DISCIPLINE MATTERS

Exchange Income Corporation

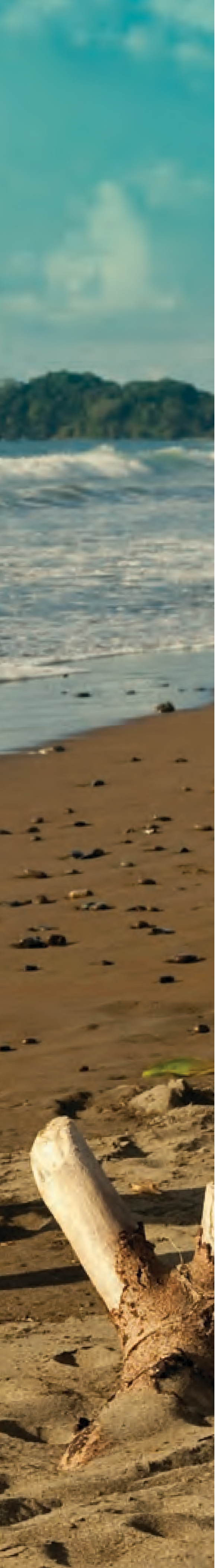
EXCHANGE INCOME CORPORATION

2011 ANNUAL REPORT


HAVE YOU MET DIVIDEND?
A SPECIAL BREED WITH A SINGLE FOCUS – LOYALTY TO SHAREHOLDERS. CALL HIM YOUR BEST FRIEND.

THE RETURN. WHEN IT COMES TO STEADY, DEPENDABLE DISTRIBUTIONS TO SHAREHOLDERS, DIVIDEND YIELDS TO NO ONE.

SPOTTING **OPPORTUNITIES** FOR GROWTH IS EASY.



BUT FINDING THE RIGHT ACQUISITION IS HARD.

IT TAKES PATIENCE. IT TAKES EFFORT. IT TAKES THE RIGHT TEAM. IT SOMETIMES EVEN MEANS WALKING AWAY FROM A DEAL. IT'S WHY WE'RE DIFFERENT. IT'S WHY WE GREW IN 2011 TO BECOME A HALF-BILLION DOLLAR COMPANY.

DISCIPLINE MATTERS.

ACQUISITIONS. IT'S HOW WE GROW.

SINCE 2004, OUR GROWTH HAS LARGELY BEEN DEFINED BY OUR DISCIPLINED APPROACH TO ACQUISITIONS. We find the right company at the right value and apply a rigorous evaluation against each of our target criteria. If any of our criteria is not satisfied, we move on to new targets.

RIGHT VALUE.

We never pay more than a company is worth. We base our valuation on how a target company has performed historically. Past performance is generally a good indicator of the immediate revenue, EBITDA and cash flow contributions that the target company will contribute. To date, we have never paid more than a 5X EBITDA multiple for any of the acquisitions we have closed.

NICHE MARKETS.

We target companies that operate in niche markets – those with limited competition, strong barriers to entry, and which are less susceptible to economic fluctuations. In essence, they must operate in an environment with strong, defensible cash flow to support our commitment to growing dividend distributions.

STRONG MANAGEMENT.

Because our operating subsidiaries run fairly autonomously, we make sure that key members of management commit to long-term employment contracts. The goal is to ensure that growth is sustained by a team knowledgeable about all facets of the business and its market conditions.

PLANS FOR GROWTH.

Target companies must also have a plan to grow and retain their competitive advantage. By applying our financial backing and taking advantage of new efficiencies available as part of a larger corporate entity, target companies can grow to new levels of success.

SPOTLIGHT ON: WESTOWER COMMUNICATIONS

WESTOWER COMMUNICATIONS IS A MANUFACTURER, INSTALLER, AND MAINTENANCE SERVICE PROVIDER of communication towers and related equipment across North America. The company, which has 24 regional offices and three manufacturing facilities, was acquired in April 2011 for $73.9 million.

$166M

IN REVENUE CONTRIBUTIONS FOR 2011

WesTower was targeted for acquisition because it operates as a leader in a niche market, has a strong management team and a track record of profitability.

Demand for WesTower's products and services is strong given the changing dynamics of the telecommunications industry. The ongoing introduction of new technology and broader wireless capabilities leads to regular upgrades of tower infrastructure.

Since being acquired, WesTower has entered into a three-year agreement with one of North America's largest wireless service providers. The contract has the potential to generate $500 million in revenue over its course.

SPOTLIGHT ON: CUSTOM HELICOPTERS

OUR LATEST ACQUISITION WAS COMPLETED IN FEBRUARY 2012, when we closed a deal to purchase the operations and assets of Custom Helicopters, a privately-owned provider of helicopter-based aviation services in Manitoba and Nunavut.

$29M

PURCHASE PRICE

Custom Helicopters will allow our existing Aviation segment to diversify from its fixed wing fleet and enter the rotar wing market.

Custom has been in operation for more than 30 years, and has a fleet of 24 helicopters operating out of five bases, including Winnipeg, Thompson, Gillam, and Garden Hill in Manitoba and Rankin Inlet in Nunavut.

Custom currently provides passenger and cargo transportation services to government agencies, utilities, First Nations groups, mining companies and other customers. Future opportunities for growth include the potential of introducing medevac services to its existing capabilities.

OUR OPERATIONS

HAVING A DIVERSIFIED BUSINESS MODEL WITH TWO SEPARATE AND UNRELATED BUSINESS SEGMENTS is not always easy to appreciate. We think it's smart. As we have seen over the past couple of years, economic uncertainty can wreak havoc with the performance of some sectors, impacting sales, cash flow and profits.

Our model is designed to limit exposure and produce more stability with our performance.

AVIATION

	PERIMETER	KEEWATIN	CALM AIR	BEARSKIN	CUSTOM HELICOPTERS
Year Acquired	**May 2004**	**July 2005**	**April 2009**	**January 2011**	**February 2012**
Assets	29 turbo-prop aircraft (up to 37 seats)	13 turbo-prop aircraft (up to 19 seats), 2 jets	1 jet; 15 turbo-prop aircraft (up to 68 seats)	15 turbo-prop aircraft (up to 19 seats)	24 helicopters
Products / Services	Scheduled & chartered air transportation service for passengers & cargo; air ambulance services; commercial flight training school	Medical evacuation service under the Nunavut Lifeline brand; scheduled transportation service for passengers & cargo	Scheduled & chartered air transportation service for passengers & cargo	Scheduled & chartered air transportation service for passengers & cargo Charter & heavy-lift services	Charter & heavy-lift services
Markets	Remote communities in northern Manitoba, northwestern Ontario & Nunavut Territory; Provincial, Territorial, & Federal Governments; Utility & Mining Companies				
Competitive Advantage	Adjustable aircraft for quick reconfiguration to accommodate varying numbers of passengers vs. cargo	Staffed with highly experienced medical professionals & flight crew; exclusive ownership of hangar facility at the Rankin Inlet & Iqaluit airports; specially equipped aircraft for medical transport	Strong reputational franchise; fleet specially adapted for passenger & freight configuration in the Arctic; state of the art hangar facility in Winnipeg, Thompson, & Churchill	Multiple flights per day into under-serviced communities in Ontario	Dominant player in geographic market; Internal maintenance & repair capabilities

Our Aviation segment provides essential cargo and medical transportation to many of the northern communities we service. This effectively means that economic conditions generally do not impact our performance.

In 2011, we reduced the exposure of the Manufacturing segment through the addition of WesTower Communications. Its primary market is undergoing significant technology change and infrastructure upgrades, driving the need for wireless towers.

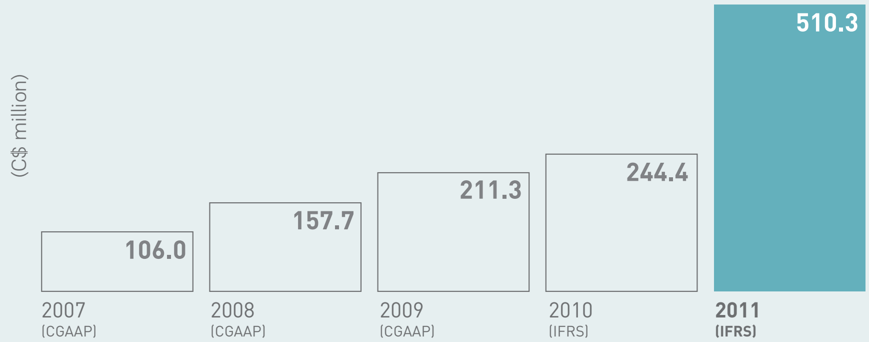
DIVERSIFICATION MATTERS.

MANUFACTURING

JASPER	OVERLANDERS	WATERBLAST	STAINLESS	WESTOWER
September 2005	**October 2006**	**March 2007**	**January 2008**	**April 2011**
40,000 sq. ft. manufacturing facility in Edmonton, AB	38,000 sq. ft. manufacturing facility in Abbotsford, BC	57,000 sq. ft. manufacturing facility in Edmonton, Alberta; 6 retail locations in Alberta & British Columbia	85,000 sq. ft. manufacturing facility in Springfield, Mo	53,000 sq. ft. (owned) in 6 sites; 26 (leased) locations throughout North America
Custom-made, high quality steel, stainless steel, or aluminum tanks & trailers for transportation of various fluids; pressure trucks	Precision sheet metal products made from mild steel, stainless steel, aluminum, & specialty metals	Custom design & manufacturer of high pressure washer, cleaning & steam systems	Design & manufacture stainless steel tanks, vessels, & processing equipment (mixers, storage tanks, reactors, hoppers, dryers, cyclones, kilns, pressure vessels)	Design, manufacture, reinforce, install, maintain & service wireless communication towers & sites throughout North America
Oil & Gas, Municipal Water, Food & Beverage, Sewage	Gas fireplaces, Turf/ Agriculture, Telecom/ Cable, Video Surveillance/ Security, Restaurant, Industrial OEMs	Agriculture, Transportation, Infrastructure, Manufacturing, Construction, Truck & Automotive services, Mining, Oil & Gas	Pharmaceutical, Chemical, Food, Ethanol, Biodiesel, Dairy, Health, Cosmetics, Beverage, Drinking Water	All Telecos, Tower Holding Companies, Government & Independent Communication Companies
Customization: multiple pumping systems; separate water/oil pumping tubes; separate hydraulic systems;	Laser inspection to ensure customer tolerances up to 0.002" are met; leading edge manufacturing system software; strong, long-term customer relationships	Exclusive dealer in Alberta & British Columbia for "Hotsy" hot & cold water pressure washer cleaning equipment used in commercial & industrial applications; strong repair & service presence supported by availability of parts	Provide in-house (up to 60,000 gallon capacity) & field (up to 600,000 gallon capacity) fabrication services; provide field repairs & modifications to existing tanks; electro-polishing to increase resistance to corrosion & bacteria	National presence; turnkey service provider; long term relationships with telecos & tower holding co's

2011 FINANCIAL & PERFORMANCE HIGHLIGHTS*

REVENUE

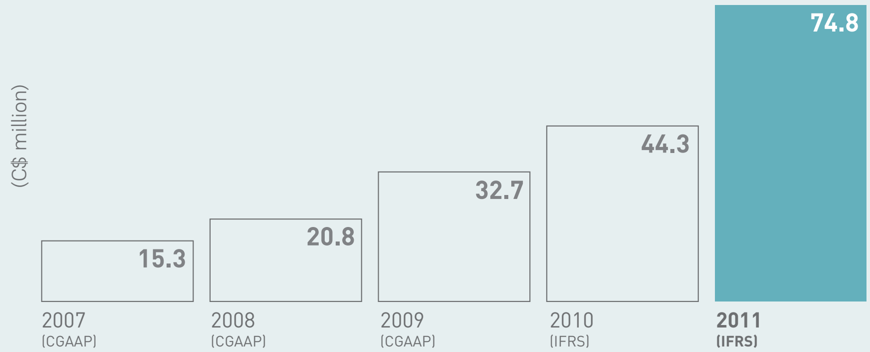


36.9%

5 YEAR CAGR

* The Company adopted International Financial Reporting Standards (IFRS) in 2010. Previously, the Company used Canadian Generally Accepted Accounting Principles (CGAAP). As a result, comparison of historical results may include financial treatments that are not identical.

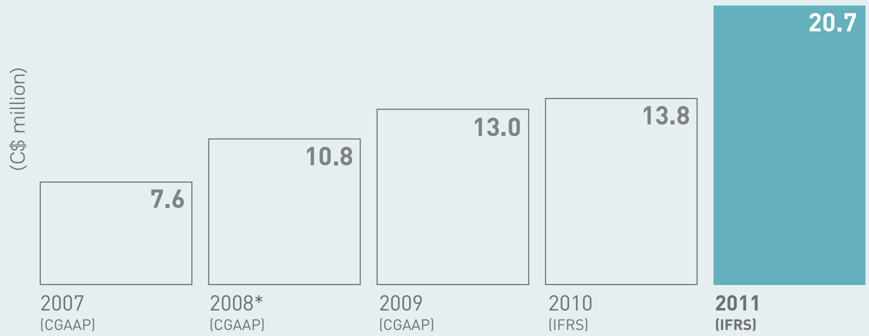
EBITDA



37.4%

5 YEAR CAGR

NET EARNINGS

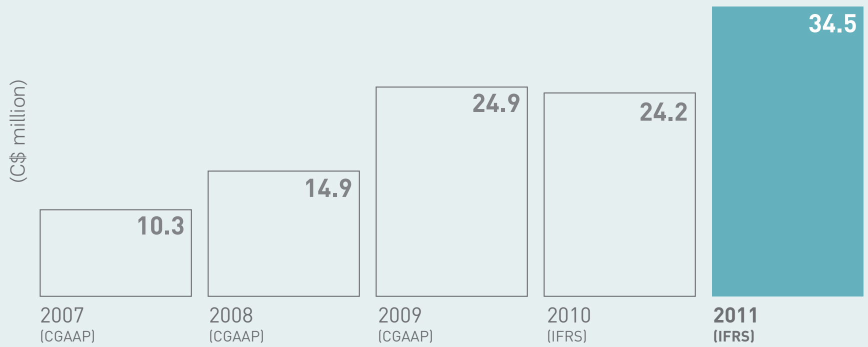


22.2%

5 YEAR CAGR

*2008 net earnings were impacted by intangible assets and one-time impairment charges. Including these adjustments, net earnings in 2008 were $3.2 million.

FREE CASHFLOW LESS MAINTENANCE CAPEX



27.3%

5 YEAR CAGR

*The company converted to IFRS commencing in 2010 and the Free Cash Flow less maintenance capital expenditures metric replaced Distributable Cash used under Canadian GAAP standards before the adoption of IFRS

CHAIRMAN'S MESSAGE

Gary Filmon

Gary Filmon, P.C., O.C., O.M.
Chairman, Board of Directors

2011 was an exciting year for our shareholders. The Company completed two acquisitions, Bearskin Airlines in January and WesTower Communications in April, closed two offerings of convertible debentures in January and May, respectively, and announced that WesTower would undergo a major expansion as a result of a new multi-year contract with one of its major customers, AT&T. Finally, subsequent to year end we closed the acquisition of Custom Helicopters which is our initial entry into the rotary wing segment of aviation.

The markets took notice of our efforts and for the second year in a row our stock generated an all-in return of in excess of 40%. In 2010 the stock price grew by 36% to $17.55, which combined with our dividend resulted in a total return of 45%. In 2011 we exceeded this level of performance. The stock price increased by 45% to $25.41, which combined with our dividend resulted in an all-in return of 53%. We are proud of this performance.

There is a temptation to credit the performance of our stock to the growth we have recently achieved, or some other new initiative, but we believe that this would be incorrect. Rather, we believe that it is our dedication to our model that is now bearing fruit. When our Board of Directors and senior management met following our third quarter meetings it marked our 10th year of sitting down to discuss the core tenets of our strategy. While we have refined targets and changed certain areas of emphasis over that period, our core strategy remains the same. The Company's focus continues to be to create a diversified portfolio of stable profitable companies which enables it to provide a reliable growing dividend to our shareholders. We are committed to a disciplined approach in implementing our strategy. Disciplined in the companies we buy, disciplined in the price we pay, and disciplined in maintaining a rock solid balance sheet which will protect us in uncertain economic times.

We are excited about the future. In March of 2012 we completed an offering of $57.5 million of common shares. While we did not have an immediate need for this capital, we are examining a number of investment opportunities and the ability to move quickly is paramount. Upon completion of this offering we will have approximately $200 million in availability under our credit facilities, which will enable us to act decisively when it is appropriate to do so.

The increased equity base may be somewhat dilutive to our results on a short-term basis until we deploy the capital, but in the long term it gives us the opportunity to implement our business model. At EIC long-term stability and reliability will always trump short-term decision making. This is the approach we have taken since our inception.

We have come a long way since our IPO in 2002 and our first acquisition in 2004. Our sales have broken the $500 million barrier in 2011, our market capitalization is above the $450 million level and have grown to an employee base of over 3,000. As much as we have grown we are most proud of what has remained the same, our disciplined approach to growth through acquisition and providing a stable dividend to our shareholders. On behalf of our Board of Directors, our management team and all of our employees, I would like to thank our Shareholders for their continued support. We will continue to perform the highest levels of fiscal responsibility as we strive to grow Exchange Income Corporation and maximize the long-term returns for our shareholders.

PRESIDENT'S MESSAGE

Mike Pyle
President and Chief Executive Officer

2011 was a banner year for Exchange on a number of different levels. By closely following our acquisition strategy and diversified business model, we set new benchmarks for each of our key performance metrics. Among our other highlights, we completed our largest purchase to date with WesTower Communications, which subsequently signed a contract with a potential value of $500 million over the three-year contract term with one of North America's largest wireless communication providers. We also reached a new all-time high share price, closing the year at $25.41, which represented a growth of 45%.

Combined, these developments allowed us to fulfill our primary objective – grow our dividend distributions to you, our shareholders. This achievement marks the sixth increase in the past seven years since we were founded, and represents the reason why Exchange was recently added to the S&P/TSX Canadian Dividend Aristocrats Index.

The growth we experienced in 2011 can be best described as transformative, given our financial results:

- Revenue doubled to $510.3 million
- EBITDA grew by almost 70% to $74.8 million
- Profits increased by 51% to $20.7 million
- Free cash flow, a financial measure we use to determine the health of our business and our dividend distributions, grew by 66% to $64.1 million.

Although the acquisitions of Bearskin Airlines and WesTower, which we effectively closed in the first quarter of 2011, fueled much of our growth, our existing subsidiaries contributed significantly as well to the Company's 2011 results. Existing operations within our Aviation and Manufacturing segments grew by 16.2% and 25.4%, respectively.

This impressive organic growth was only possible because of our approach to acquisitions. We acquire good companies with strong management teams that are already generating cash flow and solid financial results. But by providing access to a larger pool of capital and introducing appropriate levels of synergy, we help our newly acquired subsidiaries grow to new levels. Large contracts won by WesTower and Keewatin after joining Exchange are evidence of the success of our approach.

The transformative growth we experienced in 2011 now places the Company into a new echelon of companies and will help drive us to sustain our growth for years to come.

Since the start of 2012, we have added to our momentum by acquiring Custom Helicopters and strengthening our statement of financial position through a bought deal financing that generated proceeds of $57.5 million.

These developments, which will help to strengthen our statement of financial position and deliver accretive growth opportunities, have been completed in tandem with efforts to prepare for the WesTower contract win and the introduction of a new wet lease aircraft for Calm Air which is necessary for Calm Air's contract with the Government of Nunavut.

In the short-term, these ramp up activities for WesTower and Calm Air will have an impact on performance. However, over the longer term, we are very bullish on our prospects. We believe that we are extremely well positioned to add to our recent growth, and take advantage of the more than $200 million in available capital for targeted acquisitions.

LOYALTY MATTERS

DELIVERING STEADY, DEPENDABLE RETURNS TO SHAREHOLDERS IS IN OUR BONES.

We are always focused on certain business fundamentals – generating sustainable cash flow and growing EBITDA at each of our subsidiaries. In 2011, we grew our key financials metrics – significantly. It's why we were able to grow our dividend distribution for the sixth time over the past seven years.

$1.605

DIVIDEND DISTRIBUTIONS PER SHARE

6.3%

YIELD

44%

SHARE PRICE RETURN

53.1%

TOTAL INVESTMENT RETURN

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MANAGEMENT'S DISCUSSION AND ANALYSIS

March 13, 2012

Introduction

This Management's Discussion and Analysis ("MD&A") supplements the audited consolidated financial statements and related notes for the year ended December 31, 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 consolidated financial statements. In these financial statements, "CGAAP" refers to Canadian generally accepted accounting principles before the adoption of IFRS.

These consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of financial statements, including 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. Note 26 of the Company's December 31, 2011 annual 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 year ended December 31, 2011.

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 credits, amortization into deferred income taxes, and capital asset depreciation are significantly impacted by the changeover to IFRS – refer to Section 10 of this MD&A for additional information.

Forward-Looking Statements

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

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

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 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 entities and therefore may not be comparable to measures utilized by them.

Additional Information

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

1. Financial Highlights

Effective January 1, 2011, the Company began reporting its financial results in accordance with IFRS, including comparative figures for 2010 – refer to Section 10 of this MD&A for further information. The financial highlights for the Company for the periods indicated are as follows.

FINANCIAL PERFORMANCE	2011	per share basic	per share fully diluted	2010	per share basic	per share fully diluted
For the year ended December 31						
Revenue (Note 1)	$ 510,303			$ 244,386		
EBITDA	74,839			44,268		
Net earnings	20,745	1.24	1.21	13,767	1.07	1.03
Adjusted net earnings	23,770	1.42	1.37	15,235	1.18	1.12
Free cash flow	64,109	3.82	3.18	38,636	2.99	2.44
Free cash flow less maintenance capital expenditures	34,469	2.05	1.82	24,223	1.88	1.60
Dividends/distributions declared	27,100	1.605		20,342	1.56	
FINANCIAL POSITION	December 31, 2011			December 31, 2010		
Working capital (Note 2)	$ 67,277			$ 39,739		
Capital assets	220,190			156,735		
Total assets	478,401			326,240		
Senior debt (Note 2)	49,234			53,100		
Equity	225,637			177,631		
SHARE INFORMATION	December 31, 2011			December 31, 2010		
Common shares outstanding	17,399,182			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 the prior year'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 5. The adjustment to the comparative 2011 year was a reduction of $3.2 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.

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 and contractual airline service and emergency medical services to communities located in Manitoba, Ontario, Quebec and Nunavut, including certain First Nations communities, operated by **Calm Air**, **Perimeter, Keewatin, Bearskin**, other aviation supporting businesses, and **Custom Helicopters** that was acquired on February 1, 2012 as the Company's first rotary blade aviation operator; and

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

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

Acquisition – Bearskin

On January 1, 2011, the Company closed the acquisition of the airline operations and assets of Bearskin Airlines, a privately-owned commuter airline providing passenger service in Ontario and Manitoba. The acquisition price of $33.0 million was funded through a combination of $27.5 million of debt financing from the Company's credit facility and the issuance of the 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. During the 2011 year Bearskin contributed third party revenues of over $54 million, EBITDA of over $9 million and total assets of approximately $50 million.

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 existing Aviation segment subsidiaries at the time of the closing in 2011. 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 15 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 year ended December 31, 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 $73.9 million was funded through a combination of $60.9 million of cash primarily from debt financing, the issuance of the Shares worth $11.2 million to the vendors of WesTower (520,341 shares) and $1.8 million of reserved shares of the Company that will be issued evenly over the next three anniversaries of the closing date (86,238 shares).

The acquisition has been immediately accretive to the Company's key financial metrics, including EBITDA, cash flows, earnings per share and Free Cash Flow. For the nine months of operations during the 2011 year since WesTower was acquired, it contributed third party revenues of over $166 million, EBITDA of over $13 million and total assets of approximately $125 million.

Consistent with the Company's traditional acquisition criteria, WesTower was identified because it operates in a 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 year ended December 31, 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.

Subsequent Acquisition – Custom Helicopters

Subsequent to 2011, the Company announced that it had signed a letter of intent to acquire the operations and assets of Custom Helicopters ("Custom"), a privately-owned provider of helicopter-based aviation services in Manitoba and Nunavut. The Company completed the acquisition on February 1, 2012. The acquisition price of $29.0 million has been funded through a combination of $24.7 million of debt financing from the Company's credit facility and the issuance of the Company's common shares worth $4.3 million to the vendors of Custom (170,121 shares).

The acquisition is expected to be immediately accretive to the Company's 2012 key financial metrics, including EBITDA, cash flows, earnings per share and Free Cash Flows. The acquisition of Custom will expand the Company's existing Aviation segment to include helicopter operations. Custom has been in operations for over 30 years and has a fleet of 24 helicopters operating out of five bases: Winnipeg, Thompson, Gilliam, and Garden Hill in Manitoba and Rankin Inlet in Nunavut. Custom operates light, intermediate and medium category helicopters on long – and short-term contracts to government agencies, utilities, First Nations groups, mining companies and other customers.

The 2011 results of the Company do not include any operating results of Custom and will commence from the closing date of the acquisition.

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 10 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.

	2011	2010
Earnings before income tax	$ 30,028	$ 19,583
Depreciation and amortization	30,591	16,598
Finance costs – interest	12,390	7,476
Acquisition costs	1,830	666
Foreign exchange gains on debt	—	(55)
	$ 74,839	$ 44,268

FREE CASH FLOW

		2011		2010
Cash flows from operations	$	55,775	$	37,230
Change in non-cash working capital items		6,504		740
Acquisition costs		1,830		666
	$	64,109	$	38,636
per share – Basic	$	3.82	$	2.99
per share – Fully Diluted	$	3.18	$	2.44

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.

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.

During 2011 the Company generated Free Cash Flow of $64.1 million, which is $25.5 million or 66% higher than the $38.6 million generated in comparative 2010. This increase is mainly the result of the 69% increase in EBITDA, which represents an increase of $30.6 million over 2010. The additions of Bearskin (closed January 1, 2011) and WesTower (closed April 1, 2011) have generated a combined $22.5 million of EBITDA for the 2011 period since being acquired. The pre-existing subsidiaries of the Company also contributed to the increase in EBITDA as the Aviation segment's pre-existing operations grew EBITDA by $4.5 million (or 10%) and the Manufacturing segment's pre-existing operations grew EBITDA by $4.5 million (or 65.3%). These were offset by an increase in costs incurred by the head-office function which increased by $1.0 million (or 15%). The EBITDA for the period is analyzed in more detail in Section 4 – Analysis of Operations.

The EBITDA increase for the 2011 year was offset by an increase in cash interest paid on the Company's debt items. Cash interest for 2011 increased by $3.7 million and can be attributed to overall higher levels of debt outstanding over the year than in the comparative 2010 year. Cash taxes incurred also increased by $0.7 million during 2011 which also offset the EBITDA increase. Other minor cash items of $0.7 million impacted the Company's Free Cash Flow generated.

On a basic per share basis, Free Cash Flow for the 2011 year increased to $3.82 ($3.18 fully diluted) compared to $2.99 ($2.44 fully diluted) in the comparative 2010, which is an increase of 28% (30% 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 December 31, 2011 was 17.4 million, which is 20% higher than the 14.5 million shares outstanding at December 31, 2010. The higher share base is a result of a variety of items that caused the Company to issue its common shares and these are described in Section 7 – Liquidity and Capital Resources.

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 December 31, 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. Subsequent event items also described in Section 7 occurred which impacted the amount of financing available to the Company.

FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENDITURES

		2011		2010
Free Cash Flow	$	64,109	$	38,636
Maintenance Capital Expenditures		29,640		14,413
	$	34,469	$	24,223
per share – Basic	$	2.05	$	1.88
per share – Fully Diluted	$	1.82	$	1.60

The Company generated Free Cash Flow less maintenance capital expenditures of $34.5 million for the 2011 year, which is an increase of $10.3 million in comparison to the $24.2 million generated in the comparative 2010. The growth is a result of the increase in Free Cash Flow for 2011 as described above and is offset by the increase of $15.2 million in maintenance capital expenditures. The expenditures increased to $29.6 million from $14.4 million and the 2011 capital expenditures are described in detail in the Capital Expenditures Section.

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

On a basic per share basis, Free Cash Flow less maintenance capital expenditures for the 2011 year increased to $2.05 ($1.82 fully diluted) in comparison to $1.88 ($1.60 fully diluted) in 2010. The 2011 increase is 9% (14% fully diluted) over 2010. The maintenance capital expenditure component of this metric is described further below and accounted for a $1.77 decrease in this metric in 2011 versus $1.12 in 2010.

CAPITAL EXPENDITURES

		2011		2010
Cash maintenance capital expenditures	$	28,649	$	14,413
add: finance lease principal payments		991		—
Maintenance capital expenditures		29,640		14,413
Growth capital expenditures		13,442		44,109
	$	43,082	$	58,522
Maintenance capital expenditures per share – Basic	$	1.77	$	1.12
Growth capital expenditures per share – Basic		0.80		3.41
Total capital expenditures per share – Basic	$	2.57	$	4.53

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 aircraft engine overhauls and airframe heavy checks were previously accrued as an expense and then removed from the accrued liability when the event occurred. Under IFRS, these events are treated as maintenance capital expenditures when the event occurs and there is no expense accrued in advance of the event. The result is that maintenance capital expenditures can now be very lumpy from period to period, both within the year and when analyzing to the comparative period in the prior year. It is important to note that the change from CGAAP to IFRS does not change the cash outflows to maintain the fleet. It does, however, make the period to period results less comparable.

Maintenance Capital Expenditures

Total maintenance capital expenditures for the 2011 year totaled $29.6 million compared to $14.4 million in 2010, an increase of $15.2 million. The Aviation segment continues to make up the majority, as it spent $27.4 million versus the $2.1 million in the Manufacturing segment and $0.1 million at head office.

Bearskin and WesTower accounted for $6.6 million and $1.5 million of the increase. The maintenance capital expenditures will vary from year to year 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 total maintenance capital expenditures of $6.5 million in the third quarter and $7.6 million in the fourth quarter are at a level that is more indicative of an average quarter. The majority of the Aviation segment's maintenance capital expenditures relate to engine overhauls, heavy checks and rotable additions. The expenditures at EIC's various airlines are generally proportionate to the size and number of aircraft they operate.

The Manufacturing segment's capital expenditures were mainly from WesTower which spent $1.5 million during the year. 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 2011, these finance lease principal payments amounted to $1.0 million.

Growth Capital Expenditures

The Company invested a total of $13.4 million in growth capital expenditures during 2011. The majority of the growth capital expenditures were in the Aviation segment which accounted for $11.5 million of the growth capital expenditures. The major growth capital expenditures were for additional aircraft. Total aircraft growth capital expenditures were $7.9 million which include the addition of a Dornier jet utilized in Calm Air's scheduled passenger operations which provide service to the Government of Nunavut under a contract signed in September 2011, a Lear jet for the Baffin Island medevac contract with the government of Nunavut signed December 2010, 2 new Metro III's to service the growth at Perimeter and Bearskin, and modifications were completed to Calm Air's new ATR 72 which Calm added late in 2010 to service the Hydro One contract that was signed in the third quarter of 2010. In addition to these aircraft expenditures $1.4 million was spent to complete the hangar and add equipment to service the Baffin Island medevac contract. The other major growth capital expenditure in the Aviation segment was the addition of $0.8 million in equipment for the fixed based operator service, which is an aviation support business that EIC entered into in 2010 and purchased the operating assets for in 2011. The Manufacturing segment spent $1.9 million on vehicles and manufacturing equipment, of which $1.5 million was for WesTower to largely support its additional crews.

DIVIDENDS & PAYOUT RATIO

The amounts and record dates of the dividends declared during the 2011 year and comparative 2010 were as follows:

Month	Record date	Per Share	2011 Dividends Amount	Record date	Per Share	2010 Dividends 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
October	October 31, 2011	0.135	2,366	October 31, 2010	0.13	1,849
November	November 30, 2011	0.135	2,370	November 30, 2010	0.13	1,879
December	December 31, 2011	0.135	2,384	December 30, 2010	0.13	1,888
Total		$ 1.605	$ 27,100		$ 1.56	$ 20,342

Actual dividends for the 2011 year totaled $27.1 million, which was an increase of 33% from the 2010 comparative when the actual payouts were $20.3 million. Per share dividends for the 2011 year totaled $1.605, which is an increase of 3% over the dividends paid per share of $1.56 in the 2010 comparative.

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 into 2012 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	per share basic	per share fully diluted	2010	per share basic	per share fully diluted
Free Cash Flows		42%	50%		52%	64%
Free Cash Flows less maintenance capital expenditures		78%	88%		83%	98%

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.

FOURTH QUARTER KEY PERFORMANCE INDICATORS

	2011	per share basic	per share fully diluted	2010	per share basic	per share fully diluted
EBITDA	$ 20,734			$ 11,352		
Free Cash Flows	17,470	1.00	0.83	10,251	0.71	0.61
Free Cash Flows less maintenance capital expenditures	9,845	0.57	0.50	6,267	0.44	0.39
Dividends Declared	7,120	0.405		5,616	0.39	

The EBITDA generated for the fourth quarter of 2011 increased to $20.7 million from $11.4 million in the comparable period in 2010. This was an increase of $9.4 million or 83% for 2011. The items impacting the EBITDA generated in the fourth quarter of 2011 are described in Section 6 – Review of Fourth Quarter Results but overall can be attributed to the 2011 acquisitions of Bearskin and WesTower which do not have any comparable in the 2010 period. Those two entities generated a combined EBITDA of $7.2 million for the fourth quarter of 2011. The pre-existing operations of the Company contributed to the remainder of the change in EBITDA for 2011.

Free Cash Flow for the fourth quarter of 2011 increased mainly as a result of the increase in EBITDA for the period over 2010. The 2011 period's Free Cash Flow increased to $17.5 million from $10.3 million in 2010, an increase of $7.2 million or 70%. The increase in EBITDA was offset by increased cash interest, cash taxes and other various cash related items. The cash interest and cash taxes incurred by the Company for the 2011 period increased by $1.3 million and $0.4 million, respectively. The other various cash related items increased by $0.5 million.

On a basic per share basis, the Company's Free Cash Flow for the fourth quarter was $1.00 ($0.83 fully diluted), an increase of $0.29 ($0.22 fully diluted) from the comparable period with $0.71 ($0.61 fully diluted). The increase in 2011 of 41% (36% fully diluted) over the 2010 period but isn't as large as the absolute Free Cash Flow change given the additional share base outstanding during the 2011 period. This is consistent with the information above on the fiscal results.

The Free Cash Flow less maintenance capital expenditures for the fourth quarter of 2011 increased to $9.8 million or by $3.6 million from the $6.3 million in the comparative 2010 period. The increase of 57% for 2011 is a result of the increase in Free Cash Flow in the 2011 period offset by an increase of maintenance capital expenditures. The expenditures in the 2011 period increased by $3.6 million and are a result of the increased size of the operations of the Company in 2011, which includes the additions of Bearskin and WesTower.

On a basic per share basis, the Company's Free Cash Flow less maintenance capital expenditures for the fourth quarter was $0.57 ($0.50 fully diluted), an increase of $0.13 ($0.11 fully diluted) from the comparable period with $0.44 ($0.39 fully diluted). This is an increase of 30% (28% fully diluted) in 2011 over the 2010 period. Consistent with the information above, the increase on a per share basis is impacted by the additional share based for the Company during the 2011 period.

The Company invested $13.9 million in capital expenditures in the fourth quarter of 2011 (2010 – $15.3 million). Approximately $7.6 million was classed as maintenance capital expenditures (2010 – $4.0 million) with the balance of $6.3 million classified as growth expenditures (2010 – $11.3 million). Contributing to the growth in maintenance capital expenditures are the additions of Bearskin and WesTower, which added $1.3 million and $0.5 million respectively. The remaining increase of $1.8 million relates to the timing of maintenance capital expenditures as discussed in the capital expenditure section. Included in the growth expenditures for the fourth quarter of 2011 are $3.6 million for the purchase of the Dornier and $1.8 million for the purchase of the Metro III's, both discussed in the capital expenditure section. WesTower also spent $0.5 million related to capital expenditures for their new contract with AT&T.

The dividends declared for the fourth quarter of 2011 totaled $7.1 million, which is an increase $1.5 million or 27% over the $5.6 million declared in the comparable 2010 period. This is a result of the increase of dividends declared per share which increased by 4% and also as a result of the larger share base which received those dividends in 2011.

4. Analysis Of Operations

The following section analyzes the financial results of the Company's operations for the 2011 year and comparative 2010. The transition to IFRS has resulted in certain comparative balances in the 2010 period being adjusted. See Section 10 for information on the transition adjustments to IFRS for the Company.

	Aviation	Manufacturing	Head-office(2)	2011 Consolidated	Aviation	Manufacturing	Head-office(2)	2010 Consolidated
Revenue	$ 274,337	$ 235,966	$ —	$ 510,303	$ 189,013	$ 55,373	$ —	$ 244,386
Expenses(1)	217,177	210,972	7,315	435,464	145,348	48,419	6,351	200,118
EBITDA	57,160	24,994	(7,315)	74,839	43,665	6,954	(6,351)	44,268
Depreciation and amortization				30,591				16,598
Finance costs – interest				12,390				7,476
Acquisition costs				1,830				666
Foreign exchange gains on debt				—				(55)
Earnings before taxes				30,028				19,583
Current income tax expense				653				—
Deferred income tax expense				8,630				5,816
Net earnings for the year				$ 20,745				$ 13,767

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 2011 year increased by 109% or $265.9 million to $510.3 million when compared to 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 comparable in 2010. The revenues for the Aviation segment increased by 45% to $274.3 million in comparison to 2010 and the revenues for the Manufacturing segment increased by 326% to $236.0 million in comparison to 2010.

On a consolidated basis, EBITDA of the Company for the 2011 year was $74.8 million, an increase of 69% or $30.6 million when compared to 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 31% to $57.2 million in comparison to 2010 and the EBITDA for the Manufacturing segment increased by 259% to $25.0 million in comparison to 2010. Costs incurred at the head-office of the Company increased 15% to $7.3 million when compared to 2010.

AVIATION SEGMENT

	2011	2010	Variance	Variance %
Revenue	$ 274,337	$ 189,013	$ 85,324	45%
Expenses	217,177	145,348	71,829	49%
EBITDA	$ 57,160	$ 43,665	$ 13,495	31%

Revenue generated by the Aviation segment increased by $85.3 million or 45% from $189.0 million in 2010 to $274.3 million in 2011 including $54.7 million of revenue generated from Bearskin, which was acquired January 1, 2011. The operational results of the pre-existing Aviation subsidiaries experienced considerable growth in 2011 as revenues increased by $30.6 million, or 16%, from $189.0 million in 2010 to $219.6 million in 2011. The aviation support companies contributed $6.8 million of this increase generating $9.2 million in revenues in 2011 compared to $2.4 million in 2010. The revenues at the aviation support companies increased because this is the Fixed Base Operator's (FBO) second year of operations and they are gaining more traction. The remaining

$23.8 million of the increase was primarily driven by growth in medevac and charter services as well as revenue generated from fuel surcharges that were implemented to mitigate the impact of rising fuel prices. Revenues for the medevac operations increased by $12.8 million or 55%, including Keewatin's new Baffin Island medical contract which became effective December 2010. The charter division experienced revenue growth of $5.1 million, or 26% in 2011 over 2010. The growth in charter operations is primarily driven by two key factors. Firstly, the Company benefited from a higher than normal fire season resulting in additional charter opportunities moving evacuees out of and back to their communities. Secondly, the Company experienced growth in its charter operations resulting from expanded opportunities in the mining sector. The Company generated $4.3 million in passenger fuel surcharge revenues that were implemented to mitigate the impact of rising fuels prices. The balance of the revenue increase is driven by increased revenue in the segment's passenger service operations.

EBITDA generated by the Aviation segment in 2011 experienced significant growth, increasing by $13.5 million, or 31%, from $43.7 million in 2010 to $57.2 million in 2011 including $9.0 million in EBITDA generated from Bearskin operations. EBITDA for the pre-existing aviation entities experienced considerable growth but increased at a more moderate rate than the 16 % growth in revenues increasing by $4.5 million or 10%, from $43.7 million in 2010 to $48.2 million in 2011 yielding a moderate decline in EBITDA margins from 23.1% in 2010 to 21.9% in 2011. The decrease in margins for these operations is the product of several factors. Firstly, the cost of fuel used by the segment's entities increased throughout 2011. The average fuel cost per litre increased by approximately 23% putting significant upward pressure on fuel prices, and downward pressure on margins. The Company manages this cost closely to ensure that fuel surcharges are added to the cost of the ticket for customers when it is considered necessary and feasible. Historically the Company had been reluctant to amend fuel surcharges given the relationships built with its customers, in particular the First Nations Communities who use the services of the segment as a necessity. Since the increased fuel costs were significant, management felt that the implementation of fuel surcharges was warranted, and as discussed earlier, generated fuel surcharge revenues to mitigate the impact of the increased fuel cost; however, not all fuel costs were offset. In order to service the Government of Nunavut contract, the Company wet leased a jet in the last four months of 2011. A wet lease is an arrangement where the Company pays for more than just the aircraft and includes pilot, 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. Calm Air entered into a short term wet lease while it procures its own jets and trains pilots and maintenance staff. Wet leasing an aircraft is more costly and resulted in approximately $1.4 million of lease expenses in 2011. This arrangement will continue into the first quarter of 2012. Delays experienced in the first quarter of 2011 related to the implementation of Calm Air's ATR72 going into service also contributed to the decline in margins. The ATR72 delay caused higher labor, fuel and parts cost from utilizing older less fuel efficient aircraft. Margins were also impacted by increased costs associated with enhancing the segment's safety management processes, including the addition of non-revenue generating labour that supports this initiative. The increase in costs discussed above, and the resulting negative impact on margins in 2011 was partly offset by the absence of $1.2 million in costs associated with the start-up of the Baffin Island medical contract that the segment incurred in the fourth quarter of 2010. The segment's overall EBITDA margin including Bearskin operations decreased from 23.1% in 2010 to 20.8% in 2011 and was impacted by Bearskin's operations which yielded a lower EBITDA margin of 16.5% compared to EBITDA margin generated by the pre-existing operations as discussed above.

MANUFACTURING SEGMENT

	2011	2010	Variance	Variance %
Revenue	$ 235,966	$ 55,373	$ 180,593	326%
Expenses	210,972	48,419	162,553	336%
EBITDA	$ 24,994	$ 6,954	$ 18,040	259%

The Manufacturing segment earned revenues of $236.0 million and EBITDA of $25.0 million for the 2011 year. This represents a $180.6 million increase in revenue and an $18.0 million increase in EBITDA.

The addition of WesTower on April 1, 2011 is the main reason for the increase. WesTower contributed revenues of $166.5 million with no comparable in 2010. Overall WesTower's results were in line with EIC's expectations for the nine months of ownership in 2011, as WesTower's run rate as a private company was approximately $200 million for a full year. The remaining $14.1 million of the segment's increase in revenues, a 25% increase, came from pre-existing operations of the segment, specifically by the Alberta operations and Stainless. The Alberta operations' revenue increased by $8.8 million or 42% in the 2011 period and is a result of the continued improvement in the Alberta market place. The majority of the increase was driven by the custom manufacturing side of the business that services heavy industrial operations such as oil and gas and mining. Strong growth was also realized on their Hotsy brand of products, as well as their parts and service business. The operations of Stainless in the U.S. continue to improve as revenues increased $6.2 million or 27%, driven by increases in their field and shop operations. The precision metal business of the Manufacturing segment recognized a decrease in revenues of $0.9 million or 9% as a result of slightly 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 largely as a result of the addition of WesTower. Overall the segment's EBITDA increased by $18.0 million, an increase of 259%, $13.5 million of this increase was contributed by the addition of WesTower. EBITDA did not increase by the same percentage as sales because WesTower generates a lower margin than the pre-existing operations of this segment. WesTower operates in a lower margin business and the actual margin of 8.1% earned by WesTower is in line with the margins expected for WesTower for the full year. However management expected the margin to be slightly higher because WesTower was acquired on April 1, 2011 and therefore the seasonally slow WesTower first quarter is not included in the Company's 2011 results. Consistent with the explanation in the third quarter, the margins have been suppressed slightly by the U.S. telecommunications market which is experiencing some uncertainty pertaining to an announced merger of two significant industry players. This uncertainly 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 normal amounts of lower margin small contracts. The announced merger was terminated in December which is viewed as a positive for WesTower's business as the major telecom companies will now have more clarity and the ability to move forward with their capital expenditure plans. WesTower began to incur costs during the fourth quarter of 2011 as it built its structure for the new volumes of work from its turfing contract and this build-up is expected to continue through the first six months of 2012.

The pre-existing operations of the Manufacturing segment increased EBITDA by $4.5 million or 65%, consistent with the increase in revenues, the Alberta operations and Stainless led the increase in performance. The EBITDA growth was driven by both increased volume and stronger margins. Overall the EBITDA margins of the pre-existing operations increased four percentage points to 16.6%. These EBITDA margins are the highest margins experienced by the manufacturing segment since 2007. The Manufacturing segment has benefited from increased sales to cover their overhead costs, and from improvements made to the efficiency of their operations through the recession.

The addition of WesTower and the growth of the pre-existing operations of the Manufacturing segment resulted in the Manufacturing segment contributing 46% of the Company's 2011 consolidated revenues in comparison to 23% in 2010. At the EBITDA level the Manufacturing segment contributed 33% of the consolidated EBITDA of the Company's segments in comparison to 16% for the comparative in 2010.

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

HEAD OFFICE COSTS

	2011	2010	Variance	Variance %
Expenses	$ 7,315	$ 6,351	$ 964	15%

The head-office costs increased in the 2011 year by $1.0 million or 15% over the 2010 comparative. The head-office group of management personnel increased which is consistent with the significant growth in the operating entities within the consolidated group. As a result, the personnel costs incurred by the Company's head-office increased in 2011 by $0.8 million and would include the growth in the head-office team and also include the additional cost coming from 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. As the Company grows in size and continues to show positive performance, the number of participants in the employee share purchase plan grows and results in increased costs at head-office. The Company's cost of the employee share purchase plan increased by $0.4 million in 2011.

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 incurred by the Company's for its deferred share plan decreased by $0.3 million in 2011 year over the comparative 2010.

OTHER NON-EBITDA ITEMS

The following analyzes the changes in the other non-EBITDA income statement items that impacted net earnings for the 2011 year in comparison to 2010. Consolidated net earnings for the 2011 year was $20.7 million, an increase of $7.0 million over the comparative 2010 year.

	2011	2010	Variance	Variance %
Depreciation and amortization	$ 30,591	$ 16,598	$ 13,993	84%

The depreciation and amortization recorded by the Company for the 2011 year increased by $14.0 million or 84% over the comparative 2010. The acquisitions of Bearskin and WesTower in 2011 with no comparable in 2010 resulted in a combined increase of $8.8 million. Over fiscal 2010 the Company made significant internal growth initiatives totaling $44.1 million and the majority of those items were purchased over the latter half of that year. As a result the 2011 amount of depreciation on those items would be recorded for the full year in comparison to only a portion of the year during the comparative. In addition the Company made additional internal growth initiatives of $13.4 million during the 2011 year. The majority of the increase in the depreciation and amortization recorded in the 2011 year was in the Aviation segment which is where the majority of the capital expenditures have been made during both years due to the capital intensive characteristics of that segment and certain opportunities presented in that segment.

	2011	2010	Variance	Variance %
Finance costs – interest	$ 12,390	$ 7,476	$ 4,914	66%

The Company incurred additional interest costs for the 2011 year of $4.9 million or 66% in comparison to the comparative 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.

A number of factors impacted the interest incurred by the Company on its debentures which increased by $3.5 million in 2011 over 2010. First, 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 2011 the Company incurred a combined total of $5.4 million of interest on these two new series that has no comparative in 2010. Secondly, during 2010, the Company's Series B and C both matured, and by the choice of the Company the Series E was redeemed early. The combined interest from those debentures in 2010 was $0.2 million which was not incurred in 2011. Similarly, during 2011 the Company's Series D debentures matured and the Company incurred $0.5 million less interest in 2011 on this series. Thirdly, due to various conversions of debentures in the other Series F, G and H of the Company that were outstanding during both periods, the interest incurred in 2011 decreased by a combined $1.2 million.

The Company's interest incurred on long-term debt and finance lease obligations increased by $1.4 million in the 2011 year as a result of higher debt levels outstanding on average and increased standby charges incurred during 2011 in comparison 2010. The acquisition of WesTower resulted in the Company having finance leases with interest expenses of $0.1 million recorded which did not exist in 2010.

	2011	2010	Variance	Variance %
Acquisition costs	$ 1,830	$ 666	$ 1,164	175%

With the acquisition of Bearskin on January 1, 2011, the Company incurred $0.7 million of acquisition costs in the 2010 year prior to the closing of the acquisition. The total acquisition costs incurred by the Company during the 2011 year was $1.8 million, an increase of $1.2 million and is attributed to certain costs from the Bearskin acquisition that were incurred after the closing, the acquisition of WesTower and also other external costs incurred by the Company for other potential acquisitions that did not close during the year. The Company did not incur and record any external costs pertaining to the subsequent closing of Custom Helicopters in February 2012 in the 2011 year.

	2011	2010	Variance	Variance %
Foreign exchange gains on debt	$ —	$ (55)	$ 55	–100%

During the comparative 2010 year, 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 at the end of 2010 and, therefore, no foreign exchange gains or losses are recognized during the 2011 year.

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.

	2011	2010	Variance	Variance %
Current income tax expense	$ 653	$ —	$ 653	—
Deferred income tax expense	8,630	5,816	2,814	48%
Net Income Tax Expense	$ 9,283	$ 5,816	$ 3,467	60%

The Company's income tax expense for the 2011 year was $9.3 million, an increase of $3.5 million or 60% over the comparative 2010. The primary reason for the increase in tax expense is due to an increase of earnings before tax of 53%. All other things being equal, a 1% year over year change in net income before tax should result in a 1% year over year change in income tax expense. However, an increase in permanent non-deductible expenses caused the weighted average tax rate of 30.9% to increase by 1.2% from 29.7% in 2010.

The Company has the ability to offset much of the taxable income with non-capital losses. During 2011 the Company used $26.8 million of non-capital losses; it has approximately $149.2 million of non-capital losses available to offset future taxable income.

Current tax expense is the expected tax payable on taxable income for the year of subsidiaries that do not have access to non-capital losses. During the 2011 year the income subject to tax of these subsidiaries was $1.8 million and the Company's current taxes were $0.7 million. The taxable income of these entities that do not have access to the non-capital losses was nil in 2010. Additionally, current tax expense includes non-resident withholding tax.

5. Summary of Quarterly Results

				2011				2010
IFRS Quarterly Comparatives	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenue	$ 147,780	$ 145,993	$ 138,008	$ 78,522	$ 65,160	$ 64,471	$ 60,894	$ 53,861
EBITDA	20,734	22,153	19,738	12,214	11,352	12,363	11,905	8,648
Net earnings	6,914	7,285	4,506	2,040	2,913	4,411	4,179	2,264
Basic	0.40	0.42	0.27	0.13	0.20	0.33	0.33	0.20
Diluted	0.38	0.41	0.27	0.13	0.20	0.31	0.32	0.19
Free cash flow (FCF)	17,470	19,234	16,890	10,515	10,251	10,697	10,563	7,125
Basic	1.00	1.11	1.00	0.68	0.71	0.80	0.84	0.63
Diluted	0.83	0.92	0.83	0.59	0.61	0.65	0.67	0.52
FCF less maintenance capital expenditures	9,845	12,721	8,059	3,844	6,267	6,766	6,120	5,070
Basic	0.57	0.74	0.48	0.25	0.44	0.51	0.48	0.45
Diluted	0.50	0.63	0.43	0.25	0.39	0.43	0.41	0.39

During 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 has been adjusted in the table above from the 2010 annual report and resulted in a reduction to total revenues. Previously reported gross sales for these periods of $3.2 million have been adjusted to net revenues of less than $0.1 million. The change in measurement has no impact on the EBITDA, net earnings or free cash flow generated for the applicable periods.

6. Review of Fourth Quarter Results

	Three months ended December 31, 2011				Three months ended December 31, 2010			
	Aviation	Manufacturing	Head-office[2]	Consolidated	Aviation	Manufacturing	Head-office[2]	Consolidated
Revenue	$ 68,774	$ 79,006	$ —	$ 147,780	$ 49,115	$ 16,045	$ —	$ 65,160
Expenses[1]	55,043	70,328	1,675	127,046	38,046	13,852	1,910	53,808
EBITDA	13,731	8,678	(1,675)	20,734	11,069	2,193	(1,910)	11,352

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.

Consistent with the annual results, the Company experienced strong fourth quarter growth in revenue and EBITDA, which increased by $82.6 million and $9.4 million over the 2010 comparative period. The main drivers of the increase were the acquisitions of Bearskin and WesTower, which were not owned by the Company in the comparative 2010 period. In the fourth quarter Bearskin added revenue of $13.7 million and EBITDA of $1.5 million, while WesTower contributed revenue of $59.2 million and EBITDA of $5.7 million. WesTower's results in the fourth quarter were in-line with management's expectations, especially considering they incurred start-up costs in order to service their new AT&T turf contract. These build-up costs are expected to continue into the first six months of 2012. Bearskin's results were slightly behind expectations as pricing pressure in their most eastern markets put downward pressure on fourth quarter margins.

Removing the new acquisitions from the analysis shows that the Company's pre-existing operations increased revenues to $74.9 million and EBITDA to $13.6 million. This is an increase in revenue of $9.7 million or 15% and an increase in EBITDA of $2.2 million or 20%, over the comparative 2010 period. Both segments contributed to the growth of the Company's pre-existing operations, as the Aviation and Manufacturing segments contributed $1.2 million and $0.8 million of the growth in EBITDA, respectively. The remaining $0.2 million growth in EBITDA was as a result of lower expenses at head office.

The pre-existing Aviation segment entities increased revenue by $6.0 million and EBITDA by $1.2 million compared to the prior year. The major drivers of the increased revenues were the medevac contract in the Baffin Island region of Nunavut which commenced in December 2010, strong medevacs in the Manitoba market, fuel surcharges, and additional revenue from the aviation support companies. These increases were partially offset by a decline in revenues from Keewatin's schedule business which was strategically exited in September 2011. This strong growth in revenues led to an overall increase in EBITDA of $1.2 million. There were significant additional expenses in the quarter relating to the temporary wet lease of a jet for Calm Air's contract with the Government of Nunavut, as discussed in the Analysis of Operations. This led to additional costs of $1.1 million in the fourth quarter of 2011. However in the comparative period in 2010, the Company also incurred additional costs as it related to Keewatin's start-up for its new medevac contract in the Baffin Island region of Nunavut. In that period total start-up costs of $1.2 million were incurred. These two items offset each other when comparing the 2011 and 2010 fourth quarters.

The pre-existing Manufacturing entities increased revenue by $3.7 million and EBITDA by $0.8 million compared to the fourth quarter of 2010. Consistent with the discussion of the operations for annual 2011, this improvement was driven by the Alberta operations and Stainless.

As discussed in previous reports, the first and fourth quarters of the year are typically weaker than the second and third largely as a result of the Aviation operations. The acquisition of WesTower changes this seasonality somewhat for the fourth quarter but makes the first quarter seasonality even more pronounced. Overall fourth quarter EBITDA contracted $1.4 million from the third quarter, which was the result of a decrease in EBITDA generated by the Aviation segment of $3.2 million offset by an additional $1.5 million of EBITDA generated by the Manufacturing segment and lower expenses at head office. In this case the Manufacturing segment helped to offset some of the traditional Aviation seasonality that is driven by bad weather in the Nunavut market and by the occurrence of more one way traffic as a result of the holiday season. However the first quarter seasonality will be much more pronounced because of the WesTower acquisition. The first quarter is already the seasonally slowest quarter for the Aviation segment, as a result of the bad weather in Nunavut and presence of winter roads in the Manitoba market. Now it will also be the seasonally slowest quarter for the Manufacturing segment as WesTower generates its lowest sales and EBITDA in this quarter. The telecom industry generally has a very slow start to the year as the large teleco's roll out their capital expenditure budgets to their regional offices that then contract the work out to companies such as WesTower. This is consistently a slow process resulting in a seasonal slow first quarter for WesTower. WesTower's business begins to strengthen in the second quarter with its two strongest quarters being the third and fourth quarters.

7. Liquidity And Capital Resources

As at December 31, 2011, the Company had a net cash position of $11.5 million (December 31, 2010 of $1.5 million) and net working capital of $67.3 million (December 31, 2010 of $39.7 million), which represents a current ratio of 1.80 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.

	December 31, 2011	December 31, 2010	Change
Cash and cash equivalents	$ 11,475	$ 1,471	$ 10,004
Cash – restricted	—	27,625	(27,625)
Accounts receivable	69,172	29,514	39,658
Costs incurred plus recognized profits in excess of billings	25,913	762	25,151
Inventory	39,853	22,669	17,184
Prepaid expenses	4,879	3,492	1,387
Accounts payable and accrued expenses	(57,726)	(35,413)	(22,313)
Income taxes payable	(2,654)	—	(2,654)
Deferred revenue	(8,909)	(5,643)	(3,266)
Billings in excess of costs incurred plus recognized profits	(13,489)	(3,686)	(9,803)
Current portion of long-term debt and finance leases	(1,237)	—	(1,237)
Current portion of convertible debentures	—	(1,052)	1,052
Net working capital	$ 67,277	$ 39,739	$ 27,538

IFRS IMPACT ON COMPARATIVE WORKING CAPITAL

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 credit recorded under CGAAP isn't recognizable under IFRS.

Also under IFRS reporting the Company presents its rotable parts as capital assets due to their nature and useful lives when installed on an aircraft. As a result, $5.6 million of rotables 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 10 for information on the transition to IFRS for the Company.

ANALYSIS

The $27.6 million of restricted cash from year-end 2010 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 December 31, 2011.

Even with the restricted cash not in the December 31, 2011 working capital, the Company's working capital increased by $27.5 million in comparison to year-end 2010 (or $55.1 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 December 31, 2011 by $49.6 million. The majority comes from WesTower which contributes approximately $49 million of working capital as at December 31, 2011. Aside from the additional working capital from the acquired companies, the working capital of the Company as at December 31, 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.

At the beginning of the first quarter of 2011, 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 new 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 December 31, 2011, the Company had $25.0 million outstanding under the Canadian portion and US$21.45 million outstanding under the US portion. Throughout the 2011 year the Company made various repayments to and draws from its credit facility. Overall the Canadian portion of the facility outstanding was reduced by $21 million and the US portion increased by US$14 million. As mentioned above, the cash obtained from the issuances of the convertible debentures during 2011 was the main cause for the net repayment to the Canadian portion of the facility and the US portion of the facility was used in funding the acquisition of WesTower.

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 during 2011 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 December 31, 2011.

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 leases assumed on acquisition were US$2.2 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$0.6 million and $0.4 million Canadian of principal payments. Also during that period, WesTower entered into new finance leases with a capital asset value and principal obligation of $1.3 million.

The Company has multiple series of convertible debentures outstanding as outlined below. During the 2011 year the Company had a combined total of $20.5 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 $53.1 million from its operations during the 2011 year (or $64.1 million of Free Cash Flow). The Company used these funds for significant capital expenditures and the repayment of certain debt items, which helps enable the Company to fund future acquisitions through its credit facility. See Section 3 for more information on the capital expenditures made during the 2011 year.

The Company's dividends are dependent on its ability to generate cash flow from operations and Free Cash Flow. During 2011 the Company increased the monthly dividend to $0.135 per share per month but the significant change in the shares outstanding of the Company is the main contributor to the overall increase in the dividends declared for 2011 totaling $27.1 million in comparison to $20.3 million for 2010.

The following summarizes the changes in the Shares outstanding of the Company during the 2011 year:

	Date issued	Number of shares
Shares outstanding, beginning of year		14,518,842
Issued upon conversion of convertible debentures	various	1,391,438
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	161,615
Issued under employee share purchase plan (ESPP)	October 28, 2011	71,689
Issued to Tribal Councils Investment Group [1]	April 15, 2011	12,728
Shares outstanding, end of year		17,399,182

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.

With the acquisition of Custom Helicopters on February 1, 2012 and the significant number of convertible debenture conversions subsequent to December 31, 2011, the following table summarizes the changes in the Shares outstanding of the Company subsequent to year-end 2011 up to February 29, 2012:

	Date issued	Number of shares
Shares outstanding, January 1, 2012		17,399,182
Issued upon conversion of convertible debentures	various	241,046
Issued for Custom Helicopters vendors	February 1, 2012	170,121
Issued under First Nations community partnership agreements	February 2, 2012	23,500
Issued under dividend reinvestment plan (DRIP)	various	25,331
Shares outstanding, February 29, 2012		17,859,180

The following summarizes the changes in the warrants outstanding of the Company during the 2011 year:

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

The following summarizes the convertible debentures outstanding as at December 31, 2011 and the changes in the amount of convertible debentures outstanding during the 2011 year:

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 year		Issued		Converted		Matured		Balance, end of year
Series D	$	1,075	$	—	$	(1,075)	$	—	$	—
Series F		1,974		—		(745)		—		1,229
Series G		24,034		—		(16,140)		—		7,894
Series H		30,000		—		(2,559)		—		27,441
Series I		—		35,000		—		—		35,000
Series J		—		57,500		—		—		57,500
Total	$	57,083	$	92,500	$	(20,519)	$	—	$	129,064

As described above, subsequent to year-end 2011 the Company has had principal of $4.5 million of convertible debentures converted into 241,046 Shares of the Company during the 2012 period up to February 29, 2012.

The following are the contractual obligations of the Company and its subsidiaries as at December 31, 2011:

		Total		Less than 1 year		Between 1 year and 5 years		More than 5 years
Long-term debt	$	46,815		—		46,815		—
Debentures - series D, F-J		129,064		—		44,123		84,941
Operating leases		27,834		6,799		11,512		9,523
Finance leases		3,184		1,190		1,994		—
Total	$	206,897	$	7,989	$	104,444	$	94,464

8. Related Party Transactions

The following transactions were carried out by the Company with related parties.

MARKETING AGREEMENT

The Company has a marketing agreement with Tribal Councils Investment Group ("TCIG"), whose president was a director of the board of the Company during 2010 and part of 2011. The agreement is in the normal course of operations, at market terms and conditions, except that the compensation is payable to TCIG in either Shares of the Company or cash, and is recognized in the consolidated financial statements at the exchange amounts. The compensation to TCIG is conditional on the annual increase in sales at Perimeter. The Company incurred commissions of $0.2 million in 2011 (2010 – $0.1 million). The amount payable to TCIG at December 31, 2011 is $0.2 million (2010 – $0.2 million).

PROPERTY LEASES

Various entities within the Manufacturing segment lease several buildings from related parties who were vendors of the manufacturing entity that the Company purchased the business from originally. These vendors are considered related parties because of their continued involvement in the management of those businesses. These leases are considered to be at market terms and recognized in the consolidated financial statements at the exchange amounts. The total costs incurred in 2011 under these leases was $1.3 million (2010 – $1.1 million) and the lease term maturities range from 2012 to 2016. The expense is recorded within general and administrative expenses and is paid monthly, therefore no balance exists on the Company's statement of financial position (2010 – nil).

PROFESSIONAL SERVICES

The Company's legal counsel is Aikins, MacAulay & Thorvaldson LLP ("Aikins") in Winnipeg, Manitoba, whose Managing Partner is a director on the board of the Company. The transactions are at market terms and conditions. These transactions are in the normal course of operations associated with legal professional services and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Depending on the services provided, certain costs are expensed in the period incurred, some costs that are considered transaction costs associated with financial liabilities are recognized as interest expense over the life of the related financial instrument, while other costs associated with the raising of equity are recorded as issuance costs against the related equity item. The total costs of services provided during 2011 are $1.5 million (2010 – $1.2 million). As at December 31, 2011, a payable balance of less than $0.1 million is recorded on the balance sheet (2010 – $0.6 million).

KEY MANAGEMENT COMPENSATION

The Company identifies its key management personnel being those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of the Company's board (whether executive or otherwise).

Compensation awarded to key management for the 2011 year and the comparative 2010 year is as follows:

	2011	2010
Salaries and short-term benefits	$ 2,649	$ 1,991
Share-based payments	282	432
	$ 2,931	$ 2,423

9. Critical Accounting Estimates

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of the financial statements.

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.

In certain circumstances the Company also has to consider the differences between the acquisition of a business and the purchase of assets depending on the terms of an acquisition contract. Certain judgments can be made in this determination which impacts the valuation and recognition of assets acquired and liabilities assumed. When an asset acquisition occurs the identifiable assets acquired and liabilities assumed are allocated the cost of the acquisition and no goodwill or gain on a bargain purchase would be recognized.

No business combinations took place for the Company during the 2010 year. See Note 6 of the Company's consolidated financial statements for the acquisition of Bearskin on January 1, 2011 and the acquisition of WesTower on April 1, 2011. Both of these acquisitions have been determined to be business combinations because the operations of Bearskin and WesTower both meet the definition of a business under IFRS.

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.

The Company also evaluates the Aviation segment's fuel sales transactions which includes certain transactions being recognized as agency sales. Certain judgments are made by the Company in determining which fuel sales within the Aviation segment are treated as agency sales and shown on a net basis. The criterion used in the Company's assessment is based on the terms, conditions and other characteristics of the transactions. There is no gross profit impact based on the decision made by the Company and only impacts the presentation between gross and net of costs within the Aviation segment's revenues and direct operating expenses.

COMPONENTIZATION

Certain tangible assets of the Company have significant components that are categorized into separate categories that are amortized over each category's estimated useful economic life. This is particularly prevalent for the Aviation segment's aircraft. Included in the significant components are major inspection and overhaul costs that are capitalized. The Company makes estimates regarding the categorization of these components, their economic useful lives and their residual values. Changes to these estimates are recognized through depreciation expense and are adjusted in the period when the change is made. These assumptions are reviewed regularly by the Company and in particular when aircraft maintenance events take place.

DEPRECIATION & AMORTIZATION PERIOD FOR LONG-LIVED ASSETS

The Company makes estimates about the expected useful lives of long-lived assets and the expected residual values of the assets based on the estimated current fair value of the assets, the Company's aircraft fleet plans and the cash flows expected to be generated from them. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in utilization of the aircraft, changing market prices aircraft of the same or similar types and changes in the utilization of other major manufacturing equipment and buildings. Estimates and assumptions are evaluated at least annually. Generally, these adjustments are accounted for on a prospective basis, through depreciation and amortization expense.

IMPAIRMENT CONSIDERATIONS ON LONG-LIVED ASSETS

Goodwill and certain intangible assets are not amortized. Goodwill and all intangibles are assessed for impairment at least annually. Impairment testing is performed on long-lived assets by comparing the carrying amount of the asset or cash generating unit to their recoverable amount, which is calculated as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Value in use is calculated based upon a discounted cash flow analysis, which requires management to make a number of significant assumptions including assumptions relating to future operating plans, discount rates and future growth rates. The assumptions include using the Company's weighted average cost of capital at the assessment date which incorporates the Company's existing capital items. Growth factors are based on industry related standards but range between 2.5 – 3.0%.

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.

FUNCTIONAL CURRENCY

The Company makes judgments around its reporting currency and the functional currency of its operating subsidiaries. The structure of the Company includes certain U.S. subsidiaries with foreign operations in that functional currency and the assessment of those entities' functional currency impacts the accounting impact within the Company's consolidated results. There are several indicators that are assessed in determining functional currency, including the currency influencing sales prices for goods and services, the currency impacting competitive forces and regulations, and the currency impacting operational costs incurred. The U.S. operating subsidiaries of the Company have been determined to have a U.S. functional currency which is different from the Company's Canadian dollar reporting currency. As a result of this assessment by the Company and as described further in Note 22 of the Company's consolidated financial statements, the foreign currency translation adjustments are recorded through Other Comprehensive Income.

10. Accounting Policies

The accounting policies of the Company used in the determination of the results for years ended December 31, 2011 and 2010 that are discussed and analyzed in this report are described in detail in Note 3 of the Company's consolidated financial statements. With the adoption of IFRS and the commencement of reporting under IFRS by the Company in 2011, the accounting policies and results of the Company are not consistent with the Company's 2010 annual report. The following section will describe and discuss the changes in the Company's accounting policies with the transition to IFRS.

TRANSITION TO IFRS

Effective January 1, 2011 and as further described in the Company's audited Consolidated Financial Statements and related notes for the year ended December 31, 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.

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 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 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.

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			January 1, 2010		
	CGAAP	ADJ	IFRS	CGAAP	ADJ	IFRS
ASSETS						
CURRENT						
Cash and cash equivalents	$ 1,471	$ —	$ 1,471	$ 4,857	$ —	$ 4,857
Cash - restricted	27,625	—	27,625	—	—	—
Accounts receivable	29,514	—	29,514	20,027	—	20,027
Costs incurred plus recognized profits in excess of billings	762	—	762	895	—	895
Inventory	28,269	(5,600)	22,669	27,234	(4,506)	22,728
Prepaid expenses	3,809	(317)	3,492	2,401	(54)	2,347
Deferred income tax	6,154	(6,154)	—	4,560	(4,560)	—
	97,604	(12,071)	85,533	59,974	(9,120)	50,854
CAPITAL ASSETS	158,439	(1,704)	156,735	119,400	(6,097)	113,303
INTANGIBLE ASSETS	12,842	(588)	12,254	13,371	—	13,371
DEFERRED INCOME TAX	28,444	3,596	32,040	34,618	3,752	38,370
GOODWILL	39,678	—	39,678	40,446	—	40,446
	$ 337,007	$ (10,767)	$ 326,240	$ 267,809	$ (11,465)	$ 256,344
LIABILITIES						
CURRENT						
Accounts payable and accrued expenses	$ 35,210	$ 203	$ 35,413	$ 26,031	$ 64	$ 26,095
Deferred revenue	4,133	1,510	5,643	5,936	1,315	7,251
Billings in excess of costs incurred plus recognized profits	3,686	—	3,686	690	—	690
Current portion of long-term debt	—	—	—	2,943	—	2,943
Current portion of convertible debentures	1,052	—	1,052	5,761	—	5,761
Current portion of debentures	—	—	—	9,691	—	9,691
Current portion of deferred credit	4,700	(4,700)	—	3,464	(3,464)	—
	48,781	(2,987)	45,794	54,516	(2,085)	52,431
LONG-TERM DEBT	53,100	—	53,100	25,447	—	25,447
CONVERTIBLE DEBENTURES	49,461	254	49,715	36,150	129	36,279
OVERHAUL ACCRUAL	11,103	(11,103)	—	7,565	(7,565)	—
DEFERRED INCOME TAX	—	—	—	638	(229)	409
DEFERRED CREDIT	31,714	(31,714)	—	36,191	(36,191)	—
	194,159	(45,550)	148,609	160,507	(45,941)	114,566
EQUITY						
SHARE CAPITAL	148,046	—	148,046	104,451	—	104,451
CONVERTIBLE DEBENTURES EQUITY COMPONENT	4,484	(1,448)	3,036	3,641	(882)	2,759
WARRANTS	155	—	155	952	—	952
CONTRIBUTED SURPLUS	102	—	102	61	—	61
CUMULATIVE EARNINGS	46,018	36,905	82,923	33,124	36,032	69,156
CUMULATIVE DIVIDENDS	(55,943)	—	(55,943)	(35,601)	—	(35,601)
ACCUMULATED OTHER COMPREHENSIVE INCOME	(14)	(674)	(688)	674	(674)	—
	142,848	34,783	177,631	107,302	34,476	141,778
	$ 337,007	$ (10,767)	$ 326,240	$ 267,809	$ (11,465)	$ 256,344

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 rotable 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 rotable 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.
- During the fourth quarter of 2011, the Company made a change to the original fair value adjustment as a result of a further internal review of the valuation technique used in valuing these aircraft and the various components of the aircraft. The review resulted in certain additional aircraft having their CGAAP net book values adjusted and other certain aircraft further decreased for an additional $3,709 through retained earnings from the original adjustment previously disclosed in the Company's first, second and third quarter interim reports for the 2011 reporting period.
- 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 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 credit, which was recorded under CGAAP as a result of the 2009 event when the Company converted from a publicly traded income trust to a publically traded corporation, 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.

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

	Year ended December 31, 2010			Three months ended December 31, 2010		
	CGAAP	ADJ	IFRS	CGAAP	ADJ	IFRS
REVENUE						
Aviation	$ 186,137	$ 2,876	$ 189,013	$ 48,402	$ 713	$ 49,115
Manufacturing	55,373	—	55,373	16,045	—	16,045
	241,510	2,876	244,386	64,447	713	65,160
EXPENSES						
Direct operating - excluding depreciation and amortization	120,290	(8,700)	111,590	31,202	(2,457)	28,745
Cost of goods sold - excluding depreciation and amortization	36,179	—	36,179	10,661	—	10,661
General and administrative	52,636	(287)	52,349	14,483	(80)	14,403
Depreciation and amortization	10,472	6,126	16,598	2,679	1,946	4,625
	219,577	(2,861)	216,716	59,025	(591)	58,434
EARNINGS BEFORE THE FOLLOWING	21,933	5,737	27,670	5,422	1,304	6,726
Finance costs - interest	8,057	(581)	7,476	1,871	(194)	1,677
Acquisition costs	—	666	666	—	640	640
Foreign exchange gains on debt	(55)	—	(55)	17	—	17
EARNINGS BEFORE INCOME TAXES	13,931	5,652	19,583	3,534	858	4,392
INCOME TAX EXPENSE (RECOVERY)						
Current	—	—	—	(23)	—	(23)
Deferred	1,037	4,779	5,816	285	1,218	1,503
	1,037	4,779	5,816	262	1,218	1,480
NET EARNINGS FOR THE PERIOD	$ 12,894	$ 873	$ 13,767	$ 3,272	$ (360)	$ 2,912
OTHER COMPREHENSIVE INCOME (LOSS), net of tax						
Cumulative translation adjustment	(688)	—	(688)	(467)	—	(467)
COMPREHENSIVE INCOME FOR THE PERIOD	$ 12,206	$ 873	$ 13,079	$ 2,805	$ (360)	$ 2,445

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.
- 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.

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	29,525	28,745	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	56,394	58,434	216,716
EARNINGS BEFORE THE FOLLOWING	4,854	8,013	8,077	6,726	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	6,117	4,392	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	$ 4,412	$ 2,912	$ 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	$ 3,962	$ 2,445	$ 13,079

As described in Section 5, during 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 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 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, 2015, but is available for early adoption. The Company has not fully assessed the impact of adopting IFRS 9; however, it anticipates that its impact will be limited.

IFRS 10, Consolidated Financial Statements

IFRS 10, Consolidated Financial Statements, issued by the IASB in May 2011, provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27 Consolidated and Separate Financial Statements and Standing Interpretations Committee ("SIC") 12 Consolidation – Special Purpose Entities. IFRS 10 is to be applied retrospectively and is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently evaluating the impact of the above standard on its financial statements.

IFRS 12, Disclosure of Interests in Other Entities

IFRS 12, Disclosure of Interests in Other Entities, issued by the IASB in May 2011, is a new standard that addresses the disclosure requirements for all interests in other entities, including subsidiaries, joint arrangements, associates, and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently evaluating the impact of the above standard on its financial statements.

IFRS 13, Fair Value Measurement

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

Amendments to IAS 1, Presentation of Financial Statements

The amendments to IAS 1, Presentation of Financial Statements, issued by the IASB in June 2011, requires companies preparing financial statements to group together items within other comprehensive income ("OCI") on the basis of whether they may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The amendments are effective for annual periods beginning on or after July 1, 2012, with earlier application permitted. The Company is currently evaluating the impact of the above standard on its financial statements.

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.

11. Controls and Procedures

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

Management has evaluated the design and operation of the Company's internal controls over financial reporting as of December 31, 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 computer controls, including controls around change management, security, and access controls. This weakness in information technology general computer controls has the potential to result in material misstatements in the financial statements as well as inappropriate authorizations of transactions. The Company continues to work on the design, evaluation and implementation of information technology controls.

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

The assessment of control design was completed during the year 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. As permitted under Section 3.3 of National Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings, management has limited the scope of its evaluation of internal controls over financial reporting to exclude the evaluation of the operating effectiveness of these controls. The effectiveness of these controls will be tested during the next fiscal year.

WesTower had revenue of $166.5 million and EBITDA of $13.5 million included in the consolidated results of the Company for the year ended December 31, 2011 since being acquired on April 1, 2011. As at December 31, 2011, it also had current assets and current liabilities of $74.6 million and $25.3 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.

On February 1, 2012, subsequent to the end of the 2011 year, the Company acquired the operations and assets of Custom Helicopters Ltd. As at the date of this MD&A, management has not completed its review of internal controls over financial reporting for this newly acquired company nor determined its impact, if any, on the Company's internal controls over financial reporting. There have been no other material changes to the Company's internal controls during the 2011 year that would have materially affected or are likely to materially affect the internal controls over financial reporting.

DISCLOSURE CONTROLS AND PROCEDURES

Management has established and maintained disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to management in a timely manner and that information required to be disclosed by the Company is reported within the time periods prescribed by applicable securities legislation. Due to the substantial overlap between internal controls over financial reporting and disclosure controls and procedures, management has concluded that disclosure controls and procedures as at December 31, 2011 were not effective.

12. Risk Factors

The Company and its subsidiaries are subject to a number of business risks. These risks relate to the structure of the Company and to the operations at the subsidiary entities. The following sections summarize the principal risks and uncertainties that could affect the Company's future business results going forward and explains how these risks are managed to an acceptable level.

ECONOMIC CONDITIONS

The Canadian and U.S. economies continued to recover from the recession that ended in 2009. The economies that the Company operates in have improved but not yet recovered to the prerecession levels. The Company is also cognizant that the Canadian and U.S. economies are susceptible to the global economy and the continued weakness in the eurozone. Negative events there could lead to reduced global demand, considerable weakness in commodity prices, and tight global credit conditions. A weaker economy will impact the Company to sustain its operating results or create any growth.

The Manufacturing segment is more susceptible to weakness in demand and commodity prices then the Aviation segment. The Manufacturing segment is geographically dispersed and therefore some risks exist that a downturn will impact some regions, like Alberta whose economy is driven by oil and gas more than others. As well, the U.S. economy downturn impacts the operations of Stainless more than our other operations. WesTower is more specifically impacted by the telecommunication industry which is driven by the large teleco's capital expenditure programs which is often on a different cycle then the general economy. 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. In the event of reduced demand for their products, the Manufacturing segment will focus on initiatives that try to mitigate this risk through finding additional customers, increasing focus on service work, maximizing efficiency and controlling costs. This segment historically has some time lag between the economy's weakening and the reduced demand for their products as the Manufacturing segment generally has a reasonable order backlog, as well some of the Manufacturing segments' projects are longer in nature, which gives them a buffer to prepare for the reduction in demand.

The characteristics of the markets that the Aviation segment operates within are not impacted by the state of the overall economy as directly as the Manufacturing segment. This is a result of a large portion of the services being considered a necessity, such as medevacs and government travel, versus a consumer choice. The reductions in certain commodity prices, such as aviation fuel, will actually benefit the Aviation segment through reduced costs to operate.

INTEREST RATES

As at December 31, 2011, the Company's syndicated credit facility has a variable interest rate on the Canadian and US portions of the amount outstanding under the facility. A one-percentage point increase in average interest rates would cost the Company approximately $0.5 million per annum for the credit facility. Subsequent to 2011, the Company drew $25 million from its credit facility for the acquisition of Custom and used the net proceeds from the issuance of shares on March 6, 2012 to reduce the amount outstanding under the credit facility by $55 million. After these transactions involving the Company's credit facility are taken into consideration, a one-percentage point increase in the average interest rates would cost the Company approximately $0.2 million per annum. 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). The Company manages the base rate used on the outstanding facility to mitigate this risk and seeks financing terms in individual arrangements that are most advantageous. The Company considers derivative instruments to manage the variable interest rate risk and has entered into interest rate swaps in order to manage this risk in the past. The Company's outstanding debentures have fixed interest rates which are not affected by changes in rates.

FUEL PRICES

Fuel is a very significant cost component in the operation of the Aviation segment. Each $0.01 increase per litre in the average cost of fuel increases the operating costs of the segment by approximately $0.5 million. While most of the travel by the Aviation segment's customers is not discretionary (i.e. for medical or other necessary reasons) and overland travel from and to many of the communities serviced is only possible for brief periods of the year over winter roads, if prices were to escalate significantly it may impact demand for services. Second, if the competitive environment was to change, and the companies were unable to pass these increased costs on to the customer, future profits would be negatively impacted.

The operations of the Manufacturing segment entities in Alberta act somewhat as a hedge to changes in the fuel prices. As oil prices are low, the Aviation segment benefits from lower input costs but lower oil prices have a negative impact on Alberta operations in the Manufacturing segment as the lower oil prices hurt the Alberta oil and gas market. As oil prices increase, fuel costs increase for the Aviation segment but this will increase demand for products manufactured by the Alberta operations in the Manufacturing segment.

COMPETITION

The Company believes that it is an industry leader in its Aviation segment and strives to be as well in its Manufacturing segment. The Company recognizes that there are threats in the operating environment, which may challenge each segment's ability to sustain their market leadership positions.

The Aviation segment currently focuses on niche markets in Manitoba, Ontario and Nunavut. The Aviation segment would be exposed to downside earnings risk if a well-capitalized competitor were to startup operations in the niche markets where the entities currently operate. In the past, management's approach on new competition, which is consistent with all competitors, has been to continue to deliver exceptional services at a competitive price which has historically been successful given the operational cost structure and fleet of these Aviation segment entities. The acquisition of Bearskin in January 2011 expands the geographic market area that the Aviation segment operates in Ontario. As a result the Aviation segment's exposure to downside earnings risk grows with the addition of Bearskin and the new market area with additional competitors.

The Aviation segment has historically dealt well with changes in the competitive landscape through its low cost of operation, fleet of appropriately sized owned aircraft and its relationship with its customers. Each of the entities within the Aviation segment has significant competitive advantages and barriers to entry in their respective markets. As the Aviation segment has grown, including the size of the overall fleet of aircraft, the ability for the entities to support each other has given it an ability to take advantage of opportunities that would not normally be available if these individual entities were restricted to only their own aircraft. The impact of competition in the Aviation segment could result in reduced revenue and profitability, in particular, during the short term.

The Manufacturing segment has competition in all its markets. WesTower is the dominate tower and service provider in Canada, while it has a smaller percentage of the market in the more fragmented US market. WesTower has been able to secure a large amount of their base work through contracts with major teleco's in the US and Canada, which mitigates the risk of competition in the short-term. The Alberta operations are working to provide high levels of service and maintain customer relationships which will benefit them in customer retention and repeat business. As commodity prices increase, the opportunity for increased revenues and profitability rises. Stainless has continued to expand its product offering and large scale field projects that it was previously not able to produce in order to expand their market presence.

GOVERNMENT OF NUNAVUT CONTRACTS

Keewatin has medical evacuation contracts with the Government of Nunavut, which provide Keewatin with the exclusive rights to provide medical evacuations ("medevacs") in the Kivalliq and Baffin Island regions of Nunavut. Both contracts provide Keewatin with a fixed base fee to cover the costs of operating in Nunavut plus a variable fee per hour flown. Keewatin was successful as the incumbent in being awarded the Kivalliq contract and signed a five year contract in the second quarter of 2011. The Baffin Island region contract is a five year contract and commenced in December 2010. There is a risk that Keewatin will not retain or extend one or both of the contracts at the end of the term, which would have a significant negative effect on the business of Keewatin at that time.

This risk factor is mitigated by their long standing relationship with the Government of Nunavut and Keewatin's proficiency in long distance medical evacuation for the most acute level of care. Keewatin has been performing medevac services in the Kivalliq region since 1971 and has integrated their services into the Government of Nunavut's medical program by providing medical training, medical supplies and medical evacuation statistics to the communities it services.

Calm Air provides services to the Government of Nunavut for a certain share of medical travel market through a sub-contract with Canadian North, where they provide medical-related travel on scheduled services to communities in the Kivalliq region of the Nunavut territory. They were successful as the incumbent in this market and signed a five contract in the third quarter of 2011. There is a risk that they will not retain their share of the medical travel market or extend the contract, which could have a significant negative effect on their business at that time.

CONTRACTS

Both the Aviation and the Manufacturing segments have many key contracts. The Aviation contracts, outside of the Government of Nunavut contracts discussed above, are largely for cargo and charter services, while the most significant manufacturing contract is the recently announced AT&T turfing contracts. The loss of any one of these contracts will have a negative impact on the operations and cash flow of the Company, however none will be as impactful as the loss of the contract with AT&T. The AT&T contract was signed in November 2011 and is a three year contract. WesTower is in the process of resourcing and creating the support infrastructure to service this contract and the work will begin to ramp up during the first quarter of 2012. Therefore the positive impact of the AT&T contract is not yet reflected in EIC's financial results. There is a risk that this contract is not renewed at the end of the term, which would have a significant negative impact on the business of WesTower. WesTower has many other customers and they would right size their business back to the 2011 levels, if required.

KEY PERSONNEL

The success of the Company is dependent on a number of key senior employees both at the Company's head-office level and at the Company's subsidiary level. The loss of any one of these key employees would impair the Company's ability to operate at its optimum level of performance. Management recognizes this dependency and has been developing a strong second level of managers that would be able to fill the void if a key employee departs. EIC performed a detailed succession plan in 2011, which addressed both the Company's head-office level and subsidiary level succession. This plan formally outlines how the second level of mangers is being developed and has identified any positions where the appropriate candidate needs to be hired, developed, or mentored.

INCOME TAX MATTERS

The business and operations of the Company and its subsidiaries are complex and the Company has undertaken a number of significant financings, reorganizations, acquisitions and other material transactions including the Arrangement over the course of its history. The computation of income taxes payable as a result of these transactions involves many complex factors including the Company's interpretation of relevant tax legislation and regulations. While management believes that the provision for income tax is adequate and in accordance with Canadian GAAP and applicable legislation and regulations, tax filing positions are subject to review by taxation authorities who may challenge the Company's interpretation of the applicable tax legislation and regulations. In that regard, the Company receives from time to time correspondence from taxing authorities concerning its tax filing positions including, most recently, a request for information for a time period which includes the Arrangement. If any challenge to the Company's tax filing positions were to succeed, it could result in a reassessment of taxes or otherwise have a material adverse effect on the Company's tax position.

Furthermore, Canadian and federal or provincial tax legislation may be amended, or its interpretation changed (whether by legislative or judicial action or decision), retroactively or for the future, so as to alter fundamentally the availability of the tax pools of the Company, which could materially adversely affect the Company's tax position.

CAPITAL MARKETS

One of the objectives of the Company is continuing to acquire additional companies or interests therein in order to expand and diversify the Company's investments. The ability to execute this objective is dependent on the Company's ability to raise funds in the capital market. If the capital market's desire for income producing investments, such as the shares of the Company, were to significantly decrease, the Company would have difficulty in executing its acquisition objective. For example, the economic downturn in the credit markets in North America that occurred in 2009 put constraints on the Company and added costs associated with obtaining financing at that time. The Company's current level of leverage is at a historically low level and the Company has more than $200 million available under our current senior debt facility, which gives the Company the ability to do acquisitions, up to a given size, in the short-term without being dependent on the capital markets.

LABOUR RELATIONS

Certain employees within the Aviation segment have labour-related agreements but there can be no assurance that future agreements with employees' unions or the outcome of arbitrations will be on terms consistent with the Company's expectations or comparable to agreements entered into by the Company's competitors. Any future agreements or outcome of negotiations, mediations or arbitrations including in relation to wages or other labour costs or work rules may result in increased labour costs or other charges which could have a material adverse effect on the Company's business, results from operations and financial condition.

There can be no assurance that there will not be a labour conflict that could lead to an interruption or stoppage in the Company's service or otherwise adversely affect the ability of the Company to conduct its operations, all of which could have a material adverse effect on its business, results from operations and financial condition. Several union groups and associations have labour agreements that become due in 2012. Bearskin is currently in negotiations with their pilots union and the passenger service agents union, both of which had their labour contracts expire in December 2011.

HOTSY DISTRIBUTORSHIP CONTRACT

The Water Blast business has an exclusive distributorship agreement for the Hotsy line of products that it sells for all of Alberta and British Columbia. The loss of this distributorship agreement would have a significant negative impact on Water Blast's business. This risk factor is mitigated by Water Blast's long-term relationship with Hotsy, as well as the length of the distributorship agreement. The distributorship agreement is a 10-year agreement, extended annually, for exclusivity as it relates to third parties from Hotsy, subject to reasonable performance criteria.

FOREIGN EXCHANGE

The Company's financial results are sensitive to the changing value of the Canadian dollar. In particular, the Company's subsidiaries have significant annual net outflow of US dollars and is affected by fluctuations in the Canada/US dollar exchange rate. Outflows for expenses include items such as aircraft lease costs and related parts purchased for the Aviation segment, and Hotsy machines and parts purchased by the Manufacturing segment. A significant deterioration of the Canadian dollar relative to the US dollar would result in increased costs and adversely affect the profitability of the Company.

A portion of the Company's revenues are generated in US dollars through its operations, primarily WesTower's US operations and Stainless, which acts as a natural hedge and mitigates the foreign exchange risk of the Company. Our short exposure to the US dollar will be lessened in 2012 as a result of the anticipated growth of WesTower's US operations driven by the recently signed AT&T contract. No derivative instruments are used by the Company to mitigate this risk beyond this level.

ACCIDENT

The operating subsidiaries of the Company are subject to the inherent business risk of liability claims and adverse publicity if any of their services is alleged to have resulted in adverse effects to a user, including an aircraft accident in the case of the entities within the Aviation segment. The operating subsidiaries currently carry liability insurance that management believes is adequate under their current circumstances, although there can be no assurance that such circumstances will not change and that such insurance will remain available at reasonable costs, if at all. In the event of an inadequately insured liability claim, the business and financial condition of the operating subsidiaries could be materially adversely affected.

ACQUISITION STRATEGY

The Company's ability to successfully grow through additional acquisitions will be dependent on a number of factors, including: the identification of suitable acquisition targets in both new and existing markets; the negotiation of purchase agreements on satisfactory terms and prices; securing attractive financing arrangements; and, where applicable, the integration of newly acquired operations into the existing business. Any acquisition will involve a number of risks, including: the potential acquisition of previously undisclosed liabilities; as well as the potential disruption of the Company's ongoing business and the diversion of management's attention from its day-to-day operations. An unsuccessful acquisition could have a material adverse impact on the Company, its results of operations and financial condition. For greater certainty, shareholders are totally dependent upon the Company's management and Board of Directors in making investment decisions.

13. Outlook

ACQUISITION STRATEGY

The Company has successfully closed three acquisitions since the beginning of 2011, representing the Bearskin, WesTower, and Custom Helicopters acquisitions, for a combined value of $135.9 million. After funding these significant acquisitions, the Company still maintains approximately $200 million in available capital under its $235 million senior credit facility after the closing of the March 6, 2012 $57.5 million share offering. This capacity gives the Company the ability to respond quickly when the right acquisition presents itself.

Referrals for potential acquisition targets continue to be steady. The 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

Through December 31, 2011, the Company operated four aviation companies providing scheduled, charter, freight and medevac services within Manitoba, Ontario, Quebec and Nunavut. The combined fleet for the segment as of December 31, 2011 is 76 aircraft.

The Company's subsidiaries are essential lifelines in the communities served, in many cases the only way to move people, food and supplies in and out of the communities. Traditional or legacy airlines are subject to variances in the economy, which in turn affects demand for air transportation. However, to differing degrees with each airline, because the Company's aviation holdings are necessary by nature of the communities served by the airlines, demand is inherently constant, thereby mitigating the impact of changes in economic climate. Strong mining and exploration activity along with commodity prices remaining high and have had some positive impact on demand specifically within Bearskin and Calm Air markets. Serving communities where mining and exploration companies are active is driving business to the Company's airlines in regions within northwestern Ontario for scheduled and charter services. High commodity prices due to geopolitical influences outside the Company's control means fuel prices could impact operations. While high fuel prices can produce extra cost and thereby drag on travel demand, this is mitigated through fuel surcharges within the industry. While all of the Company's airlines are able to pass along price increases, the Company and its airlines are mindful the impact price increases have on the communities they serve, and price elasticity, which if pressed too far, will result in reduced traffic. The Company's airlines providing services to government agencies have provisions whereby fuel is a flow through cost, mitigating the exposure on government related work. Finally, in 2011 the Aviation segment of the Company mitigated the risk of volatile fuel supply and cost through entering into an agreement to combine the fuel purchases of its subsidiaries with a common supplier.

Bearskin Airlines' scheduled traffic continues to have balanced performance across the territory it services. Strong demand in the western part of its territory has been offset by pricing pressures in its eastern market. The pricing pressure in the eastern markets has been driven by increased competition and it is expected that this pricing pressure will continue throughout 2012. While the demand in the western region has been driven by the resource sector, which is bolstering both Bearskin's charter work and schedule passenger service in North Western Ontario. With this demand more equipment was required. In December 2011 a Metro 23 was added to the Bearskin fleet, with the addition of another aircraft planned to for January 2012. This will allow Bearskin to capture additional charter opportunities as well as expand into new markets within its existing geographic footprint. The Saab 340 aircraft Bearskin was utilizing from Calm Air is under evaluation and being considered for higher density markets. The relationship between Bearskin and Calm Air continues to mature with the two companies exploring opportunities for providing additional services and options to travelers within the two companies' networks.

Calm Air continues to provide services to the Government of Nunavut for medical travel through a subcontract with Canadian North. As a requirement of this agreement, Calm Air successfully acquired the first of two 32 seat Dornier 328 jets to its fleet. The first aircraft was added in December 2011 and Calm will add the second aircraft in the second quarter of 2012. To facilitate the introduction of the aircraft, Calm Air is leasing one aircraft under the terms of an Aircraft, Crew, Maintenance and Insurance (ACMI) agreement to meet the terms of the subcontract. This wet lease will continue through the first quarter of 2012 and will create a negative impact on margins until the Calm Air jets are implemented into the fleet. As part of the Calm Air fleet renewal plan, the last Hawker 748 aircraft in the fleet will eventually be replaced with a third ATR 72 aircraft. With aging aircraft issues and old technology, the Hawker 748 is less efficient and much more expensive to operate. If favourable conditions exist, the third ATR 72 is expected to replace the last Hawker 748. The final piece of the fleet renewal program will be to replace the SAAB 340 aircraft with ATR 42 equipment, thereby reducing the fleet types to just two, ATR and Dornier. The reduction of fleet types will assist the company in minimizing cost on all aspects of its operations, scheduled passenger, freight and charter services. The code share relationship with Calm Air and Canadian North continues to grow and add revenue for Calm Air through channeling traffic between the two carriers. The code share agreement enhances traveler's options and convenience by providing seamless connections 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 complementary so there is no cannibalism of Calm Air's market, rather enhanced profitability through carrying passengers that would not otherwise have been carried. Calm Air will commence a similar code share agreement with sister company Bearskin Airlines in 2012, which will provide greater choice for travelers while channeling traffic across the two airlines' networks and enhancing the revenue performance of the airlines. In the short term, Calm Air's results will be affected by the expense for the wet lease of the Dornier as previously discussed. As well, Calm Air has been dealing with severe weather in Nunavut. This severe weather, while a normal part of this operating environment in the north, has been worse than usual in the early part of 2012 resulting in an increased number of cancelled flights. Many weather days in a short period of time often results in passengers cancelling their trip and not rescheduling.

Starting in the second quarter of 2012, Calm Air will no longer be providing regular chartered service to a significant mining customer who they serviced for the last few years. A combination of cost cutting and increased capacity will help to limit the impact of this customer loss in the short-term. Management is working to redeploy this capacity in other areas over the long-term and continues to see opportunities with new customers.

Keewatin continues to operate medevac services for the Government of Nunavut in the Kivalliq and Baffin regions of the Territory as well as scheduled service to and from the Territory's Flaherty Island to the hamlet of Sanikiluaq. Keewatin stopped scheduled service to Churchill, Rankin and points within the western coast of Nunavut on September 1, 2011 to focus on their core competencies of medevac and charter services, the components of their business which provides the highest profitability. Keewatin has streamlined its business with the decision to exit the majority of its scheduled flight operations. Some one-time costs in the fourth quarter as well as anticipated one-time costs in the first quarter of 2012 will be experienced as operations are rationalized.

Perimeter Aviation added two Metro III aircraft in 2011 to provide necessary capacity throughout its growing network. Further, growth in existing markets is necessitating Perimeter to evaluate a fourth DHC-8 aircraft to provide capacity for its largest market as well as to capture charter opportunities. Perimeter's market continues to be stable. The airline continues to see organic growth in its core markets being driven by the larger than average growth rates in the communities it services. For the year, Perimeter saw significant growth in all segments of its business, scheduled, charter, medevac and freight operations. The airline's focused approach to cost containment provides a market advantage which the company continues to share with the communities it serves.

Subsequent to year-end 2011, the Company announced the acquisition of Custom Helicopter on January 12, 2012 and it closed on February 1, 2012. The management team at Custom Helicopters is continuing on with the daily operations of the business.

Custom Helicopters was founded in 1977 and operates a fleet of 24 rotor wing aircraft; 23 owned and 1 leased. Custom Helicopters operates intermediate and medium category helicopters on long and short-term contracts for First Nation groups, government agencies, utilities, mining companies as well as other customers. Custom's operating bases are in Thompson, Gillam and Garden Hill, Manitoba as well as in Rankin Inlet in Nunavut. The structure of the transaction to acquire Custom Helicopter is consistent with previous acquisitions and expected to be immediately accretive to the Company's earnings per share and Free Cash Flow.

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

MANUFACTURING SEGMENT

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

Entering the fourth quarter, there was uncertainty for WesTower, as the announced merger between AT&T and T-Mobile had not been approved by regulators. The uncertainty caused the U.S. telecom industry to put a hold on major capital projects and infrastructure upgrades, and delayed many contracts WesTower expected to start. In December 2011, the proposed merger was terminated, which has helped the teleco's begin to move forward with their build plans.

WesTower has already realized some benefit from the teleco's moving forward as the Company recently announced that WesTower was selected by AT&T as the primary or secondary provider of infrastructure services in five of the eleven geographical regions in the United States. The award is for a three-year infrastructure service contract which began late in the fourth quarter of 2011. Although there is no specific dollar amount that is guaranteed as part of the contract award, the Company believes that this will be by far the largest contract awarded to any one of the Company's subsidiaries. The total dollar amount of the award will depend on AT&T's infrastructure plan, which may vary significantly year to year, including the type, amount, and location of the work. As a result, it is difficult to quantify the financial impact of this contract. However, based on the history of AT&T's infrastructure work over the past number of years, the Company's management believes that the additional revenue potential from this contract could be in excess of $500 million over the three-year term of the contract. This estimate is subject to a number of variables, including the fluid nature of the telecom environment and the ongoing introduction of new technology, both of which could significantly impact AT&T's infrastructure requirements. Accordingly, there can be no assurances of the revenues that will be generated from the contract.

Revenues generated from this contract started in the fourth quarter. However the ramp up of the revenues has been slow because AT&T needs to transition between the incumbent and the new turf contractor, WesTower, in many regions. It is anticipated that this slow revenue start-up period will continue to be pronounced in the first quarter, with the contract gaining significantly more traction in the second quarter and peaking in the third quarter. Part of this revenue ramp is due to the turf contractor transition while part of it is the result of normal seasonality of the telecom wireless market. There will be significant start-up costs as WesTower ramps up to provide the required level of service to AT&T. These costs will be largely human capital costs and the internal infrastructure to support this workforce. It is anticipated that in the first quarter the new AT&T turfing contract will therefore be a slight drag on EBITDA as a result of these start-up costs and the slow building revenue.

Despite the slow first quarter, when management views the AT&T turf contract over the entire year, we are still confident that the contract will add significant EBITDA to the Company's consolidated results and will continue to drive the internal growth expected for the Company in 2012. Outside of the turf contact, WesTower continues to focus on their core business and opportunities with other major customers in the U.S. and their Canadian business. They continue to see a strong market in Canada and are seeing more projects in the US that are anticipated to be let now that the AT&T and T – Mobile deal has been terminated.

Overall, the Manufacturing segment continues to see increased opportunities to bid in many of their markets and has been successful at increasing or maintaining their order backlogs in all of their major markets. Management continues to be cognizant of the fragile world economy and its potential impact on demand, however we believe we are well positioned for the short to medium term based on our current order books.

One significant headwind that continues to put pressure on the Manufacturing segment's ability to maintain costs and deliver an on-time product is the tight labour market in Alberta. The labour market started to tighten in 2011 and this shortage has been more pronounced in our industry so far in 2012. This continues to be management's main challenge in the short term and may put pressure on margins in the Alberta operations as management seeks solutions to the labour shortage.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Exchange Income Corporation for the years ended December 31, 2011 and 2010, and all information in this annual report are the responsibility of management. Financial information contained elsewhere in the annual report is consistent with that shown in the consolidated financial statements. The consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles, applied on a consistent basis. The significant accounting policies, which management believes are appropriate for the Company, are described in Note 3 to the consolidated financial statements.

Management is responsible for the integrity and objectivity of the consolidated financial statements. Estimates are necessary in the preparation of these statements and, based on careful judgments, have been properly reflected. Management has established systems of internal control which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and to produce reliable accounting records for the preparation of financial information.

The Company's independent auditors, Deloitte & Touche LLP have been appointed by the shareholders to audit the financial statements and express an opinion thereon.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The board of directors carries out this responsibility principally through its audit committee, composed entirely of outside and unrelated directors. The audit committee meets regularly with the financial management of the Company and the independent auditors to discuss internal controls, audit matters, financial reporting issues and reports to the Board of Directors thereon. The audit committee also reviews and approves the consolidated financial statements for inclusion in the annual report. The independent auditors have full and free access to the audit committee.

Adam S. Terwin
Chief Financial Officer

Michael C. Pyle
President & Chief Executive Officer

March 13, 2012

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Exchange Income Corporation

We have audited the accompanying consolidated financial statements of Exchange Income Corporation which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Exchange Income Corporation as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP.

Chartered Accountants
Winnipeg, Manitoba
March 13, 2012

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars) As at	December 31, 2011	December 31, 2010	January 1, 2010
ASSETS			
CURRENT			
Cash and cash equivalents	$ 11,475	$ 1,471	$ 4,857
Cash - restricted (Note 5)	—	27,625	—
Accounts receivable	69,172	29,514	20,027
Costs incurred plus recognized profits in excess of billings (Note 14)	25,913	762	895
Inventory (Note 6)	39,853	22,669	22,728
Prepaid expenses	4,879	3,492	2,347
	151,292	85,533	50,854
CAPITAL ASSETS (Note 7)	220,190	156,735	113,303
INTANGIBLE ASSETS (Note 8)	23,252	12,254	13,371
DEFERRED INCOME TAX ASSETS (Note 18)	15,240	32,040	38,370
GOODWILL (Note 8)	68,427	39,678	40,446
	$ 478,401	$ 326,240	$ 256,344
LIABILITIES			
CURRENT			
Accounts payable and accrued expenses	$ 57,726	$ 35,413	$ 26,095
Income taxes payable	2,654	—	—
Deferred revenue	8,909	5,643	7,251
Billings in excess of costs incurred plus recognized profits (Note 14)	13,489	3,686	690
Current portion of long-term debt and finance leases (Note 9)	1,237	—	2,943
Current portion of convertible debentures (Note 10)	—	1,052	5,761
Current portion of debentures	—	—	9,691
	84,015	45,794	52,431
LONG-TERM DEBT AND FINANCE LEASES (Note 9)	47,997	53,100	25,447
CONVERTIBLE DEBENTURES (Note 10)	115,394	49,715	36,279
DEFERRED INCOME TAX LIABILITY (Note 18)	5,358	—	409
	252,764	148,609	114,566
EQUITY			
SHARE CAPITAL (Note 11)	194,049	148,046	104,451
WARRANTS (Note 12)	—	155	952
CONVERTIBLE DEBENTURES - Equity Component (Note 10)	6,516	3,036	2,759
CONTRIBUTED SURPLUS - Matured Debentures	102	102	61
DEFERRED SHARE PLAN (Note 17)	1,435	—	—
RESERVED SHARES (Note 5)	1,851	—	—
RETAINED EARNINGS			
Cumulative Earnings	103,667	82,923	69,156
Cumulative Dividends (Note 13)	(83,043)	(55,943)	(35,601)
	20,624	26,980	33,555
ACCUMULATED OTHER COMPREHENSIVE INCOME / (LOSS) (Note 22)	1,060	(688)	—
	225,637	177,631	141,778
	$ 478,401	$ 326,240	$ 256,344

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

Approved on behalf of the directors by:

Duncan Jessiman, Director

Donald Streuber, Director

CONSOLIDATED STATEMENTS OF INCOME

(in thousands of Canadian dollars, except for per share amounts)	For the years ended December 31, 2011	2010
REVENUE		
Aviation	$ 274,337	$ 189,013
Manufacturing	235,966	55,373
	510,303	244,386
EXPENSES		
Direct operating - excluding depreciation and amortization	184,977	111,590
Cost of goods sold - excluding depreciation and amortization	188,234	36,179
General and administrative	62,253	52,349
Depreciation and amortization	30,591	16,598
	466,055	216,716
EARNINGS BEFORE THE FOLLOWING	44,248	27,670
Finance costs - interest	12,390	7,476
Acquisition costs (Note 5)	1,830	666
Foreign exchange gains on debt	-	(55)
EARNINGS BEFORE INCOME TAXES	30,028	19,583
INCOME TAX EXPENSE (Note 18)		
Current	653	-
Deferred	8,630	5,816
	9,283	5,816
NET EARNINGS FOR THE YEAR attributable to common shareholders	$ 20,745	$ 13,767
EARNINGS PER SHARE (Note 15)		
Basic	$ 1.24	$ 1.07
Diluted	$ 1.21	$ 1.03

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars)	For the years ended December 31, 2011	2010
Attributable to common shareholders		
NET EARNINGS FOR THE YEAR	$20,745	$13,767
OTHER COMPREHENSIVE INCOME (LOSS), Cumulative translation adjustment, net of tax (Note 22)	1,748	(688)
COMPREHENSIVE INCOME FOR THE YEAR	$22,493	$13,079

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

CONSOLIDATED STATEMENTS
OF CHANGES IN EQUITY

(in thousands of Canadian dollars)		Share Capital		Warrants		Convertible Debentures - Equity Component
Balance, January 1, 2010	$	104,451	$	952	$	2,759
Warrants exercised into shares (Note 12)		21,763		(797)		—
Convertible debentures (Note 10)						
Converted into shares		19,749		—		(1,493)
Issued		—		—		1,811
Matured		—		—		(41)
Shares issued under dividend reinvestment plan		1,746		—		—
Shares issued under marketing agreement		337		—		—
Comprehensive income		—		—		—
Dividends declared (Note 13)		—		—		—
Balance, December 31, 2010	$	148,046	$	155	$	3,036
Balance, January 1, 2011	$	148,046	$	155	$	3,036
Shares issued for Bearskin vendors (Note 5)		5,512		—		—
Shares issued for WesTower vendors (Note 5)		11,161		—		—
Shares issued for marketing agreement		221		—		—
Warrants exercised into shares (Note 12)		4,240		(155)		—
Convertible debentures (Note 10)						
Converted into shares		20,171		—		(1,149)
Issued		—		—		4,628
Shares issued under dividend reinvestment plan		3,226		—		—
Shares issued under ESPP (Note 17)		1,472		—		—
Deferred share plan amendment (Note 17)		—		—		—
Deferred share vesting (Note 17)		—		—		—
Comprehensive income		—		—		—
Dividends declared (Note 13)		—		—		—
Balance, December 31, 2011	$	194,049	$	—	$	6,515

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

			Retained Earnings			
Contributed Surplus - Matured Debentures	Deferred Share Plan	Reserved Shares	Cumulative Earnings	Cumulative Dividends	Accumulated Other Comprehensive Income/(Loss)	Total
$ 61	$ —	$ —	$ 69,156	$ (35,601)	$ —	$ 141,778
—	—	—	—	—	—	20,966
—	—	—	—	—	—	18,256
—	—	—	—	—	—	1,811
41	—	—	—	—	—	—
—	—	—	—	—	—	1,746
—	—	—	—	—	—	337
—	—	—	13,767	—	(688)	13,079
—	—	—	—	(20,342)	—	(20,342)
$ 102	$ —	$ —	$ 82,923	$ (55,943)	$ (688)	$ 177,631
$ 102	$ —	$ —	$ 82,923	$ (55,943)	$ (688)	$ 177,631
—	—	—	—	—	—	5,512
—	—	1,851	—	—	—	13,012
—	—	—	—	—	—	221
—	—	—	—	—	—	4,085
—	—	—	—	—	—	19,022
—	—	—	—	—	—	4,628
—	—	—	—	—	—	3,226
—	—	—	—	—	—	1,472
—	1,070	—	—	—	—	1,070
—	365	—	—	—	—	365
—	—	—	20,745	—	1,748	22,493
—	—	—	—	(27,100)	—	(27,100)
$ 102	$ 1,435	$ 1,851	$ 103,668	$ (83,043)	$ 1,060	$ 225,637

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)	For the years ended December 31, 2011	2010
OPERATING ACTIVITIES		
Net earnings for the year	$ 20,745	$ 13,767
Items not affecting cash:		
Depreciation and amortization	30,591	16,598
Accretion of interest	2,278	1,548
Long-term debt discount (paid) accretion	(58)	124
Foreign exchange (gain) / loss on debt (unrealized)	28	72
Loss/(gain) on sale of disposal of capital assets	(205)	132
Deferred income tax	8,630	5,816
Deferred share program share-based vesting	365	—
Other	(95)	(87)
	62,279	37,970
Changes in non-cash operating working capital items (Note 23)	(6,504)	(740)
	55,775	37,230
FINANCING ACTIVITIES		
Proceeds from (repayment of) long-term debt & finance leases, net of issuance costs	(17,341)	24,655
Proceeds from issuance of debentures, net of issuance costs (Note 10)	87,718	28,430
Payment of matured debentures	-	(10,205)
Proceeds from issuance of shares, net of issuance costs	9,004	23,046
Cash dividends (Note 13)	(27,100)	(20,342)
	52,281	45,584
INVESTING ACTIVITIES		
Purchase of capital assets, net of disposals	(42,029)	(58,522)
Purchase of intangible assets	(61)	(53)
Cash outflow for acquisitions and acquisition costs (Note 5)	(90,290)	—
Restricted cash (Note 5)	27,625	(27,625)
Cash acquired in acquisitions (Note 5)	6,703	—
	(98,052)	(86,200)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,004	(3,386)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,471	4,857
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 11,475	$ 1,471
Supplementary cash flow information on operating activities:		
Interest paid	$ 10,247	$ 7,495
Income taxes paid (recovery)	$ 1,504	$ (1,851)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010
(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 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 Company is incorporated in Canada and the address of the registered office is 1067 Sherwin Road, Winnipeg, Manitoba, Canada R3H 0T8.

As at December 31, 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., Overlanders Manufacturing LP ("Overlanders"), Water Blast Manufacturing LP ("Water Blast"), WesTower Communications Ltd. ("WesTower CDA") and EIIF Management USA Inc. ("EIIF USA"). On December 30, 2011, certain reorganization transactions took place and the operating assets of Jasper Tank Ltd. were transferred to Water Blast Manufacturing LP. Additionally, on December 30, 2011 Jasper Tank Ltd. was wound up into the Company. Also as a result, EIIF Management USA Inc. is a wholly owned subsidiary of the Company and Stainless Fabrication, Inc. ("Stainless") and WesTower Communications Inc. (the US operations of WesTower – "WesTower US") are wholly owned subsidiaries of EIIF USA. Through the Company's subsidiaries, products and services are provided in two business segments: Aviation and Manufacturing.

As described in Note 25 – Subsequent Events, on February 1, 2012, the Company completed the acquisition of Custom Helicopter Ltd. ("Custom") which will be a principal wholly-owned operating subsidiary of the Company and added to the Aviation segment.

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") as issued by the International Accounting Standards Board ("IASB"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB. In these financial statements, "CGAAP" refers to Canadian GAAP before the adoption of IFRS. These consolidated financial statements are presented in thousands of Canadian dollars, except per share information.

These consolidated financial statements are for the years ended December 31, 2011 and 2010, and have been prepared in accordance with IFRS. Subject to certain transition exemptions and exceptions disclosed in Note 26, 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 26 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 year ended December 31, 2010 prepared under CGAAP.

The policies applied in these consolidated financial statements are based on IFRS's issued and outstanding as of the approval date of these financial statements, which were approved by the Board of Directors of the Company for issue on March 13, 2012.

3. Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

A) BASIS OF MEASUREMENT

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value, including share-based liabilities, derivative instruments, held-for-trading financial instruments, and available-for-sale financial instruments.

B) PRINCIPLES OF CONSOLIDATION

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

Subsidiaries are those entities (including special purpose entities) which the Company controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are de-consolidated from the date that control ceases.

C) REVENUE RECOGNITION

The Company recognizes revenue principally on two types of transactions: provision of flight and flight ancillary services in the Aviation segment and sales of manufacturing products and services in the Manufacturing segment.

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

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

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 2011, the Company adjusted the previously reported results for the comparative 2010 year that included three months of transactions with fuel agency sales that were originally reported on 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:

		2010
Gross sales originally recorded as revenues	$	3,233
Direct operating expenses adjusted to decrease revenues		3,184
Net revenues on agency sales transactions	$	49

D) EXPENSES

Direct operating – excluding depreciation and amortization

The fixed and variable costs incurred in the operations of the Company's Aviation segment are included in this line item. Depreciation and amortization are presented separately on a consolidated basis.

Cost of goods sold – excluding depreciation and amortization

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

E) 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 WesTower US 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 income.

F) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash and temporary investments consisting of highly liquid investments having a maturity of three months or less. Interest is recorded on an accrual basis. As at December 31, 2011, cash equivalents was nil (January 1, 2010 and December 31, 2010 – nil).

G) RESTRICTED CASH

Restricted cash is comprised of cash held in trust by legal counsel in preparation for the closing of the acquisition of Bearskin as further described in Note 5 – Acquisitions.

H) FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognized when the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. The only instruments held by the Company classified in this category are foreign exchange forward contracts (described further below in (v) derivative financial instruments).

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of operations. Gains and losses arising from changes in fair value are presented in the statement of income in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current.

(ii) Available-for-sale investments: Available-for-sale investments are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. The Company doesn't have any available-for-sale assets.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income, except for foreign currency translation gains and losses on monetary available-for-sale financial assets which are recognized in the statement of income. Available-for-sale investments are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of them within twelve months.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the statement of income as part of interest income. Dividends on available-for-sale equity instruments are recognized in the statement of income as part of other gains and losses when the company's right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of income and included in other gains and losses.

(iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are comprised of trade receivables and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade payables, long-term debt, convertible debentures and debentures. Trade payables are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. Long-term debt, convertible debentures and debentures are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

(v) Derivative financial instruments: All derivatives have been classified as held for trading, are included on the consolidated statement of financial position within accounts receivable, warrants or accrued expenses and are classified as current or non-current based on the contractual terms specific to the instrument. Gains and losses on re-measurement are included in interest income (expense) in the case of interest rate swaps and other gains and losses in the case of warrants.

The Company has used derivatives in the form of foreign exchange forward contracts to manage risks related to fluctuations in foreign currencies. The Company considers derivative instruments to manage the variable interest rate risk and has entered into interest rate swaps in order to manage this risk in the past.

The Company has no hedging arrangements where hedge accounting applies.

The convertible debentures of the Company are compound instruments that contain a conversion feature to the debenture-holder to convert debenture principal into Shares of the Company. The debenture obligation is classified partly as debt and partly as shareholders' equity. The debt component represents the present value of interest and principal payments over the life of the convertible debentures discounted at a rate approximating the rate which would have been applicable to non-convertible secured debentures at the time the convertible debentures were issued. The residual between the principal amount of the convertible debentures and the present value of interest and principal payments over the life of the convertible debentures is accreted over the term of the convertible debentures through periodic charges to the debt component, such that, on maturity, the debt component equals the principal amount of the convertible debentures outstanding. For tax purposes a taxable temporary difference will result as the tax base of the convertible debentures is the face value of the notes while the accounting base is described above. Under IFRS this difference is considered temporary resulting in a deferred tax liability.

I) IMPAIRMENT OF FINANCIAL ASSETS

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

(i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

(ii) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net income.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

J) INVENTORY

Raw material and parts inventories have been valued at the lower of cost and net realizable value. Work in progress and finished goods inventories have been valued at the lower of cost of materials and labour, plus systematically allocated overhead, and net realizable value. Inventory items previously written-down to net realizable value can be subsequently reversed back up to the original cost with an increase in the value of the inventory items.

The Company classifies its inventory into the following categories:

- Parts and other consumables: this includes the inventory of the Aviation segment subsidiaries and represents items utilized in the operations and repair of the aircraft.
- Raw materials: this includes items used in the manufacturing of products by the Manufacturing segment subsidiaries that have no labour work performed on them.
- Work in process: this includes items that have begun to be utilized in production by the Manufacturing segment subsidiaries.
- Finished goods: this includes items that have completed the manufacturing process and are available for sale or items purchased for resale by the Manufacturing segment subsidiaries, including consignment inventory held at certain entities in the Manufacturing segment.

The Company measures net realizable value as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The Company makes estimates on the net realizable value when reasons are identified on an item-by-item basis for a suggested change in the value of inventory change due to market changes, damaged goods, obsolescence, or changes in estimated costs to complete.

K) CAPITAL ASSETS

Tangible assets comprised mainly of land, buildings, aircraft, aircraft spare parts, machinery, tooling and equipment are valued at cost less accumulated depreciation and impairment losses. The cost of purchased capital assets is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire it. The cost of self-constructed assets includes the cost of material, direct labor, an appropriated proportion of production overheads and borrowing costs to construct. When an asset includes major components that have different useful lives, they are accounted for as separate items.

Expenditures incurred to replace a component in a tangible asset that is accounted for separately, including major inspection and overhaul costs, are capitalized. Other subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the asset. Any replacement of an essential component will result in the original component being written off and the replacement being capitalized. All other expenditures such as ordinary maintenance and repairs are recognized in the income statement as an expense as incurred.

In regards to the maintenance of the Company's aircraft, costs for routine aircraft maintenance as well as repair costs are charged as maintenance expense as incurred. Costs for major aircraft frame, engine overhauls and other major aircraft components incurred on owned aircraft are capitalized and amortized over the useful economic life of the components concerned.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the assets. For the Aviation segment's aircraft related assets, the useful lives are based on miles flown on the aircraft related item. Land is not depreciated. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate in the period of the change. The estimated useful lives of the main categories of depreciable capital assets are:

Buildings	20 – 25 years
Aircraft frames and rotables	10 – 13 years
Aircraft engines	2 – 20 years
Aircraft propellers	2 – 7 years
Aircraft landing gear	5 – 15 years
Equipment	5 – 10 years
Other	3 – 4 years
Leasehold improvements over the term of lease	

Gains or losses arising on the disposal of tangible fixed assets are included in the statement of income in earnings before income taxes.

L) INTANGIBLE ASSETS

Intangible assets are recorded at cost. The Company has intangible assets with indefinite lives which are not amortized. Intangible assets with finite lives are amortized as follows:

Customer contracts	Pro rata based on expected revenues
Customer relationships	Pro rata based on expected revenues
Non-compete contracts	Straight-line over 5 years
Operating certificates	Straight-line over 2 – 30 years
Information technology systems	Straight-line over 3 – 5 years
Other	Straight-line over 5 years

The indefinite life intangible assets are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired.

M) GOODWILL

Goodwill is recognized to the extent of the excess of the purchase price over the fair value of the underlying identifiable net assets acquired in a business combination. Goodwill acquired through a business combination is allocated to each cash-generating units ("CGU"), or group of CGUs, that are expected to benefit from the related business combination.

N) IMPAIRMENT OF LONG-LIVED ASSETS

Capital assets and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized, such as the Company's indefinite life intangible assets, are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The Company determines the fair value less costs to sell as an amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal but when no active market exists it is derived using estimation techniques with discounted cash flow analysis. The Company determines value in use as being the present value of the expected future cash flows of the relevant asset or CGU.

Goodwill is reviewed for impairment annually or at any time if an indicator of impairment exists. A group of CGUs represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, which is not higher than an operating segment. The Company tests goodwill at the segment level.

The Company evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

O) CURRENT AND DEFERRED INCOME TAXES

Income tax comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is also recognized directly in other comprehensive income or equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investment in subsidiaries and associates, except, in the case of subsidiaries where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset is realized or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred income tax assets and liabilities are presented as non-current.

P) 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 to the plan 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. The fair value of the grant is based on the market price of the Company's stock at the grant date. 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 reclassed to equity as of the effective date of the amendment.

A nil forfeiture rate has been applied as an estimate given there is no history of any in the past for the Company. 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.

Stock-Based Compensation – Employee Share Purchase Plan

Certain employees of the Company participate in a stock based compensation plan of the Company's shares. The fair value of shares to be awarded to employees is recognized as compensation expense on a straight-line basis over the applicable vesting period. For a share granted to an employee who is eligible to retire at the grant date, the fair value of the share is expensed on the grant date. For a share granted to an employee who will become eligible to retire during the vesting period, the fair value of the share is expensed over the period from the grant date to the date the employee becomes eligible to retire. Based on the history of previously vested programs, an estimate of forfeited shares is taken into consideration in valuing the liability recognized and is adjusted for differences between estimated forfeited shares and actual forfeitures at the end of the vesting period.

Pension Plan

The Company has pension-related costs associated with the defined contribution pension plans that certain Calm Air and Bearskin personnel are entered into. The Company's accounting policy is to expense contributions as earned during the period when the contributions become payable and is recorded within general and administrative expenses of the Aviation segment. During 2011, the Company recorded pension plan costs of $778 (2010 – $624).

Q) PROVISIONS

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at the Company's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The Company performs evaluations to identify onerous contracts which are contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it and, where applicable, records provisions for such contracts.

R) BORROWING COSTS

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the statement of income in the period in which they are incurred.

S) 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 income 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.

T) SHARE CAPITAL

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

U) 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.

V) WARRANTS

During the second quarter of 2009, the Company issued warrants for the first time within a public offering that closed in April 2009 and, subsequently, in a private placement that closed in June 2009. The warrants are presented separately as part of shareholders' equity and recorded at the consideration given, net of issuance costs. When warrants are exercised, the carrying value of the warrant is transferred to share capital within shareholders' equity. Any unexercised warrants that expire are reclassed to contributed surplus within shareholders' equity. During 2011 these warrants matured.

W) DIVIDENDS

Dividends on common shares of the Company are recognized in the Company's financial statements in the period in which the dividends are declared.

X) 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.

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 of convertible debentures is calculated using the "if converted" method.

ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

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, 2015, but is available for early adoption. The Company has not fully assessed the impact of adopting IFRS 9; however, it anticipates that its impact will be limited.

IFRS 10, Consolidated Financial Statements

IFRS 10, Consolidated Financial Statements, issued by the IASB in May 2011, provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27 Consolidated and Separate Financial Statements and Standing Interpretations Committee ("SIC") 12 Consolidation – Special Purpose Entities. IFRS 10 is to be applied retrospectively and is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently evaluating the impact of the above standard on its financial statements.

IFRS 12, Disclosure of Interests in Other Entities

IFRS 12, Disclosure of Interests in Other Entities, issued by the IASB in May 2011, is a new standard that addresses the disclosure requirements for all interests in other entities, including subsidiaries, joint arrangements, associates, and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently evaluating the impact of the above standard on its financial statements.

IFRS 13, Fair Value Measurement

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

Amendments to IAS 1, Presentation of Financial Statements

The amendments to IAS 1, Presentation of Financial Statements, issued by the IASB in June 2011, requires companies preparing financial statements to group together items within other comprehensive income ("OCI") on the basis of whether they may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The amendments are effective for annual periods beginning on or after July 1, 2012, with earlier application permitted. The Company is currently evaluating the impact of the above standard on its financial statements.

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. Critical Accounting Estimates and Judgements

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of these consolidated financial statements.

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 statement of financial position the estimated fair values of the acquired company's assets and liabilities. There are various assumptions made when determining the fair values of the acquired company's assets and liabilities. The most significant assumptions and those requiring the most judgment involve the estimated fair values of intangible assets. The 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.

In certain circumstances the Company also has to consider the differences between the acquisition of a business and the purchase of assets depending on the terms of an acquisition contract. Certain judgments can be made in this determination which impacts the valuation and recognition of assets acquired and liabilities assumed. When an asset acquisition occurs the identifiable assets acquired and liabilities assumed are allocated the cost of the acquisition and no goodwill or gain on a bargain purchase would be recognized.

No business combinations took place for the Company during the 2010 year. See Note 5 for the acquisition of Bearskin on January 1, 2011 and the acquisition of WesTower on April 1, 2011. Both of these acquisitions have been determined to be business combinations because the operations of Bearskin and WesTower both meet the definition of a business under IFRS.

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.

The Company also evaluates the Aviation segment's fuel sales transactions which includes certain transactions being recognized as agency sales as described in Note 3c) above. Certain judgments are made by the Company in determining which fuel sales within the Aviation segment are treated as agency sales and shown on a net basis. The criterion used in the Company's assessment is based on the terms, conditions and other characteristics of the transactions. There is no gross profit impact based on the decision made by the Company and only impacts the presentation between gross and net of costs within the Aviation segment's revenues and direct operating expenses.

COMPONENTIZATION

Certain tangible assets of the Company have significant components that are categorized into separate categories that are amortized over each category's estimated useful economic life. This is particularly prevalent for the Aviation segment's aircraft. Included in the significant components are major inspection and overhaul costs that are capitalized. The Company makes estimates regarding the categorization of these components, their economic useful lives and their residual values. Changes to these estimates are recognized through depreciation expense and are adjusted in the period when the change is made. These assumptions are reviewed regularly by the Company and in particular when aircraft maintenance events take place.

DEPRECIATION & AMORTIZATION PERIOD FOR LONG-LIVED ASSETS

The Company makes estimates about the expected useful lives of long-lived assets and the expected residual values of the assets based on the estimated current fair value of the assets, the Company's aircraft fleet plans and the cash flows expected to be generated from them. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in utilization of the aircraft, changing market prices aircraft of the same or similar types and changes in the utilization of other major manufacturing equipment and buildings. Estimates and assumptions are evaluated at least annually. Generally, these adjustments are accounted for on a prospective basis, through depreciation and amortization expense. For the purposes of sensitivity analysis on these estimates, a 50% reduction to residual values on the Company's aircraft with remaining useful lives greater than five years as at December 31, 2011 would result in an increase of approximately $2.2 million to annual depreciation expense. For the Company's aircraft with shorter remaining useful lives and other major manufacturing equipment and buildings, the residual values are not expected to change significantly.

IMPAIRMENT CONSIDERATIONS ON LONG-LIVED ASSETS

Goodwill and certain intangible assets are not amortized. Goodwill and all intangibles are assessed for impairment at least annually. Impairment testing is performed on long-lived assets by comparing the carrying amount of the asset or cash generating unit to their recoverable amount, which is calculated as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Value in use is calculated based upon a discounted cash flow analysis, which requires management to make a number of significant assumptions including assumptions relating to future operating plans, discount rates and future growth rates. The assumptions include using the Company's weighted average cost of capital at the assessment date which incorporates the Company's existing capital items (Note 24). Growth factors are based on industry related standards but range between 2.5 – 3.0%.

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.

As at December 31, 2011 the Company has recognized uncertain tax positions in the amount of $1,944 (including accrued interest of $70). The uncertain tax position was recognized as part of a business combination (Note 5). The Company is indemnified for these uncertain tax positions, and therefore, the uncertain tax position is offset by a receivable from the vendors of the subsidiary in the amount of $1,944.

FUNCTIONAL CURRENCY

The Company makes judgments around its reporting currency and the functional currency of its operating subsidiaries. The structure of the Company includes certain U.S. subsidiaries with foreign operations in that functional currency and the assessment of those entities' functional currency impacts the accounting impact within the Company's consolidated results. There are several indicators that are assessed in determining functional currency, including the currency influencing sales prices for goods and services, the currency impacting competitive forces and regulations, and the currency impacting operational costs incurred. The U.S. operating subsidiaries of the Company have been determined to have a U.S. functional currency which is different from the Company's Canadian dollar reporting currency. As a result of this assessment by the Company and as described further in Note 22, the foreign currency translation adjustments are recorded through Other Comprehensive Income.

5. 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. During the 2011 year Bearskin contributed third party revenues of over $54 million, earnings before income tax of $3.7 million and total assets of approximately $50 million.

The acquisition price of $33,017 was funded through a combination of $27,505 of cash, consisting mainly of debt financing from the Company's credit facility, 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	$	27,505
Issue of 314,047 shares of the Company at a price of $17.55 per share		5,512
Total purchase consideration	$	33,017

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		844
Inventory		4,963
Prepaid expenses		118
Capital assets		27,820
Intangible assets		2,769
		39,118
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		25,831
Goodwill		7,186
Total purchase consideration	$	33,017

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. For the nine months of operations during the 2011 year since WesTower was acquired, it contributed third party revenues of over $166 million, earnings before income taxes $1.1 million (including internal interest costs of $3.0 million) and total assets of approximately $125 million.

The acquisition price of $73,860 was funded through a combination of $60,848 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 was finalized during the fourth quarter.

Consideration given:	
Cash	$ 60,848
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	$ 73,860

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 $1.9 million and recorded within accounts receivable and income taxes payable, respectively.

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

Fair value of assets acquired:	
Cash	$ 4,100
Accounts receivable	34,214
Costs incurred plus recognized profits in excess of billings	17,717
Inventory	7,291
Prepaid expenses	1,946
Capital assets	20,831
Intangible assets	9,725
	95,824
Less fair value of liabilities assumed:	
Accounts payable and accrued liabilities	18,469
Income taxes payable	3,873
Billings in excess of costs incurred plus recognized profits	3,177
Finance leases	2,737
Long-term debt	8,786
Deferred taxes	5,191
Fair value of identifiable net assets acquired	53,591
Goodwill	20,269
Total purchase consideration	$ 73,860

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.

CUSTOM HELICOPTER

As described in Note 25 – Subsequent Event, the Company completed the acquisition of Custom Helicopter ("Custom") subsequent to December 31, 2011. No results of Custom have been included in these consolidated financial statements.

6. Inventories

The inventory of the Company's operating subsidiaries is classified into the following categories:

	December 31, 2011	December 31, 2010	January 1, 2010
Parts and other consumables	$ 17,759	$ 10,559	$ 10,059
Raw materials	10,830	2,689	2,206
Work in process	2,044	1,078	374
Finished goods	9,220	8,343	10,089
Total inventory	$ 39,853	$ 22,669	$ 22,728

During 2011, inventory from the Aviation segment with a value of $25,322 (2010 – $23,893) was recorded as a direct operating expense and inventory from the Manufacturing segment with a value of $56,069 (2010 – $20,615) was recorded as a cost of goods sold expense.

7. Capital Assets

			December 31, 2011
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 7,009	$ —	$ 7,009
Buildings	57,122	7,970	49,152
Aircraft frames	92,491	27,481	65,010
Aircraft engines	72,075	30,323	41,752
Aircraft propellers	14,508	5,673	8,835
Aircraft landing gear	10,055	3,325	6,730
Aircraft rotable parts	17,683	2,144	15,539
Equipment	38,540	15,146	23,395
Other	3,194	2,060	1,134
Leasehold improvements	2,487	853	1,634
Total	$ 315,165	$ 94,975	$ 220,190

								Year Ended December 31, 2011
Net Book Value	Opening	Acquisition	Additions	Disposals	Depreciation	Exchange Differences	Impairment	Ending
Land	$ 705	$ 6,304	$ —	$ —	$ —	$ —	$ —	$ 7,009
Buildings	35,458	13,374	2,208	—	(1,888)	—	—	49,152
Aircraft frames	50,840	7,369	14,681	(630)	(7,250)	—	—	65,010
Aircraft engines	32,427	7,505	10,441	—	(8,771)	150	—	41,752
Aircraft propellers	7,645	1,048	2,055	(11)	(1,852)	(50)	—	8,835
Aircraft landing gear	6,544	—	1,020	—	(834)	—	—	6,730
Aircraft rotable parts	7,987	1,931	7,492	—	(1,871)	—	—	15,539
Equipment	13,136	9,970	5,540	(90)	(5,486)	324	—	23,395
Other	666	640	481	—	(653)	—	—	1,134
Leasehold improvements	1,327	294	225	—	(212)	—	—	1,634
Total	$ 156,735	$ 48,436	$ 44,143	$ (731)	$ (28,817)	$ 424	$ —	$ 220,190

		Cost		Accumulated Depreciation		December 31, 2010 Net Book Value
Land	$	705	$	—	$	705
Buildings		41,540		6,082		35,458
Aircraft frames		71,071		20,231		50,840
Aircraft engines		53,979		21,552		32,427
Aircraft propellers		11,466		3,821		7,645
Aircraft landing gear		9,035		2,491		6,544
Aircraft rotable parts		8,260		273		7,987
Equipment		22,796		9,660		13,136
Other		2,073		1,407		666
Leasehold improvements		1,968		641		1,327
Total	$	222,893	$	66,158	$	156,735

Net Book Value		Opening		Additions		Disposals		Depreciation		Exchange Differences		Impairment		Year Ended December 31, 2010 Ending
Land	$	617	$	88	$	—	$	—	$	—	$	—	$	705
Buildings		28,537		8,564		—		(1,643)		—		—		35,458
Aircraft frames		32,855		22,680		(464)		(4,231)		—		—		50,840
Aircraft engines		22,391		16,113		(260)		(5,817)		—		—		32,427
Aircraft propellers		6,094		3,071		(121)		(1,399)		—		—		7,645
Aircraft landing gear		4,352		2,800		(1)		(607)		—		—		6,544
Aircraft rotable parts		4,506		10,605		(6,851)		(273)		—		—		7,987
Equipment		11,885		3,707		(90)		(2,150)		(216)		—		13,136
Other		615		369		—		(291)		(27)		—		666
Leasehold improvements		1,451		47		—		(156)		(15)		—		1,327
Total	$	113,303	$	68,044	$	(7,787)	$	(16,567)	$	(258)	$	—	$	156,735

		Cost		Accumulated Depreciation		January 1, 2010 Net Book Value
Land	$	617	$	—	$	617
Buildings		32,976		4,439		28,537
Aircraft frames		48,855		16,000		32,855
Aircraft engines		38,126		15,735		22,391
Aircraft propellers		8,516		2,422		6,094
Aircraft landing gear		6,236		1,884		4,352
Aircraft rotable parts		4,506		—		4,506
Equipment		19,395		7,510		11,885
Other		1,731		1,116		615
Leasehold improvements		1,936		485		1,451
Total	$	162,894	$	49,591	$	113,303

8. Intangible Assets & Goodwill

	December 31, 2011		
	Cost	Accumulated Amortization	Net Book Value
Indefinite Life Assets			
Brand name	$ 18,401	$ —	$ 18,401
Finite Life Assets			
Customer contracts	805	573	232
Customer relationships	6,832	3,826	3,006
Non-compete agreements	1,150	298	852
Certifications	1,030	451	579
Information technology systems	1,073	895	178
Other	598	595	3
Total	$ 29,890	$ 6,638	$ 23,252

	Year Ended December 31, 2011						
Net Book Value	Opening	Acquisition	Additions	Disposals	Amortization	Exchange Differences	Ending
Indefinite Life Assets							
Brand name	$ 9,678	$ 8,575	$ —	$ —	$ —	$ 148	$ 18,401
Finite Life Assets							
Customer contracts	173	177	—	—	(118)	—	232
Customer relationships	1,170	2,540	—	—	(752)	48	3,006
Non-compete agreements	149	862	—	—	(186)	27	852
Certifications	709	—	—	(13)	(119)	2	579
Information technology systems	360	—	62	—	(244)	—	178
Other	15	340	—	—	(354)	2	3
Total	$ 12,254	$ 12,494	$ 62	$ (13)	$ (1,773)	$ 228	$ 23,252

	December 31, 2010		
	Cost	Accumulated Amortization	Net Book Value
Indefinite Life Assets			
Brand name	$ 9,678	$ —	$ 9,678
Finite Life Assets			
Customer contracts	628	455	173
Customer relationships	4,244	3,074	1,170
Non-compete agreements	261	112	149
Certifications	1,041	332	709
Information technology systems	1,011	651	360
Other	256	241	15
Total	$ 17,119	$ 4,865	$ 12,254

Net Book Value	Opening	Additions	Disposals	Amortization	Exchange Differences	Impairment	Ending
							Year Ended December 31, 2010
Indefinite Life Assets							
Brand name	$ 9,678	$ —	$ —	$ —	$ —	$ —	$ 9,678
Finite Life Assets							
Customer contracts	318	—	—	(145)	—	—	173
Customer relationships	1,712	—	—	(419)	(123)	—	1,170
Non-compete agreements	178	13	—	(37)	(5)	—	149
Certifications	877	17	—	(175)	(10)	—	709
Information technology systems	573	28	—	(241)	—	—	360
Other	35	—	—	(20)	—	—	15
Total	$ 13,371	$ 58	$ —	$ (1,037)	$ (138)	$ —	$ 12,254

	Cost	Accumulated Amortization	Net Book Value
			January 1, 2010
Indefinite Life Assets			
Brand name	$ 9,678	$ —	$ 9,678
Finite Life Assets			
Customer contracts	628	310	318
Customer relationships	4,367	2,655	1,712
Non-compete agreements	253	75	178
Certifications	1,034	157	877
Information technology systems	984	411	573
Other	256	221	35
Total	$ 17,200	$ 3,829	$ 13,371

The Company has brand name indefinite life assets for the operations of WesTower, Bearskin, Calm Air and Water Blast. These entities all have a brand name that represent the quality of goods or services and safety standards that those entities provide to their customers.

WesTower has a brand name intangible recorded of $3,804 for its Canadian operations and US $2,744 for its U.S. operations, both are recognized for its reputation in the industry for quality of work and high safety standards. These factors that are known by the customers of WesTower help to bring in additional contract work for WesTower in comparison to other major competitors. As WesTower continues to work with high levels of safety and meet its high standards for quality, the WesTower brand will continue to provide benefit to the Company. This was recognized in 2011 with the acquisition of WesTower (Note 5).

Bearskin has a brand name intangible recorded of $2,129 that was recognized for its reputation in the Northwestern Ontario market where it operates its scheduled service. Its historical safety record and regular flight schedule to many small to mid-sized communities gives it a competitive advantage over other airlines or other transportation methods. As Bearskin continues to deliver the scheduled service with high safety standards, the Bearskin brand will continue to provide benefit to the Company. This was recognized in 2011 with the acquisition of Bearskin (Note 5).

Calm Air has a brand name intangible recorded of $4,483 that is similar to that of Bearskin in that through the scheduled service and safety record the operations of Calm Air has built a recognizable brand to its customer base. The Calm Air brand is particularly recognized and generates value on the route between Winnipeg and Thompson, Manitoba. This is created from Calm Air's effective use of flying the appropriate size plane for that route which generates a cost advantage over other competitors. As Calm Air continues to deliver the scheduled service for this route with high safety standards and the appropriate aircraft, the Calm Air brand will continue to provide benefit to the Company. This was recognized in 2009 with the acquisition of Calm Air.

Water Blast has a brand name intangible recorded of $5,195 based on the combined benefit coming from its distribution rights of Hotsy product in Alberta and British Columbia, and its custom manufacturing brand of Water Blast. Having the exclusive distribution rights in those provinces gives it a competitive advantage with the high quality standards of the Hotsy product over competitors selling other product types. The custom manufacturing capabilities from years of manufacturing experience results in customers in those provinces and beyond to come to Water Blast for the quality of product and ability to supply the product without significant downtime. As Water Blast continues to retain the Hotsy distribution rights for those provinces and continues to build quality product, the Water Blast brand will continue to provide benefit to the Company. This was recognized in 2007 with the acquisition of Water Blast.

	2011	2010
Balance, beginning of year	$ 39,678	$ 40,446
Goodwill from business acquisitions (Note 5)	27,455	—
Change in goodwill of self-sustaining foreign operations (Stainless and Westower)	1,294	(768)
Goodwill impairment	—	—
Balance, end of year	$ 68,427	$ 39,678

As a result of the foreign currency accounting policy for the consolidation of Stainless and WesTower US as described in Note 3e), the goodwill recorded in Stainless (US $14,751) and WesTower US (US $12,415) are valued at the period-end exchange rate. As a result the goodwill fluctuates as the Canadian dollar reporting currency changes in comparison to the US dollar. With the weakening of the Canadian dollar during the 2011 period, the goodwill of these entities increased.

9. Long-Term Debt And Finance Leases

The following summarizes the Company's long-term debt and finance leases as at December 31, 2011 and 2010:

	December 31, 2011	December 31, 2010	January 1, 2010
Revolving term facility			
Canadian dollar amounts drawn	$ 25,000	$ 46,000	$ 18,500
United States dollar amounts drawn (US$21,450 and US$7,450, respectively)	21,815	7,410	7,797
Total credit facility debt outstanding, principal value	46,815	53,410	26,297
less: unamortized transaction costs	(707)	(310)	(726)
less: unamortized discount on outstanding BA's	(58)	—	(124)
Net credit facility debt	46,050	53,100	25,447
Finance leases	3,184	—	—
Aircraft finance debt	—	—	2,943
Total net credit facility debt and finance leases	49,234	53,100	28,390
less: current portion of finance leases	(1,237)	—	(2,943)
Long-term debt and finance leases balance	$ 47,997	$ 53,100	$ 25,447

The Company had US $21,450 drawn from the U.S. dollar portion of its credit facility (December 31, 2010 – US $7,450 and January 1, 2010 – US $7,450).

CREDIT FACILITY

The following is the continuity of long-term debt for the years ended December 31, 2011 and 2010:

	Opening	Withdrawals	Repayments	Exchange Differences	2011 Ending
Credit facility amounts drawn					
Canadian dollar portion	$ 46,000	$ 74,500	$ (95,500)	$ -	$ 25,000
United States dollar portion	7,410	14,000	-	405	21,815
	53,410	88,500	(95,500)	405	46,815
Unamortized transaction costs	(310)				(707)
Unamortized discount on outstanding BA's	-				(58)
	$ 53,100	$ 88,500	$ (95,500)	$ 405	$ 46,050

	Opening	Withdrawals	Repayments	Exchange Differences	2010 Ending
Current portion of long-term debt					
Aircraft finance debt	$ 2,943	$ —	$ (2,943)	$ —	$ —
	$ 2,943	$ —	$ (2,943)	$ —	$ —
Credit facility amounts drawn					
Canadian dollar portion	$ 18,500	$ 56,000	$ (28,500)	$ —	$ 46,000
United States dollar portion	7,797	—	—	(387)	7,410
	26,297	56,000	(28,500)	(387)	53,410
Unamortized transaction costs	(726)				(310)
Unamortized discount on outstanding BA's	(124)				—
	$ 25,447	$ 56,000	$ (28,500)	$ (387)	$ 53,100
Combined long-term debt	$ 28,390	$ 56,000	$ (31,443)	$ (387)	$ 53,100

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 2011 year were $704 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 2011 year was $433 (2010 –$417).

The Company has a total of $2,275 letters of credit issued to various suppliers of the Company. These were issued during the 2011 year but have not been utilized by the holders of them. This is not considered part of the amounts drawn from the Company's credit facility as at December 31, 2011.

With the subsequent acquisition of Custom Helicopters, as described in Note 25, the Company drew $25,000 from the credit facility for the cash portion of the purchase price.

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 nine months ended December 31, 2011 that is the period from the acquisition date of April 1, 2011 (Note 5):

					2011
	Opening	Assumed/ Entered Into	Repayments	Exchange Differences	Ending
Finance leases					
Canadian dollar leases	$ —	$ 1,920	$ (352)	$ —	$ 1,568
US dollar leases	—	2,234	(637)	19	1,616
	$ —	$ 4,154	$ (989)	$ 19	$ 3,184

The future minimum lease payments and the net present value of the future minimum payments of the Company's finance leases as at December 31, 2011 are as follows:

	Less than 1 year	Between 1 year and 5 years	More than 5 years	Total
Total future minimum lease payments	$ 1,344	$ 2,075	$ —	$ 3,419
less: amount representing interest	(154)	(81)	—	(235)
Present value of future minimum lease payments	1,190	1,994	—	3,184
less: current portion				(1,237)
Long-term portion of finance lease payments	$ 1,190	$ 1,994	$ —	$ 1,947

The cost and accumulated depreciation of the finance leased equipment consists of the following as at December 31, 2011:

	2011
Vehicles under finance leases	$8,303
less: accumulated depreciation	(5,363)
	$2,940

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 Year	Debentures Issued	Accretion Charges	Debentures Converted	Repaid on Maturity	2011 Balance, End of Year	December 31, 2010 Balance
Series D	$ 1,061	$ —	$ (1)	$ (1,060)	$ —	$ —	$ 1,061
Series F	1,869	—	19	(707)	—	1,181	1,869
Series G	22,545	—	96	(15,121)	—	7,520	22,545
Series H	27,776	—	252	(2,369)	—	25,659	27,776
Series I	—	32,796	365	—	—	33,161	—
Series J	—	52,878	300	—	—	53,178	—
						120,699	53,251
less: unamortized transaction costs						(5,305)	(2,484)
Convertible Debentures - Debt Component, end of year						115,394	50,767
less: current portion						—	(1,052)
Convertible Debentures - Debt Component (long-term portion)						$ 115,394	$ 49,715

	2010 Balance, Beginning of Year	Debentures Issued	Accretion Charges	Debentures Converted	Repaid on Maturity	2010 Balance, End of Year	January 1, 2010 Balance
Series B	$ 3,351	$ —	$ 12	$ (3,114)	$ (249)	$ —	$ 3,351
Series C	2,469	—	15	(2,244)	(240)	—	2,469
Series D	6,796	—	58	(5,793)	—	1,061	6,796
Series F	3,817	—	33	(1,981)	—	1,869	3,817
Series G	27,759	—	347	(5,561)	—	22,545	27,759
Series H	—	27,623	153	—	—	27,776	—
						53,251	44,192
less: unamortized transaction costs						(2,484)	(2,152)
Convertible Debentures - Debt Component, end of year						50,767	42,040
less: current portion						(1,052)	(5,761)
Convertible Debentures - Debt Component (long-term portion)						$ 49,715	$ 36,279

During the 2011 year convertible debentures totaling a face value of $20,519 were converted at various times into 1,391,438 Shares of the Company (2010 – $19,408 face value into 1,499,096 Shares). Interest expense recorded during the 2011 year for the convertible debentures was $8,942 (2010 – $5,387).

SERIES B – D CONVERTIBLE DEBENTURES

As scheduled, in July 2010, the Series B convertible debentures matured and the Company paid $249 in cash for the outstanding debentures principal at maturity. The remaining equity component for the Series B convertible debentures at maturity of $23 was transferred to contributed surplus.

As scheduled, in September 2010, the Series C convertible debentures matured and the Company paid $240 in cash for the outstanding debentures principal at maturity. The remaining equity component for the Series B convertible debentures at maturity of $18 was transferred to contributed surplus.

As scheduled, in August 2011, the Series D convertible debentures matured and all convertible debentures were converted prior to maturity.

SERIES F CONVERTIBLE DEBENTURE OFFERING

The Company issued the Five Year 10% Series F Subordinate Secured Convertible Redeemable Debentures in 2009. These debentures bear interest at the rate of 10% per annum payable semi-annually in arrears, in cash, on the six-month and twelve-month anniversaries of the initial date of issuance. The maturity of the debentures is April 8, 2014. 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 redeem these Series F 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.

The Series F convertible debentures have $1,229 of principal outstanding as at December 31, 2011 and mature in April 2014.

SERIES G CONVERTIBLE DEBENTURE OFFERING

The Company issued the Five Year 7.5% Series G Subordinate Secured Convertible Redeemable Debentures in 2009. These debentures bear interest at the rate of 7.5% per annum payable semi-annually in arrears, in cash, on the six-month and twelve-month anniversaries of the initial date of issuance. The maturity of the debentures is September 30, 2014. 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 G 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.

The Series G convertible debentures have $7,894 of principal outstanding as at December 31, 2011 and mature in September 2014.

SERIES H CONVERTIBLE DEBENTURE OFFERING

The Company issued the Seven Year 6.5% Series H Subordinate Secured Convertible Redeemable Debentures in April 2010. These debentures bear interest at the rate of 6.5% per annum payable semi-annually in arrears, in cash, on May 31 and November 30 of each year. The maturity of the debentures is May 31, 2017. 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 $20.00. 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 G 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, 2013, but prior to May 31, 2015, 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, 2015 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 debenture-holders have the option to convert the debentures into Shares of the Company at the conversion price. Transaction costs of $1,570 were incurred during the 2010 year in relation to the issuance of the Series H debentures.

The Series H convertible debentures have $27,441 of principal outstanding as at December 31, 2011 and mature in May 2017.

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).

The Series I convertible debentures have $35,000 of principal outstanding as at December 31, 2011 and mature in January 2016.

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 debenture-holders 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).

The Series J convertible debentures have $57,500 of principal outstanding as at December 31, 2011 and mature in May 2018.

CONVERTIBLE DEBENTURES EQUITY COMPONENT

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

Summary of the equity component of the convertible debentures:

	2011	2010
Series D - 2006	$ —	$ 64
Series F - 2009	63	108
Series G - 2009	355	1,254
Series H - 2010	1,469	1,610
Series I - 2011	1,492	—
Series J - 2011	3,137	—
Convertible Debentures - Equity Component, end of year	$ 6,516	$ 3,036

The convertible debentures are secured, subordinate only to senior security, by a charge on the assets and undertakings of the Company and its subsidiaries.

11. Share Capital

Changes in the Shares issued and outstanding during the 2011 year are as follows:

		2011
	Number of shares	Amount
Share capital, beginning of year	14,518,842	$ 148,046
Issued upon conversion of convertible debentures	1,391,438	20,171
Issued for Bearskin vendors (Note 5)	314,047	5,512
Issued for WesTower vendors (Note 5)	520,341	11,161
Issued from warrants exercised (Note 12)	408,482	4,240
Issued under dividend reinvestment plan (DRIP)	161,615	3,226
Issued under employee share purchase plan (ESPP)	71,689	1,472
Issued to Tribal Councils Investment Group	12,728	221
Share capital, end of year	17,399,182	$ 194,049

Changes in the Shares issued and outstanding during the 2010 year are as follows:

		2010
	Number of shares	Amount
Share capital, beginning of year	10,780,704	$ 104,451
Issued from warrants exercised (Note 12)	2,096,631	21,763
Issued under dividend reinvestment plan (DRIP)	115,995	1,746
Issued upon conversion of convertible debentures	1,499,096	19,749
Issued as payment to TCIG	26,416	337
Share capital, end of year	14,518,842	$ 148,046

During both 2011 and 2010, amounts earned by the Tribal Councils Investment Group ("TCIG"), a related party of the Company, were paid in Shares of the Company in accordance with the marketing agreement between the parties (Note 20).

Subsequent to December 31, 2011, the Company closed the acquisition of Custom Helicopters (Note 25) and as part of the purchase consideration issued 170,121 Shares to the vendors representing $4,241 of the purchase price based on the price of the stock at the time of closing.

Also subsequent to December 31, 2011 and described further in Note 25, the Company closed a bought-deal offering of its common stock on March 6, 2012. The prospectus resulted in the Company issuing 2,324,150 of its Shares and the Company obtained $57.5 million of gross proceeds.

12. Warrants

During the 2009 year, the Company closed a public offering in April 2009 and a private placement in June 2009 that included the issuance of warrants. Each warrant entitles the holder thereof to purchase one Share of the Company at a price of $10.00 per Share for a period of two years from the date of issuance of the warrant.

Changes in the warrants issued and outstanding during the 2011 year are as follows:

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

Changes in the warrants issued and outstanding during the 2010 year are as follows:

	Date issued	Number of warrants		2010 Amount
Warrants outstanding, beginning of year		2,505,313	$	952
Warrants exercised	various	(2,096,631)		(797)
Warrants outstanding, end of year		408,682	$	155

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

13. 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 2011 year and the comparative 2010 year are as follows:

		2011		2010
Cumulative dividends, beginning of year	$	55,943	$	35,601
Dividends during the year		27,100		20,342
Cumulative dividends, end of year	$	83,043	$	55,943

The amounts and record dates of the dividends during the 2011 year and the comparative 2010 year are as follows:

		2011 Dividends			2010 Dividends	
Month	Record date	Per Share	Amount	Record date	Per Share	Amount
January	January 31, 2011	$0.130	$2,006	January 29, 2010	$0.13	$1,418
February	February 28, 2011	0.130	2,049	February 26, 2010	0.13	1,487
March	March 31, 2011	0.130	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
October	October 31, 2011	0.135	2,366	October 31, 2010	0.13	1,849
November	November 30, 2011	0.135	2,370	November 30, 2010	0.13	1,879
December	December 31, 2011	0.135	2,384	December 30, 2010	0.13	1,888
Total		$1.605	$27,100		$1.56	$20,342

Subsequent to December 31, 2011 and before these consolidated financial statements were authorized, the Company declared a dividend of $0.135 per share for the months of January 2012 and February 2012.

14. Segmented Information

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

On January 1, 2011 the Company acquired Bearskin (Note 5) and results for Bearskin since the acquisition date are included in the Aviation segment. On April 1, 2011 the Company acquired WesTower (Note 5) 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.

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 3c) for further information on the adjustments made to the prior year that are incorporated in the following segment results tables.

				2011				2010
	Aviation	Manufacturing	Company	Consolidated	Aviation	Manufacturing	Company	Consolidated
Revenue	$ 274,337	$ 235,966	$ —	$ 510,303	$ 189,013	$ 55,373	$ —	$ 244,386
EBITDA	57,160	24,994	(7,315)	74,839	43,665	6,954	(6,351)	44,268
Depreciation and amortization				30,591				16,598
Finance costs - interest				12,390				7,476
Acquisition costs				1,830				666
Foreign exchange gains on debt				—				(55)
Earnings before tax				$ 30,028				$ 19,583

				2011				2010
	Aviation	Manufacturing	Company	Consolidated	Aviation	Manufacturing	Company	Consolidated
Total assets	$ 236,538	$ 171,460	$ 70,403	$ 478,401	$ 174,849	$ 46,223	$ 105,168	$ 326,240
Net capital asset additions	38,880	3,064	85	42,029	57,089	1,392	41	58,522
Goodwill	20,783	47,644	—	68,427	13,435	26,243	—	39,678
Total liabilities	39,108	39,884	173,772	252,764	29,930	8,861	109,818	148,609

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

	2011	2010
Canada	$ 397,328	$ 220,855
United States	112,975	23,531
Total revenue for year	$ 510,303	$ 244,386

	As at December 31, 2011		As at December 31, 2010	
	Capital Assets	Goodwill	Capital Assets	Goodwill
Canada	$ 212,917	$ 40,800	$ 154,066	$ 25,007
United States	7,273	27,627	2,669	14,671
	$ 220,190	$ 68,427	$ 156,735	$ 39,678

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 2011 year, the Company recognized revenue on these types of long-term contracts totaling $196,190 (2010 – $23,429).

The following summarizes the costs and estimated earnings on uncompleted contracts as of December 31, 2011:

	2011	2010
Costs incurred on uncompleted contracts	$ 138,266	$ 13,643
Estimated earnings	35,608	373
	173,874	14,016
less: Billings to date	(161,450)	(16,940)
Total	12,424	(2,924)
Costs incurred plus recognized profits in excess of billings	25,913	762
Billings in excess of costs incurred plus recognized profits	(13,489)	(3,686)
Total	$ 12,424	$ (2,924)

15. Earnings Per Share

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

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Company has two categories of dilutive potential common shares: convertible debentures and warrants. For the convertible debentures, the convertible debt is assumed to have been converted into common shares and the net income is adjusted to eliminate the interest expense from the convertible debt less the tax effect. For the warrants, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's outstanding shares for the period), based on the exercise price attached to the warrants. The number of shares calculated above is compared with the number of shares that would have been issued assuming exercise of the warrants.

The computation for basic and diluted earnings per share for the 2011 year and the comparative 2010 year are as follows:

	2011	2010
Net earnings for the year, available to common shareholders	$ 20,745	$ 13,767
Dilutive effect of convertible debentures	6,543	5,051
Add back impact from anti-dilutive factors	(3,968)	(4,977)
Dilutive effect of warrants	—	—
Diluted earnings for the year	$ 23,320	$ 13,841
Basic weighted average number of shares	16,786,310	12,918,183
Dilutive effect of convertible debentures	4,977,066	3,784,504
Add back impact from anti-dilutive factors	(2,551,774)	(3,702,957)
Dilutive effect of warrants	33,845	420,105
Diluted basis average number of shares	19,245,447	13,419,835
Earnings per share:		
Basic	$ 1.24	$ 1.07
Diluted	$ 1.21	$ 1.03

16. Expenses by Nature

The following breaks down expenses by nature for direct operating expenses, cost of goods sold, and general and administrative expenses (all excluding depreciation and amortization), which are presented in the statement of income.

	2011	2010
Salaries, wages & benefits	$ 131,653	$ 85,339
Aircraft opertating expenses	104,505	68,764
Materials	154,463	21,764
General and administrative - not allocated	24,166	11,710
Building rent & maintenance	6,351	3,369
Communication & information technology	4,083	1,851
Advertising	3,483	2,538
Sub-contracting services	2,581	2,034
Other	4,179	5,878
	$ 435,464	$ 203,247

17. Employee Benefits

DEFERRED SHARE PLAN

The number of deferred shares granted under the Deferred Share Plan were as follows:

	2011	2010
Deferred shares outstanding, beginning of year	80,713	45,822
Granted during the year	24,013	27,612
Granted through dividends/distributions declared during the year	7,870	7,279
Deferred shares outstanding, end of year	112,596	80,713
Vested portion of deferred shares outstanding, end of year	57,464	32,418

The fair value of the deferred shares granted during the 2011 year was $472 at the time of the grant and was based on the market price of the Company's shares at that time (2010 – $385). During the 2011 year, the Company recorded net compensation expense of $365 for the Deferred Share Plan within the general and administrative expenses of head-office (2010 – net compensation expense of $640).

As described in Note 3p), effective January 1, 2011, the Deferred Share Plan was amended and as a result is accounted for as an equity-settled share-based payment plan. As at December 31, 2010, the Deferred Share Plan resulted in a fair valued liability of $1,070 which was reclassified to equity as of the effective date of the amendment. As at December 31, 2011, the Deferred Share Plan was recorded in equity at $1,435.

EMPLOYEE SHARE PURCHASE PLAN

Certain employees of the Company participate in an Employee Share Purchase Plan ("ESPP"). Under the ESPP, employees make contributions of up to 5% of their base salaries to purchase Company shares out of Treasury, and upon the employees remaining employed with the Company or its subsidiaries during an 18-month vesting period, they are entitled to receive an additional number of shares ("additional shares") equal to 33.3% of the number of shares they purchased and dividends declared on those additional shares over the vesting period.

At the decision of the employee, any dividends paid on the additional shares over the vesting period are either paid to the employee upon the shares vesting or shares are purchased using these dividend funds.

During 2011, 71,689 Shares were issued out of Treasury, effective October 28, 2011 for the 2011 program that will vest in 18 months (Quarter 2 of 2013). The fair value of the additional shares that will be awarded upon the vesting conditions of the plan being attained is estimated at $549 based on the share price and monthly dividend rate as at that time. The cost of the award is recognized in head-office expenses of the Company over the 18 month vesting period beginning in December 2011.

The plan is offered to employees annually and in November 2010 a total of 51,872 of Shares of the Company were purchased for the 2010 program that will vest in 18 months (Quarter 2 of 2012). The fair value of the additional shares that will be awarded upon the vesting conditions of the plan being attained is estimated at $339 based on the share price and monthly dividend rate as at that time. The cost of the award is recognized in head-office expenses of the Company over the 18 month vesting period beginning in December 2010.

Over the amortization period as the plans reach the end of the 18 month vesting period, the liability associated with the award is adjusted for changes in the Company's share price at the period-end, any changes in the Company's dividend rate and any known forfeitures. During 2011, total expenses incurred in head-office expenses was $559 (2010 – $263).

18. Income tax

The tax on the company's profit before tax differs from the amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2011	2010
Earnings before provision for income taxes	$ 30,028	$ 19,583
Combined Canadian federal and provincial tax rates	28.5%	30.0%
Income tax expense at statutory rates	8,558	5,875
Increase (decrease) in taxes resulting from:		
Permanent differences	714	245
Change in effective rate	(138)	(129)
Impact of foreign tax rate differences	(49)	(169)
Withholding taxes	134	—
Other	64	(6)
Provision for income taxes	$ 9,283	$ 5,816

The analysis of the deferred tax assets and deferred tax liabilities is as follows:

	2011	2010
Deferred income tax assets		
Deferred income tax asset to be recovered after more than 12 months	$ 7,913	$ 25,886
Deferred income tax asset to be recovered within 12 months	7,327	6,154
	15,240	32,040
Deferred income tax liabilities		
Deferred income tax liability to be recovered after more than 12 months	7,678	—
Deferred income tax liability to be recovered within 12 months	(2,320)	—
	5,358	—
Deferred tax asset	$ 9,882	$ 32,040

The movement of the deferred income tax account is as follows:

	2011	2010
Deferred income tax asset/(liability) at January 1	$ 32,040	$ 37,961
Acquisitions		
Bearskin	(6,959)	—
WesTower	(5,204)	—
Tax credit/(charge) relating to components of other comprensive income	(172)	89
Tax credit/(charge) to statement of income through deferred tax	(8,630)	(5,816)
Tax credit/(charge) to equity	(1,290)	(281)
Other	97	87
Net deferred income tax asset/(liability) at December 31	$ 9,882	$ 32,040

The movement in deferred income tax assets and liabilities during the year is as follows:

	December 31, 2010	Acquisition through business combination	Credited / (charged) through statement of income	Credited / (charged) to other comprehensive income	Credited / (charged) through equity	December 31, 2011
Deferred income tax assets						
Capital assets	$ (13,188)	$ (6,211)	$ 180	$ —	$ —	$ (19,219)
Intangible assets	(1,975)	(748)	188	—	—	(2,535)
Financing costs	438	—	(476)	—	213	175
Accruals - deductible when paid	594	—	(135)	—	—	459
Deferred compensation plans	289	—	98	—	—	387
Capital and non-capital loss carryforwards	46,790	—	(8,412)	—	—	38,378
Other comprehensive income	(8)	—	—	(118)	—	(126)
Convertible debentures	(1,035)	—	267	—	(1,503)	(2,271)
Other	135	—	(143)	—	—	(8)
Total deferred income tax asset	$ 32,040	$ (6,959)	$ (8,433)	$ (118)	$ (1,290)	$ 15,240
Deferred income tax liabiility						
Capital assets	$ —	$ (1,912)	$ (632)	$ (63)	$ —	$ (2,607)
Intangible assets	—	(3,009)	(207)	(89)	—	(3,305)
Accruals - deductible when paid	—	334	452	32	—	818
Non-deductible reserves	—	(1,598)	(625)	(5)	—	(2,228)
Capital and non-capital loss carryforwards	—	994	731	71	—	1,796
Other	—	(13)	181	—	—	168
Total deferred income tax liability	—	(5,204)	(100)	(54)	—	(5,358)
Net	$ 32,040	$ (12,163)	$ (8,533)	$ (172)	$ (1,290)	$ 9,882

	January 1, 2010	Acquisition through business combination	Credited / (charged) through statement of income	Credited / (charged) to other comprehensive income	Credited / (charged) through equity	December 31, 2010
Deferred income tax assets						
Capital assets	$ (9,383)	$ —	$ (3,805)	$ —	$ —	$ (13,188)
Intangible assets	(1,852)	—	(123)	—	—	(1,975)
Financing costs	712	—	(274)	—	—	438
Accruals - deductible when paid	377	—	217	—	—	594
Deferred compensation plans	116	—	173	—	—	289
Capital and non-capital loss carryforwards	49,216	—	(2,426)	—	—	46,790
Other comprehensive income	(77)	—	—	69	—	(8)
Convertible debentures	(754)	—	—	—	(281)	(1,035)
Other	15	—	120	—	—	135
Total deferred income tax asset	$ 38,370	$ —	$ (6,118)	$ 69	$ (281)	$ 32,040
Deferred income tax liability						
Capital assets	$ (879)	$ —	$ 855	$ 24	$ —	$ —
Intangible assets	351	—	(348)	(3)	—	—
Financing costs	(5)	—	5	—	—	—
Accruals - deductible when paid	162	—	(161)	(1)	—	—
Non-deductible reserves	—	—	—	—	—	—
Capital and non-capital loss carryforwards	—	—	—	—	—	—
Other	(38)	—	38	—	—	—
Total deferred income tax liability	(409)	—	389	20	—	—
Net	$ 37,961	$ —	$ (5,729)	$ 89	$ (281)	$ 32,040

As at December 31, 2011, the Company had non-capital loss carry-forwards available to reduce future years' taxable income, which expire as follows:

	Non-capital Loss Carryforwards
Year of expiry	
2014	$ 16,906
2024 and beyond	132,257
	$ 149,163

19. Contingencies and Commitments

The Company and its subsidiaries rent premises and equipment under operating lease agreements. The minimum lease payments under these contractual obligations are as follows:

Commitments	December 31, 2011	December 31, 2010	January 1, 2010
Less than 1 year	$ 6,799	$ 3,792	$ 4,776
Between 1 year and 5 years	11,512	4,931	7,693
More than 5 years	9,523	6,267	6,880
Total	$ 27,834	$ 14,990	$ 19,349

Included in the table above are commitments obligated to related parties in association with leased property used in the operations of the Manufacturing segment which are described further in Note 20.

20. Related Party Transactions

The following transactions were carried out by the Company with related parties.

MARKETING AGREEMENT

The Company has a marketing agreement with Tribal Councils Investment Group ("TCIG"), whose president was a director of the board of the Company during 2010 and part of 2011. The agreement is in the normal course of operations, at market terms and conditions, except that the compensation is payable to TCIG in either Shares of the Company or cash, and is recognized in the consolidated financial statements at the exchange amounts. The compensation to TCIG is conditional on the annual increase in sales at Perimeter. The Company incurred commissions of $190 in 2011 (2010 – $148). The amount payable to TCIG at December 31, 2011 is $190 (2010 – $221).

PROPERTY LEASES

Various entities within the Manufacturing segment lease several buildings from related parties who were vendors of the manufacturing entity that the Company purchased the business from originally. These vendors are considered related parties because of their continued involvement in the management of those businesses. These leases are considered to be at market terms and recognized in the consolidated financial statements at the exchange amounts. The total costs incurred in 2011 under these leases was $1,293 (2010 – $1,075) and the lease term maturities range from 2012 to 2016. The expense is recorded within general and administrative expenses and is paid monthly, therefore no balance exists on the Company's statement of financial position (2010 – nil).

PROFESSIONAL SERVICES

The Company's legal counsel is Aikins, MacAulay & Thorvaldson LLP ("Aikins") in Winnipeg, Manitoba, whose Managing Partner is a director on the board of the Company. The transactions are at market terms and conditions. These transactions are in the normal course of operations associated with legal professional services and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Depending on the services provided, certain costs are expensed in the period incurred, some costs that are considered transaction costs associated with financial liabilities are recognized as interest expense over the life of the related financial instrument, while other costs associated with the raising of equity are recorded as issuance costs against the related equity item. The total costs of services provided during 2011 are $1,483 (2010 – $1,193). As at December 31, 2011, a payable balance of $18 is recorded on the consolidated statement of financial position (2010 – $552).

KEY MANAGEMENT COMPENSATION

The Company identifies its key management personnel being those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of the Company's board (whether executive or otherwise).

Compensation awarded to key management for the 2011 year and the comparative 2010 year is as follows:

	2011	2010
Salaries and short-term benefits	$ 2,649	$ 1,991
Share-based payments	282	432
	$ 2,931	$ 2,423

21. Financial Instruments and Risk Management

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

MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency, interest rate and other price risk.

Currency Risk

The Company has US $21,450 outstanding on its credit facility (Canadian equivalent of $21,815). The outstanding funds in USD results in currency risk that the future cash flows will fluctuate with the changes in market currency rates. The exposure for the USD portion of its credit facility outstanding is offset by the cash generated through the operations of its Manufacturing segment subsidiaries, in particular, the operations of WesTower US and Stainless throughout the United States. The Company has no outstanding derivative instruments to reduce its exposure to the currency risk.

The Company also recorded a currency translation gain of $1,748 (2010 – loss of $688) in Other Comprehensive Income as described below in Note 22.

A $0.01 weakening in the value of the Canadian dollar in relation to the US dollar applied to the Company's US financial instruments outstanding at December 31, 2011 would have a negative impact of approximately $0.2 million on future net earnings and decrease the foreign currency translation adjustment in Other Comprehensive Income by approximately $0.2 million.

As part of the acquisition of Calm Air in April 2009 the Company assumed certain aircraft finance debt denominated in US dollars ("USD"). During the first quarter of 2010 the Company entered into a USD forward rate contract for US $2,400 that matched the majority of the USD principal that was paid by the Company during the remainder of 2010. The Company recorded a net foreign exchange gain of $55 during 2010 between the maturity value of the USD forward rate contract and the conversion of the US dollar based aircraft finance debt that matured during the fourth quarter of 2010. As at December 31, 2010, there is no remaining balance owing for the aircraft finance debt.

Interest Rates

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

The terms of the credit facility allow for the Company to choose the base interest rate between Prime, Bankers Acceptances or London Inter Bank Offer Rate ("LIBOR"). At December 31, 2011, $25,000 was outstanding under Canadian Prime and US $21,450 was outstanding under US LIBOR.

Based on the outstanding credit facility at December 31, 2011, net of cash and cash equivalents, a 1% increase in interest rates for the Company would decrease net earnings for the next fiscal year by approximately $350 ($255 after-tax).

The interest rates of the convertible debentures (Note 10) have fixed interest rates.

CREDIT RISK

Credit risk arises from the potential that a counterparty will fail to perform its obligations. In addition, the Company is exposed to credit risk from its customers. While the operations serve markets in Western Canada and the United States, the Company has a large number of customers, which minimizes the concentration of credit risk. As at December 31, 2011, the Company's credit risk exposure consists mainly of the carrying amounts of accounts receivable.

As at December 31, 2011, $3.4 million of the outstanding receivables were greater than 90 days outstanding. Approximately $1.3 million of this relates to the Manufacturing segment and the $2.1 million relates to the Aviation segment. Management at each of the Company's subsidiaries monitor accounts receivables overdue amounts on a daily basis and respond accordingly. The Company's subsidiaries maintain an adequate allowance for doubtful accounts and review the allowance on a monthly basis.

LIQUIDITY RISK

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they become due or can do so only at excessive cost. The Company's growth is financed through a combination of the cash flows from operations, borrowing under existing credit facilities, the issuance of either or a combination of debentures and equity. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through adequate amount of committed credit facilities. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as cash flows. Due to the nature of the business, the Company aims to maintain flexibility in funding by keeping committed credit facilities available (Note 9).

The Company's financial liabilities and related capital amounts have contractual maturities which are summarized below into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the following table are the contractual undiscounted cash flows:

	Total	Less than 1 year	Between 1 year and 5 years	More than 5 years
Accounts payable and accrued expenses	$ 57,726	$ 57,726	$ —	$ —
Long-term debt	46,815	—	46,815	—
Convertible debentures	129,064	—	44,123	84,941
Total	$ 233,605	$ 57,726	$ 90,938	$ 84,941

The Company is subject to risk that it will encounter difficulty in renegotiating a renewal of its existing senior debt facility (Note 9) or funds to meet the commitment associated with the debt facility that becomes due in 2014. The Company does not anticipate any significant problem in renegotiating a credit facility to renew or replace the credit facility at the end of its term. The Company has the ability to settle all the issued and outstanding convertible debentures with Shares of the Company or cash, at the Company's option.

MEASUREMENT CATEGORIES

As explained in Note 3h), financial assets and liabilities have been classified into categories that determine their basis of measurement and, if applicable, any items that are measured at fair value, whether changes in fair value are recognized in the statement of income or comprehensive income. The Company's financial assets fall into the following categories: loans and receivables, and amortized cost for liabilities. The following table shows the carrying value of the financial assets and liabilities for each of those categories at December 31, 2011 and 2010 and January 1, 2010.

	December 31, 2011	December 31, 2010	January 1, 2010
ASSETS			
Loans and receivables			
Cash and cash equivalents	$ 11,475	$ 1,471	$ 4,857
Restricted cash	-	27,625	-
Accounts receivable	69,172	29,514	20,027
	80,647	58,610	24,884
LIABILITIES			
Amortized cost			
Accounts payable and accrued expenses	$ 57,726	$ 35,413	$ 26,095
Long-term debt	46,050	53,100	28,390
Convertible debentures	115,394	53,251	44,192
	219,170	141,764	98,677

For the Company's current financial assets and liabilities, which are subject to normal trade terms, the historical cost carrying values approximate the fair values due to the immediate or short-term maturities of these financial instruments. For the Company's credit facility, the historical cost carrying values approximate the fair values, since the interest rate is derived from floating rates. For the Company's aircraft financing debt that matured in 2010, the interest rates were fixed and considered to approximate fair value given the conditions of the financing for an aircraft.

The fair value for the Company's debentures will change based on the movement in bond rates. The fair value of the cash flows associated with the debentures outstanding at December 31, 2011 is $121,545 (2010 – $55,866).

22. Other Comprehensive Income (Loss)

During the 2011 year the Company had other comprehensive income of $1,748 (net of $116 tax) 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 $688, net of $69 tax). 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.

23. Changes in Working Capital Items

The changes in non-cash operating working capital items during the 2011 year and the comparative 2010 year are as follows:

	2011	2010
Accounts receivable	$ (4,487)	$ (9,221)
Costs incurred plus recognized profits in excess of billings	(7,433)	(133)
Inventory	(4,930)	59
Prepaid expenses	677	(1,145)
Accounts payable and accrued charges	992	9,318
Income taxes payable	781	—
Deferred revenue	763	(1,608)
Billings in excess of costs incurred plus recognized profits	6,626	2,996
Foreign currency adjustments	507	(1,006)
Net change in working capital items	$ (6,504)	$ (740)

24. 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:

	2011	2010
Total senior debt outstanding, principal value	$ 46,815	$ 53,410
Convertible debentures outstanding, face value	129,064	57,083
Shares	194,049	148,046
Reserved shares	1,851	—
Warrants	—	155
Total capital	$ 371,779	$ 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 2012 will be funded by earnings and operating cash flows generated by its operating subsidiaries.

There are certain capital requirements of the Company resulting from the Company's credit facility that include financial covenants and ratios, including leverage ratios that assess the funded senior debt to adjusted earnings before interest, income tax expense, depreciation, amortization, acquisition costs and other non-cash items ("EBITDA") ratio. Management uses these capital requirements in the decisions made in managing the level and make-up of the Company's capital structure. The Company has been in compliance with all of the financial covenants during the 2011 year.

Changes in the capital of the Company over the 2011 year 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.

25. Subsequent Events

ACQUISITION – CUSTOM HELICOPTERS

Subsequent to 2011, the Company announced that it had signed a letter of intent to acquire the operations and assets of Custom Helicopters ("Custom"), a privately-owned provider of helicopter-based aviation services in Manitoba and Nunavut. The Company completed the acquisition on February 1, 2012. The acquisition price of $29.0 million has been funded through a combination of $24.7 million of debt financing from the Company's credit facility and the issuance of the Company's common shares worth $4.3 million to the vendors of Custom (170,121 shares).

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

The 2011 results of the Company do not include any operating results of Custom and will commence from the closing date of the acquisition.

SHARE OFFERING

Subsequent to 2011, the Company closed a bought-deal prospectus offering on March 6, 2012 for gross proceeds of $57.5 million, including an overallotment option of $7.5 million. The Company issued 2,324,150 of its Shares at a price of $24.75 per share. The net proceeds collected will be used by the Company to reduce the debt outstanding under its outstanding credit facility and for general operations.

26. Transition to IFRS

The effect of the Company's transition to IFRS, described in Note 2, is summarized in this note as follows:

(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:

			December 31, 2010			January 1, 2010	
	4(iii)	CGAAP	ADJ	IFRS	CGAAP	ADJ	IFRS
ASSETS							
CURRENT							
Cash and cash equivalents		$ 1,471	$ —	$ 1,471	$ 4,857	$ —	$ 4,857
Cash - restricted		27,625	—	27,625	—	—	—
Accounts receivable		29,514	—	29,514	20,027	—	20,027
Costs incurred plus recognized profits in excess of billings		762	—	762	895	—	895
Inventory	a	28,269	(5,600)	22,669	27,234	(4,506)	22,728
Prepaid expenses	b	3,809	(317)	3,492	2,401	(54)	2,347
Deferred income tax	c	6,154	(6,154)	—	4,560	(4,560)	—
		97,604	(12,071)	85,533	59,974	(9,120)	50,854
CAPITAL ASSETS	d,h	158,439	(1,704)	156,735	119,400	(6,097)	113,303
INTANGIBLE ASSETS	l	12,842	(588)	12,254	13,371	—	13,371
DEFERRED INCOME TAX	c,j	28,444	3,596	32,040	34,618	3,752	38,370
GOODWILL		39,678	—	39,678	40,446	—	40,446
		$ 337,007	$ (10,767)	$ 326,240	$ 267,809	$ (11,465)	$ 256,344
LIABILITIES							
CURRENT							
Accounts payable and accrued expenses		$ 35,210	$ 203	$ 35,413	$ 26,031	$ 64	$ 26,095
Deferred revenue	e	4,133	1,510	5,643	5,936	1,315	7,251
Billings in excess of costs incurred plus recognized profits		3,686	—	3,686	690	—	690
Current portion of long-term debt		—	—	—	2,943	—	2,943
Current portion of convertible debentures		1,052	—	1,052	5,761	—	5,761
Current portion of debentures		—	—	—	9,691	—	9,691
Current portion of deferred credit	f	4,700	(4,700)	—	3,464	(3,464)	—
		48,781	(2,987)	45,794	54,516	(2,085)	52,431
LONG-TERM DEBT		53,100	—	53,100	25,447	—	25,447
CONVERTIBLE DEBENTURES	n	49,461	254	49,715	36,150	129	36,279
OVERHAUL ACCRUAL	d	11,103	(11,103)	—	7,565	(7,565)	—
DEFERRED INCOME TAX	j	—	—	—	638	(229)	409
DEFERRED CREDIT	f	31,714	(31,714)	—	36,191	(36,191)	—
		194,159	(45,550)	148,609	160,507	(45,941)	114,566
EQUITY							
SHARE CAPITAL		148,046	—	148,046	104,451	—	104,451
CONVERTIBLE DEBENTURES EQUITY COMPONENT	j,n	4,484	(1,448)	3,036	3,641	(882)	2,759
WARRANTS		155	—	155	952	—	952
CONTRIBUTED SURPLUS		102	—	102	61	—	61
CUMULATIVE EARNINGS	k	46,018	36,905	82,923	33,124	36,032	69,156
CUMULATIVE DIVIDENDS		(55,943)	—	(55,943)	(35,601)	—	(35,601)
ACCUMULATED OTHER COMPREHENSIVE INCOME	g	(14)	(674)	(688)	674	(674)	—
		142,848	34,783	177,631	107,302	34,476	141,778
		$ 337,007	$ (10,767)	$ 326,240	$ 267,809	$ (11,465)	$ 256,344

				Year Ended December 31, 2010
	4(iii)	CGAAP	ADJ	IFRS
REVENUE				
Aviation	e,i	$ 186,137	$ 2,876	$ 189,013
Manufacturing		55,373	—	55,373
		241,510	2,876	244,386
EXPENSES				
Direct operating — excluding depreciation and amortization	b,d,i	120,290	(8,700)	111,590
Cost of goods sold — excluding depreciation and amortization		36,179	—	36,179
General and administrative	i	52,636	(287)	52,349
Depreciation and amortization	d	10,472	6,126	16,598
		219,577	(2,861)	216,716
EARNINGS BEFORE THE FOLLOWING		21,933	5,737	27,670
Finance costs — interest	h	8,057	(581)	7,476
Acquisition costs	l	—	666	666
Foreign exchange gains on debt		(55)	—	(55)
EARNINGS BEFORE INCOME TAXES		13,931	5,652	19,583
INCOME TAX EXPENSE (RECOVERY)				
Current	j	—	—	—
Deferred	f	1,037	4,779	5,816
		1,037	4,779	5,816
NET EARNINGS FOR THE PERIOD		$ 12,894	$ 873	$ 13,767
OTHER COMPREHENSIVE INCOME (LOSS), net of tax				
Cumulative translation adjustment	g	(688)	—	(688)
COMPREHENSIVE INCOME FOR THE PERIOD		$ 12,206	$ 873	$ 13,079

Earnings per share information under IFRS

Period	Basic	Diluted
Year ended December 31, 2010	$1.07	$1.03

(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:

(a) **Rotable Parts:** certain rotable 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 December 31, 2010, this adjustment reduced inventory and increased capital assets by $5,600 (January 1, 2010 – $4,506).

(b) **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 December 31, 2010 adjustment removes the prepaid balance of $317 that was outstanding (January 1, 2010 – $54). Direct operating costs of the Aviation segment increased during the 2010 year by $263.

(c) **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 December 31, 2010 adjustment reclassifies the $6,154 deferred income tax asset current balance to long-term (January 1, 2010 – $4,560).

(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 December 31, 2010 adjustment removes the overhaul accrual balance of $11,103 (January 1, 2010 – $7,565) 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 2010 year decreased by $11,483 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 value at that time based on market prices for the aircraft type obtained from independent valuation experts for each aircraft type and condition. 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 $8,776 through retained earnings.

During the fourth quarter of 2011, the Company made a change to the fair value adjustment as a result of a further internal review of the valuation technique used in valuing these aircraft and the various components of the aircraft. The review resulted in certain additional aircraft having their CGAAP net book values adjusted and other certain aircraft further decreased for an additional $3,709 through retained earnings from the original adjustment previously disclosed in the Company's first, second and third quarter interim reports for the 2011 reporting period.

The overall December 31, 2010 adjustment to decrease capital assets of the Aviation segment was $1,704 (January 1, 2010 – $6,097) 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 2010 year increased by $6,126.

(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 consolidated statement of financial position adjustment for December 31, 2010 to deferred revenue representing the fair value of the points outstanding at that time was $1,510 (January 1, 2010 – $1,315). The revenues recognized in the Aviation segment for the 2010 year was adjusted by a net decrease of $195.

(f) **Deferred Credit:** as a result of the conversion to a corporation in 2009 the Company recognized a deferred 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 December 31, 2010 adjustment removes the current and long-term portions of the deferred credit totaling $36,414 (January 1, 2010 – $39,655). The deferred income tax expense recognized for the 2010 year increased by $4,779.

(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 (December 31, 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 2010 year was decreased by $581, 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 2010 year by $3,071. 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	December 31, 2010	January 1, 2010
Net deferred income tax asset under CGAAP		$ 34,598	$ 38,540
Capital assets	(d)	320	1,647
Borrowing costs	(h)	157	—
Rotable parts	(a)	1,515	1,218
Pilot training bonds	(b)	86	15
Loyalty program	(e)	408	355
Overhaul accrual	(d)	(2,998)	(2,043)
Indefinite life intangible assets	below	(605)	(605)
Convertible debenture conversion option	below	(1,028)	(753)
Non-deductible portion of intangible assets	below	(413)	(413)
Net deferred income tax asset under IFRS		$ 32,040	$ $37,961

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		December 31, 2010		January 1, 2010
Retained earnings under CGAAP		$	46,018	$	33,124
Pilot training bonds - removal	(b)		(317)		(54)
Deferred credit - removal	(f)		36,414		39,655
Capital assets - capitalized overhaul costs & revaluation	(d)		(7,884)		(10,602)
Overhaul accrual - reversal	(d)		11,103		7,565
Customer loyalty program - recognized deferred revenue	(e)		(1,510)		(1,315)
Capital assets - capitalized borrowing costs	(h)		581		—
Acquisition costs - expensed	(l)		(666)		—
Deferred income taxes	(j)		(1,365)		173
Cumulative translation adjustment	(g)		674		674
Other			(125)		(64)
Retained earnings under IFRS		$	82,923	$	69,156

Equity: the following is a summary of the transition adjustments to the Company's equity from CGAAP to IFRS:

	Reference		December 31, 2010		January 1, 2010
Equity under CGAAP		$	142,848	$	107,302
Deferred taxes - convertible debenture conversion option	(j)		(1,194)		(753)
Convertible debenture issuance costs applied to equity component	(n)		(254)		(129)
Retained earnings adjustments - various	(k)		36,905		36,032
Cumulative translation adjustment	(g)		(674)		(674)
Equity under IFRS		$	177,631	$	141,778

(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 2010 year was $666 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 5).

(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 December 31, 2010 adjustment increases convertible debentures and decreases the equity portion of the convertible debentures by $254 (January 1, 2010 – $129).

(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.

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May 8, 2012, at 10:30 AM CST
Victoria Inn Winnipeg
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