanding BA's	-				(45)
	\$ 53,100	\$ 76,500	\$ (91,000)	\$ 796	\$ 38,716

During the first quarter of 2011 the Company announced that its senior credit facility was amended to increase the credit available under the facility to \$235 million and the term was extended a year and matures on March 31, 2014. The total facility will consist of a \$200 million portion and a US \$35 million portion. The credit facility includes a revolving operating line of credit

up to a maximum of \$10,000 and consisting of \$9,000 in Canadian funds and \$1,000 in US funds.

Transaction costs incurred during the nine months ended September 30, 2011 totaled \$839 and US \$125, and will be amortized over the remaining term of the facility at the time the costs were incurred. Amortization of transaction costs included in interest expense for the three and nine months ended September 30, 2011 was \$135 and \$332, respectively (2010 – \$86 and \$331, respectively).

Finance Leases

The Company leases vehicles from a third party under finance leases expiring at various times through to December 2014. The assets and liabilities under finance leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. Interest rates on finance leases vary from 4% to 8%.

The following is the continuity of the finance leases outstanding in WesTower for the six months ended September 30, 2011 that is the period from the acquisition date of April 1, 2011 (Note 6):

	Nine months ended September 30, 2011				
	Opening	Assumed / Entered Into	Repayments	Exchange Differences	Ending
Finance leases					
Canadian dollar leases	\$ -	\$ 1,558	\$ (201)	\$ -	\$ 1,357
US dollar leases	-	1,884	(431)	57	1,510
	\$ -	\$ 3,442	\$ (632)	\$ 57	\$ 2,867

The future minimum lease payment and the net present value of the future minimum payments of the Company's finance leases as at September 30, 2011 are as follows:

	Remainder of 2011	2012 - 2015	Beyond 2015	Total
Total future minimum lease payments	\$ 530	\$ 2,578	\$ -	\$ 3,109
less: amount representing interest	(47)	(196)	-	(242)
Present value of future minimum lease payments	484	2,383	-	2,867
less: current portion				(1,075)
Long-term portion of finance lease payments	\$ 484	\$ 2,383	\$ -	\$ 1,792

The original cost and accumulated depreciation of the finance leased equipment consists of the following as at September 30, 2011:

	September 30 2011
Vehicles under finance leases	\$ 8,006
less: accumulated depreciation	(5,037)
	\$ 2,969

10. CONVERTIBLE DEBENTURES

Series - Year of Issuance	Maturity	Interest Rate	Conversion Price
Series D - 2006	August 12, 2011	8.0%	\$ 13.25
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:

	2011 Balance, Beginning of Period	Debentures Issued	Accretion Charges	Debentures Converted	Repaid on Maturity	2011 Balance, End of Period	December 31, 2010 Balance
Series D	\$ 1,061	\$ -	\$ (1)	\$ (1,060)	\$ -	\$ -	\$ 1,061
Series F	1,869	-	14	(353)	-	1,530	1,869
Series G	22,545	-	70	(14,219)	-	8,396	22,545
Series H	27,776	-	185	(1,915)	-	26,046	27,776
Series I	-	32,796	269	-	-	33,065	-
Series J	-	52,878	170	-	-	53,048	-
						122,085	53,251
less: unamortized transaction costs						(5,593)	(2,484)
Convertible Debentures - Debt Component, end of period						116,492	50,767
less: current portion						-	(1,052)
Convertible Debentures - Debt Component (long-term portion)						\$ 116,492	\$ 49,715

During the nine months ended September 30, 2011 convertible debentures totaling a face value of \$18,711 were converted at various times into 1,267,099 Shares of the Company (2010 – \$12,260 face value into 984,991 Shares). Interest expense recorded during the three and nine months ended September 30, 2011 for the convertible debentures was \$2,597 and \$6,336, respectively (2010 – \$1,535 and \$4,104, respectively).

Series I Convertible Debenture Offering

On January 11, 2011, the Company announced the closing of a bought deal offering of five-year 5.75% Series I convertible senior secured debentures with a \$26.00 conversion price. A total \$35,000 principle amount of debentures were issued and will mature on January 31, 2016. Interest is payable semi-annually in arrears, in cash, on January 31 and July 31 of each year.

Each debenture is convertible, at the debenture-holders' option, into Shares of the Company at any time prior to the close of business on the day prior to the maturity date at a conversion price is \$26.00. Each debenture is convertible, at the debenture-holders' option, into Shares of the Company at any time prior to the close of business on the day prior to the maturity date. At the Company's option, on the maturity date, the debentures (or any portion thereof) shall be convertible into Shares at the Company's forced conversion price equal to 95% of the weighted average trading price of the Shares for the 20 trading days prior to the maturity date. The Company also has the ability to convert these Series I debentures, in whole or in part, on or after the third anniversary of the date of issuance of the debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time.

Transaction costs of \$1,861 were incurred during the first quarter of 2011 in relation to the issuance of the Series I debentures (\$118 allocated to the equity portion for this series).

Series J Convertible Debenture Offering

On May 4, 2011, the Company announced the closing of a bought deal offering of seven-year 6.25% Series J convertible senior secured debentures with a \$30.60 conversion price. A total \$50,000 principal amount of debentures were issued. On May 9, 2011, the Company announced the over-allotment option was exercised by the Company's syndicate of bankers for an additional \$7,500 principle amount. The total \$57,500 principle amount outstanding from the base offering and over-allotment is \$57,500 will mature on May 31, 2018. Interest is payable semi-annually in arrears, in cash, on May 31 and November 30 of each year.

Each debenture is convertible, at the debenture-holders' option, into Shares of the Company at any time prior to the close of business on the day prior to the maturity date at a conversion price is \$30.60. Each debenture is convertible, at the debenture-holders' option, into Shares of the Company at any time prior to the close of business on the day prior to the maturity date. At the Company's option, on the maturity date, the debentures (or any portion thereof) shall be convertible into Shares at the Company's forced conversion price equal to 95% of the weighted average trading price of the Shares for the 20 trading days prior to the maturity date. The Company also has the ability to convert these Series J debentures, in whole or in part, on or after the third anniversary of the date of issuance of the debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time. After May 31, 2014, but prior to May 31, 2016, the Company has the option to

redeem these debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time. On and after May 31, 2016 but prior to the maturity date the Company has the option to redeem these debentures without any weighted average market price thresholds. If the Company elects to redeem the debentures, the debentureholders have the option to convert the debentures into Shares of the Company at the conversion price.

Transaction costs of \$2,918 were incurred during the second quarter of 2011 in relation to the issuance of the Series J debentures (\$237 allocated to the equity portion for this series).

Convertible Debentures Equity Component

Summary of the equity component of the convertible debentures:

	September 30 2011	December 31 2010
Series D - 2006	\$ -	\$ 64
Series F - 2009	86	108
Series G - 2009	329	1,254
Series H - 2010	1,489	1,610
Series I - 2011	1,492	-
Series J - 2011	3,137	-
Convertible Debentures - Equity Component, end of period	\$ 6,533	\$ 3,036

11. SHARE CAPITAL

Changes in the Shares issued and outstanding during the nine months ended September 30, 2011 are as follows:

	Number of shares	2011 Amount
Share capital, beginning of period	14,518,842	\$ 148,046
Issued upon conversion of convertible debentures	1,267,099	18,462
Issued for Bearskin vendors (Note 6)	314,047	5,512
Issued for WesTower vendors (Note 6)	520,341	11,161
Issued from warrants exercised	408,482	4,240
Issued under dividend reinvestment plan (DRIP)	123,565	2,439
Issued to Tribal Councils Investment Group	12,728	221
Share capital, end of period	17,165,104	\$ 190,081

12. WARRANTS

Changes in the warrants issued and outstanding during the nine months ended September 30, 2011 are as follows:

	Date issued	Number of warrants	2011 Amount
Warrants outstanding, beginning of period		408,682	\$ 155
Warrants exercised	various	(408,482)	(155)
Expired		(200)	-
Warrants outstanding, end of period		-	\$ -

During the nine months ended September 30, 2011 a total of \$4,240 was transferred to share capital for the warrants exercised which includes the \$10.00 exercise price per warrant. All the Company's outstanding warrants that were not exercised expired during the second quarter of 2011. A total of 200 warrants expired and less than \$1 was transferred to contributed surplus representing the expired warrants.

13. 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:

	September 30 2011	December 31 2010
Total senior debt outstanding, principal value	\$ 39,706	\$ 53,410
Convertible debentures outstanding, face value	130,872	57,083
Shares	190,081	148,046
Reserved shares	1,851	-
Warrants	-	155
Total capital	\$ 362,510	\$ 258,694

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 2011 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 2011 period.

Changes in the capital of the Company over the nine months ended September 30, 2011 are attributed to the issuance of the Series I and Series J convertible debentures, the issuance of shares to the vendors of Bearskin and WesTower upon closing of those acquisitions, the exercising of warrants into Shares and offset by the net repayment made on the Company's credit facility.

14. DIVIDENDS DECLARED

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

Cumulative dividends during the nine months ended September 30, 2011 and the comparative period in 2010 are as follows:

Nine months ended September 30	2011	2010
Cumulative dividends, beginning of period	\$ 55,943	\$ 35,601
Dividends during the period	19,980	14,726
Cumulative dividends, end of period	\$ 75,923	\$ 50,327

The amounts and record dates of the dividends during the nine months ended September 30, 2011 and the comparative period in 2010 are as follows:

Month	Record date	2011 Dividends		2010 Dividends	
		Per Share	Amount	Per Share	Amount
January	January 31, 2011	\$ 0.13	\$ 2,006	January 29, 2010	\$ 0.13 \$ 1,418
February	February 28, 2011	0.13	2,049	February 26, 2010	0.13 1,487
March	March 31, 2011	0.13	2,064	March 31, 2010	0.13 1,545
April	April 29, 2011	0.135	2,266	April 30, 2010	0.13 1,614
May	May 31, 2011	0.135	2,307	May 31, 2010	0.13 1,691
June	June 30, 2011	0.135	2,313	June 30, 2010	0.13 1,701
July	July 29, 2011	0.135	2,321	July 30, 2010	0.13 1,714
August	August 31, 2011	0.135	2,325	August 31, 2010	0.13 1,754
September	September 30, 2011	0.135	2,329	September 30, 2010	0.13 1,802
Total		\$ 1.200	\$ 19,980		\$ 1.17 \$ 14,726

Subsequent to September 30, 2011 and before these consolidated interim financial statements were authorized, the Company declared a dividend of \$0.135 per share for October 2011.

15. EARNINGS PER SHARE

The computation for basic and diluted earnings per share for the three and nine months ended September 30, 2011 and the comparative periods in 2010 are as follows:

Periods ended September 30	Three Months Ended		Nine Months Ended	
	2011	2010	2011	2010
Net earnings for the period	\$ 7,285	\$ 4,411	\$ 13,831	\$ 10,854
Dilutive effect of convertible debentures	1,911	1,121	4,641	2,996
Add back impact from anti-dilutive factors	-	-	(3,899)	(961)
Dilutive effect of warrants	-	-	-	-
Diluted earnings for the period	\$ 9,196	\$ 5,532	\$ 14,573	\$ 12,889
Basic weighted average number of shares	17,258,537	13,386,631	16,572,212	12,435,424
Dilutive effect of convertible debentures	5,407,427	4,226,183	4,855,381	3,864,253
Add back impact from anti-dilutive factors	-	-	(3,770,706)	(1,132,980)
Dilutive effect of warrants	-	263,464	45,251	442,227
Diluted basis average number of shares	22,665,964	17,876,278	17,702,138	15,608,924
Earnings per share:				
Basic	\$ 0.42	\$ 0.33	\$ 0.83	\$ 0.87
Diluted	\$ 0.41	\$ 0.31	\$ 0.82	\$ 0.83

16. SEGMENTED INFORMATION

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. The Aviation segment provides airline services to communities in Manitoba and Nunavut. The Manufacturing segment consists of niche specialty metal manufacturers in markets throughout Alberta, British Columbia and the United States.

On January 1, 2011 the Company acquired Bearskin (Note 6) and results for Bearskin since the acquisition date are included in the Aviation segment. On April 1, 2011 the Company acquired WesTower (Note 6) and results for WesTower since the acquisition date are included in the Manufacturing 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 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 the 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 addition of WesTower to the Manufacturing segment, the seasonality of the Manufacturing segment is relatively consistent with that of the Aviation segment, therefore its strongest revenues are during the second and third quarters, more modest in the fourth quarter and at the lowest during the first quarter. WesTower and Stainless' field operations can be impacted by seasonal weather that historically is the least favorable during the first quarter of any year.

The Company adjusted certain fuel sales transactions with the Aviation segment that have the characteristics of agent sales that are measured at the net amount retained from the transaction. See Note 3(a) for further information on the adjustments made to prior periods that are incorporated in the following segment results tables.

Three months ended September 30	2011				2010			
	Aviation	Manufacturing	Company	Consolidated	Aviation	Manufacturing	Company	Consolidated
Revenue	\$ 72,415	\$ 73,578	\$ -	\$ 145,993	\$ 50,240	\$ 14,231	\$ -	\$ 64,471
EBITDA	16,996	7,171	(2,014)	22,153	12,224	2,000	(1,861)	12,363
Depreciation and amortization				8,486				4,287
Finance costs - interest				3,483				1,963
Acquisition costs				-				9
Foreign exchange gains on debt				-				(12)
Earnings before tax				\$ 10,184				\$ 6,116

Nine months ended September 30	2011				2010			
	Aviation	Manufacturing	Company	Consolidated	Aviation	Manufacturing	Company	Consolidated
Revenue	\$ 205,563	\$ 156,960	\$ -	\$ 362,523	\$ 139,898	\$ 39,328	\$ -	\$ 179,226
EBITDA	43,429	16,316	(5,640)	54,105	32,596	4,761	(4,441)	32,916
Depreciation and amortization				22,798				11,973
Finance costs - interest				8,867				5,799
Acquisition costs				1,830				26
Foreign exchange gains on debt				-				(72)
Earnings before tax				\$ 20,610				\$ 15,190

	September 30, 2011				December 31, 2010			
	Aviation	Manufacturing	Company	Consolidated	Aviation	Manufacturing	Company	Consolidated
Total assets	\$ 238,802	\$ 161,002	\$ 72,517	\$ 472,321	\$ 179,663	\$ 44,091	\$ 105,192	\$ 328,946
Net capital asset additions	26,310	2,239	41	28,590	44,860	1,392	41	46,293
Goodwill	20,569	48,268	-	68,837	13,435	26,243	-	39,678

The following is the geographic breakdown of revenues for the 2011 and comparative 2010 periods, based on location of the customer, and the capital assets and goodwill as at the balance sheet dates:

Periods ended September 30	Three Months Ended		Nine Months Ended	
	2011	2010	2011	2010
Canada	\$ 110,182	\$ 58,532	\$ 284,823	\$ 163,724
United States	35,811	5,939	77,700	15,502
Total revenue for period	\$ 145,993	\$ 64,471	\$ 362,523	\$ 179,226

	As at September 30, 2011		As at December 31, 2010	
	Capital Assets	Goodwill	Capital Assets	Goodwill
Canada	\$ 210,063	\$ 40,586	\$ 157,774	\$ 25,007
United States	7,737	28,251	2,669	14,671
	\$ 217,800	\$ 68,837	\$ 160,443	\$ 39,678

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\$12,442) 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 (acquired on April 1, 2011) within the Manufacturing segment have long-term contracts where revenues are recognized on a percentage-of-completion basis. The percentage complete is calculated based upon contract costs incurred to date compared with total estimated contract costs. The percentage complete is then applied to total anticipated contract revenue to determine the period's revenue. A provision for the estimated loss is made when contract costs are expected to exceed estimated contract revenue. During the three and nine months ended September 30, 2011, the Company recognized revenue on these types of long-term contracts totaling \$66,473 and \$130,714, respectively (2010 – \$5,921 and \$15,427, respectively).

The following summarizes the costs and estimated earnings on uncompleted contracts as of September 30, 2011:

As at September 30	2011
Costs incurred on uncompleted contracts	\$ 128,493
Estimated earnings	29,934
	\$ 158,427
less: Billings to date	(133,986)
Total	\$ 24,441
Costs incurred plus recognized profits in excess of billings	\$ 33,200
Billings in excess of costs incurred plus recognized profits	(8,759)
Total	\$ 24,441

17. DEFERRED SHARE PLAN

As described in Note 3(d), the Company's Deferred Share Plan was amended effective January 1, 2011. The amendment resulted in the liability of \$1,070 recorded within accounts payable and accrued liabilities to be reclassified to equity as the fair value of the amended vested awards. The value of the liability was based on the market price of the Company's shares as at the date of the amendment.

During the first quarter of 2011, the Company granted 24,013 deferred shares under the amended plan. These shares will vest evenly over three years and the total fair value of this grant is \$465 based on the market price of the Company's shares as at the date of the grant.

18. CHANGES IN WORKING CAPITAL ITEMS

The changes in non-cash operating working capital items during the three and nine months ended September 30, 2011 and the comparative period in 2010 are as follows:

Periods ended September 30	Three Months Ended		Nine Months Ended	
	2011	2010	2011	2010
Accounts receivable	\$ 5,643	\$ (3,679)	\$ 1,283	\$ (8,480)
Costs incurred plus recognized profits in excess of billing	(2,320)	-	(10,756)	101
Inventory	(1,314)	927	(3,855)	74
Prepaid expenses	227	68	532	(2,752)
Accounts payable and accrued charges	(10,402)	4,918	(5,182)	7,122
Deferred revenue	141	2,015	2,375	3,468
Billings in excess of costs incurred plus recognized profit	1,404	-	1,896	178
Foreign currency adjustments	1,845	(126)	1,757	(326)
Net change in working capital items	\$ (4,776)	\$ 4,123	\$ (11,950)	\$ (615)

19. COMMITMENTS

The Company and its subsidiaries rent premises and equipment under operating lease agreements. The contractual obligations of the Company and its subsidiaries as at September 30, 2011 were consistent with those described in the consolidated financial statements and notes of the Company as at December 31, 2010 with the exception of the additional contractual obligations associated with the acquisitions of Bearskin on January 1, 2011 and WesTower on April 1, 2011. The minimum lease payments for Bearskin are approximately \$400 for the next several years. The minimum lease payments of WesTower are as follows:

WesTower Commitments as at September 30, 2011	
Remainder of 2011	\$ 648
2012	2,161
2013	1,155
2014	646
2015	274
Thereafter	34
	\$ 4,918

As part of the acquisition of WesTower on April 1, 2011, the Company entered into lease agreements for certain buildings used in the operations of WesTower that are leased from certain individuals who sold WesTower to the Company. These leases are considered to be at market terms and recognized in the consolidated financial statements at the exchange amounts. The annual lease costs associated with these buildings is \$264 and is paid in monthly installments.

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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.

Interest Rates

The Company is subject to the risk that future cash flows associated with the credit facility outstanding (Note 10) 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 Company has not used derivative instruments to mitigate this risk.

The terms of the credit facility allow for the Company to choose the base interest rate between Prime, Bankers Acceptances or London Inter Bank Offer Rate ("LIBOR"). At September 30, 2011, \$19,500 was outstanding under Canadian Prime and US \$19,450 was outstanding under LIBOR.

21. OTHER COMPREHENSIVE INCOME (LOSS)

During the three and nine months ended September 30, 2011 the Company had other comprehensive income of \$3,094 (net of \$261 tax) and income of \$2,731 (net of \$218 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 (2010 – loss of \$450, net of \$42 tax and loss of \$221, net of \$23 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.