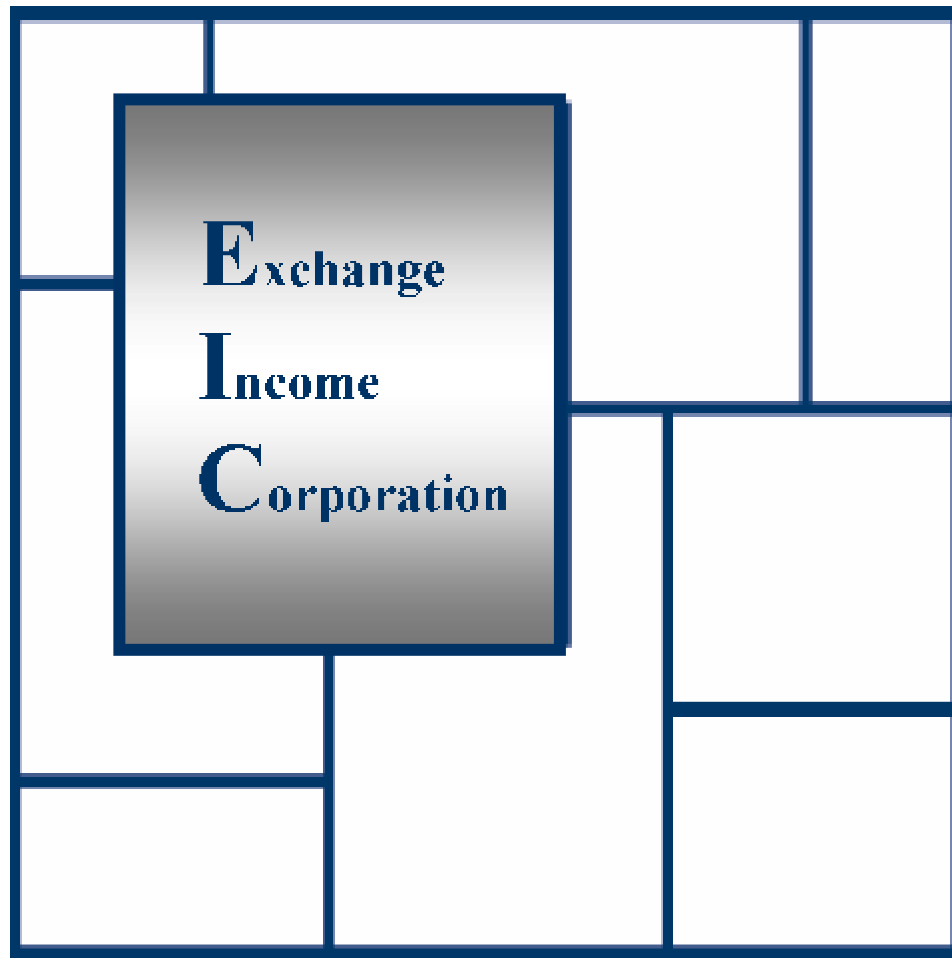

First Quarter Report

For the three months ended March 31, 2011

President & CEO's Message

Our first quarter results reflect the effectiveness of our business model, and the significant investments we made throughout much of 2010 to prepare us for substantive growth.

In fact, Q1 was marked by two bookends that clearly illustrate our commitment towards disciplined acquisitions. On the first day of the quarter, we completed the acquisition of Bearskin Airlines. On the day after the quarter's end, we completed the acquisition of WesTower Communications. In between, we closed a $35 million convertible debenture offering and increased our senior credit facility by $130 million to $235 million.

We are very excited about our two newest subsidiaries, which represent the first (WesTower) and third largest (Bearskin) acquisitions in our company's history. Combined, Bearskin and WesTower are expected to contribute $250 million in new revenue to the Company.

Bearskin began 2011 better than expected as its seasonally strong first quarter performance has surpassed expectations. We continue to see strong demand in its core markets, which encompass select areas that are generally under-served such as Thunder Bay and Red Lake. Bearskin has also added new routes recently which are very promising and offer direct service between large centres and smaller centres in Manitoba, Ontario, and subsequent to quarter end Quebec.

Although WesTower was not acquired during the first quarter and did not contribute to our Q1 results, we are however encouraged by the demand within the telecommunication tower industry, which has increased since our acquisition was first announced. We are very much looking forward to including this strong company in our operations effective with Q2.

The success and promise of our newly acquired companies complement the solid performance of our existing subsidiary companies. In our Aviation segment, demand has remained consistent and our new medevac business in Baffin Island has performed as expected. Our revenue growth was partially offset by higher fuel prices and a delay in the implementation of our two ATR 72 aircraft, which have resulted in higher costs. We expect to have both ATR 72s up and running in Q2 and have implemented a series of price increases and surcharges to address the increasing fuel costs.

In our Manufacturing segment, performance has been the strongest since the start of the recession in 2008. Demand for our various specialty steel manufacturing products has increased, and our subsidiaries have converted a large portion of this revenue increase into profits.

The strong performances of our Aviation and Manufacturing segments in Q1 resulted in consolidated EBITDA of $12.2 million, an increase of $3.6 million or 41% from 2010.

While our revenue and EBITDA growth were consistent with our expectations, our results were impacted by new accounting rules that came into effect on January 1, 2011, effectively replacing Canadian Generally Accepted Accounting Principles ("CGAAP").

As required by the Canadian Securities Administrators and the Accounting Standards Board, we reported our first quarter financial statements in accordance with International Financial Reporting Standards (IFRS). This is the first time that we have reported under IFRS, and we believe that the substantial disclosure in our financial statements and management's discussion and analysis will help shareholders better understand the new accounting rules in which we operate.

All comparatives that we used for 2010 have been converted to IFRS in our disclosure materials. As a result, our first quarter results for both 2011 and 2010 are directly comparable as they are compiled using the same accounting methodology.

As a result of the new accounting rules, our earnings decreased from $2.3 million in Q1 2010 to $2.0 million in 2011 - despite the significant increase in EBITDA. The decline is attributable to a number of IFRS-related rules including an increase in depreciation due to the addition of Bearskin and a higher number of aircraft, acquisition costs that are treated now as expenses rather than included as part of the cost of acquisition, and a higher effective tax rate as acquisition costs that are now being deducted under IFRS are not deductible for taxes.

It's important to bear in mind that future acquisition costs and the resulting higher effective tax rates are expenses that will be generally "lumpy" as a result of IFRS, but will only occur in periods when we are completing acquisitions.

Subsequent to quarter-end, we completed a $50 million convertible debenture offering and our syndicate of bankers exercised their over allotment option for an additional $7.5 million. As a result, we have approximately $200 million in capital available under our $235 million senior credit facility. This access to capital puts us in a strong position to further execute on our acquisition strategy and to quickly act when the right opportunity presents itself.

Consistent with our track record, we will continue to be disciplined in our acquisition strategy. Based on our history of accretive acquisitions, our stable base of companies, and our conservative approach to financing, we are strongly poised for continued growth in the quarters and years ahead.

Mike Pyle
President & CEO

Management's Discussion and Analysis

May 13, 2011

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") supplements the unaudited condensed interim consolidated financial statements and related notes for the three months ended March 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 was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these condensed interim consolidated financial statements. In these financial statements, CGAAP refers to CGAAP before the adoption of IFRS.

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

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

FORWARD LOOKING STATEMENTS

This interim report contains forward-looking statements. All statements other than statements of historical fact contained in this MD&A are forward-looking statements, including, without limitation, statements regarding the future financial position, business strategy, proposed acquisitions, budgets, litigation, projected costs and plans and objectives of or involving the Company or the businesses in which it has invested. Persons reading this MD&A can identify many of these statements by looking for words such as "believe", "expects", "will", "may", "intends", "projects", "anticipates", "plans", "estimates", "continues" and similar words or the negative thereof. Although management believes that the expectations represented in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct.

By their nature, forward-looking statements require assumptions and are subject to inherent risks and uncertainties including those discussed in this annual report. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. Readers of this 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 11 – Risk Factors of the MD&A. We caution that the list of risk factors set out herein is not exhaustive and that when relying on forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements.

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

NON-GAAP FINANCIAL MEASURES

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

EBITDA: is defined as earnings before interest, income taxes, depreciation, amortization, other non-cash expenses such as unrealized foreign exchange gains or losses and asset impairment, and any unusual non-operating one-time items such as conversion 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.

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

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

Investors are cautioned that EBITDA, Distributable Cash, and Free Cash Flow should not be viewed as an alternative to measures that are recognized under GAAP such as net earnings or cash from operating activities. The Company's method of calculating EBITDA, Distributable Cash, and Free Cash Flow may differ from that of other corporations or of income funds and therefore may not be comparable to measures utilized by them.

ADDITIONAL INFORMATION

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

1. FINANCIAL HIGHLIGHTS

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

FINANCIAL PERFORMANCE	2011	per share basic	per share fully diluted	2010	per share basic	per share fully diluted
For the three months ended March 31						
Revenue	$ 92,937			$ 53,861		
EBITDA	12,214			8,648		
Net earnings (2)	2,040	0.13	0.13	2,264	0.20	0.19
Free cash flow	10,515	0.68	0.59	7,125	0.63	0.52
Free cash flow less maintenance capital expenditures	3,844	0.25	0.25	5,070	0.45	0.39
Dividends/distributions declared	6,119	0.39		4,450	0.39	
FINANCIAL POSITION	March 31, 2011			December 31, 2010		
Working capital (1)	$ 19,109			$ 39,739		
Capital assets	191,496			160,443		
Total assets	355,279			328,946		
Senior debt (1)	24,828			53,100		
Equity	197,093			180,337		
SHARE INFORMATION	March 31, 2011			December 31, 2010		
Common shares outstanding	15,877,081			14,518,842		

Note 1): 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.
Note 2): Under IFRS the Company's accounting policy is to expense acquisition related costs in the period incurred. During the first quarter of 2011 the Company expensed $879 of acquisition costs associated with the acquisition of WesTower Communications that closed on April 1, 2011 (2010 - $17 expensed for various items).

2. OVERVIEW

EXCHANGE INCOME CORPORATION

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

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

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

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

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

(a) Aviation – providing scheduled airline service and emergency medical services to communities located in Manitoba, Ontario and Nunavut, including certain First Nations communities, operated by Calm Air, Keewatin, Perimeter, other aviation supporting businesses, and Bearskin Airlines ("Bearskin") that was acquired on January 1, 2011; and

(b) Manufacturing – manufacturing custom tanks for the transportation of oil and gas, at Jasper Tank; manufacturing precision sheet metal and tubular products, at Overlanders; manufacturing specialized stainless steel tanks, vessels and processing equipment, at Stainless; and manufacturing specialized heavy duty pressure washing and steam systems, at Water Blast. Water Blast is also the exclusive distributor in Alberta

and British Columbia for Hotsy pressure washing cleaning equipment, which is used for a variety of light commercial and industrial applications. WesTower Communications ("WesTower") was acquired on April 1, 2011, subsequent to the first quarter of 2011, and is a manufacturer and installer of communication towers and sites in both Canada and the United States.

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

Acquisition – Bearskin Airlines

The Company closed the acquisition of the airline operations and assets of Bearskin Airlines, a privately-owned commuter airline providing passenger service in Ontario and Manitoba. The acquisition price of $33.1 million was funded through a combination of $27.6 million of debt financing from the Company's credit facility and the issuance of the Company's common shares ("Shares") worth $5.5 million to the vendors of Bearskin (314,047 Shares).

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

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

The Company's results for the three months ended March 31, 2011 include Bearskin's financial results for the full period since Bearskin was acquired on the first day of the period. Acquisition costs of $0.6 million were treated as an expense in the 2010 fiscal period under IFRS.

Subsequent Acquisition– WesTower Communications

The Company announced on March 9, 2011 that it signed a letter of intent to acquire the shares of WesTower and closed the acquisition 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 was $79 million and was funded through a combination of $68.8 million of debt financing and the issuance of the Shares worth $11.2 million to the vendors of WesTower (520,341 shares).

The acquisition is expected to be immediately accretive to the Company's key financial metrics, including EBITDA, cash flows, earnings per share and Free Cash Flow. The acquisition of WesTower will significantly grow the Company, specifically the Manufacturing segment, as its 2010 annual revenues were approximately $200 million in total for its combined Canadian and US operations. Consistent with the Company's traditional acquisition criteria, WesTower was identified because it operates in a niche portion of a large industry with large barriers to entry, a solid management team and has a national presence in both Canada and the US.

The Company's results for the three months ended March 31, 2011 do not include any financial results of WesTower's operations. The Company did incur acquisition costs of $0.9 million associated with the subsequent acquisition and these were recorded in the three months ended March 31, 2011 as acquisition costs.

The announcement of the intent to acquire WesTower on March 9, 2011 resulted in the Company announcing an amendment to its senior credit facility, increasing the available facility to $235 million. The term of the credit facility was also extended another year and the facility now maturing in March 2014.

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 anymore under IFRS. The Company continually monitors and evaluates its metrics and updates these metrics as required to ensure they provide information considered most useful in any decision making based on the Company's performance. The following section will quantify and analyze the key performance indicators of the Company and describe the changes, if any, on those key performance indicators as a result of the transition to IFRS. See Section 8 for information on the transition to IFRS for the Company.

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

EBITDA

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

EBITDA	Three months ended March 31,		2011		2010
Earnings before income tax		$	3,244	$	3,102
Depreciation and amortization			5,988		3,794
Interest expense			2,103		1,818
Acquisition costs			879		17
Foreign exchange gains on debt			-		(83)
		$	12,214	$	8,648

FREE CASH FLOW

FREE CASH FLOW	Three months ended			
-periods ending March 31		2011		2010
Cash flows from operations	$	10,776	$	6,666
Change in non-cash working capital items		(1,140)		442
Acquisition costs		879		17
	$	10,515	$	7,125
per share - Basic	$	0.68	$	0.63
per share - Fully Diluted	$	0.59	$	0.52

Prior to the change from CGAAP to IFRS, EIC regularly reported Distributable Cash. This was a metric that was relevant when EIC was an income trust. EIC decided to continue to report Distributable Cash after it converted to a corporation because it was felt that this metric was still relevant to EIC as a dividend paying corporation, as well as the fact that this metric was well understood by many of our stakeholders. However EIC 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 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 policy. EIC 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.

The Company generated Free Cash Flow of $10.5 million for the first quarter of 2011, which is $3.4 million higher than the $7.1 million generated in the comparative 2010 period. The 48% increase in Free Cash Flow is the result of the significant increase in EBITDA which increased by $3.6 million over the comparative period as a result of the addition of Bearskin as well as the

increase in the performance from EIC's existing operations. This was offset slightly by the $0.3 million increase in interest expense in Q1 2011.

On a basic per share basis, Free Cash Flow for Q1 2011 increased to $0.68, or $0.59 on a fully diluted basis compared to $0.63 and $0.52 in the 2010 period, which is an increase of 8% and 13%, respectively. The increase in the per share results of 8% is significantly less than the 48% increase in Free Cash Flow as a result of the increased number of shares outstanding year over year. The shares outstanding at March 31, 2011 was 15.9 million or 34% higher than the 11.9 million shares outstanding at March 31, 2010. The higher share base has resulted from a significant number of warrants being exercised and convertible debentures being converted as a result of EIC's share price.

The increase in shares outstanding significantly decreases the per share results, while EIC has not added more debt to maintain the same level of leverage. These decisions will continue to impact the per share results of the Company until these funds are deployed. As at March 31, 2011, the de-leveraged balance sheet puts the Company in a position to finance a $140 million acquisition without the need for additional equity financing

FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENDITURES

FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENDITURES	Three months ended	
-periods ending March 31	2011	2010
Free Cash Flow	$ 10,515	$ 7,125
Maintenance Capital Expenditures	6,671	2,055
	$ 3,844	$ 5,070
per share - Basic	$ 0.25	$ 0.45
per share - Fully Diluted	$ 0.25	$ 0.39

As described above, Free Cash Flow less maintenance capital expenditures is the same metric as Distributable Cash under IFRS. The Company generated Free Cash Flow less maintenance capital expenditures of $3.8 million for the first quarter of 2011, which is $1.2M less than the $5.1 million generated in the comparative 2010 period. The decrease is a result of significantly higher maintenance capital expenditures during the quarter as these expenditures increased from $2.1 million to $6.7 million in Q1 2011. The maintenance capital expenditures are described in detail below in the Capital Expenditures Section. It is important to understand that as a result of the change to IFRS maintenance capital expenditures will now be more variable from quarter to quarter, as described further in the Capital Expenditures Section below. As a result of the variability in the maintenance capital expenditures under IFRS, Free Cash Flow is a better metric than Free Cash Flow less maintenance capital expenditures as a measure of ongoing operating performance. This metric will be more consistent quarter to quarter and will give a better indication of the performance of the underlying operations and the trend in performance. Maintenance capital expenditures is variable under IFRS because overhauls for engines and heavy checks that were previously accrued in advance are now treated as capital expenditures. Free Cash Flow less maintenance capital expenditures is still an important operating metric; however, it will be subject to lumpy quarterly changes as a result of the maintenance capital expenditures.

On a basic per share basis, Free Cash Flow less maintenance capital expenditures for Q1 2011 decreased to $0.25, or $0.25 on a fully diluted basis compared to $0.45 and $0.39 in the 2010 period. The maintenance capital expenditure component of this metric accounted for a $0.43 decrease in this metric versus $0.18 in Q1 2010.

CAPITAL EXPENDITURES

CAPITAL EXPENDITURES	Three months ended	
-periods ending March 31	2011	2010
Maintenance capital expenditures	$ 6,671	$ 2,055
Growth capital expenditures	2,123	3,530
	$ 8,794	$ 5,585
Maintenance capital expenditures per share - Basic	$ 0.43	$ 0.18
Growth capital expenditures per share - Basic	0.14	0.31
Total capital expenditures per share - Basic	$ 0.57	$ 0.50

Management characterizes capital expenditures as either maintenance capital expenditures or growth capital expenditures. Maintenance capital expenditures are those required to maintain the operations of the Company at its current level. Other capital expenditures are made to grow the enterprise and are expected to generate additional EBITDA. These other capital expenditures are classified as growth capital expenditures and are not considered by management in determining the cash flows required to sustain the current operations of the Company. The accounting for capital expenditures has changed significantly under IFRS as compared to CGAAP. The most significant change is that engine overhauls and aircraft heavy checks were previously accrued as an expense and then relieved 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 will now be very lumpy from period to period. For instance the first quarter is generally a slower operating period for our aviation entities and they will schedule more engine overhauls and aircraft heavy checks in this quarter, as the aircraft are often not available for operations during these events. 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.

In Q1 2011 there was $6.7 million in maintenance capital expenditures compared to $2.1 million in Q1 2010. The entire increase in maintenance capital expenditures relates to IFRS capital expenditures. In Q1 2010 there was an additional $1.9 million in capital expenditures as a result of IFRS versus an additional $6.4 million in additional capital expenditures as a result of IFRS in Q1 2011. This is driven by $2.9 million in engine overhauls and $2.5 million in heavy checks in Q1 2011 compared to $0.9M and nil in heavy checks in Q1 2010. The timing of these events is based on hours on the aircraft combined with maintenance planning, in which the maintenance manager will schedule the aircraft to be out of service when our operations are slower. As discussed above the timing of these heavy checks and engines will result in choppy maintenance capital expenditures from quarter to quarter. In Q1 2011 EIC had nine engines that were overhauled and four heavy checks compared to two engine overhauls and no heavy checks in the Q1 2010 period, resulting in significantly higher maintenance capital expenditures in Q1 2011. The quarterly maintenance capital expenditures for the remainder of 2011 are expected to be significantly lower than Q1 of 2011.

The Company invested a total of $2.1 million in growth capital expenditures during Q1 2011. These growth capital expenditures related entirely to the Aviation segment which finished building the new hangar for Keewatin's new medevac contract for the Baffin Island region and finalized the modifications for the second ATR 72 for Calm's fleet.

DIVIDENDS & PAYOUT RATIO

Actual dividends for the three months ended 2011 totaled $6.1 million, which was an increase of 38% from the comparative period in 2010 when the actual payouts were $4.5 million. Per share dividends for the three months ended March 31, 2011 totaled $0.39, which was equal to the dividends paid per share in the comparative period in 2010.

The Company's Board of Directors regularly examines the dividends paid to shareholders. The current dividend rate per share increased to $0.135 per month starting in April 2011, an increase of $0.005 per share. The monthly dividend rate of $0.13 was declared per month for the three months ended March 31, 2011 and the entire 2010 fiscal year. Management expects that the Company will generate sufficient cash going forward during the remainder of 2011 to meet or exceed this level.

Under the new IFRS accounting policies, EIC will calculate the payout ratio using Free Cash Flow and Free Cash Flow less maintenance capital expenditures. The payout ratio for the actual dividends for the 2011 period compared to Free Cash Flow was 58%, or 67% when calculated on a fully diluted basis. The payout ratios for the actual dividends for the comparative period in 2010 were 62% or 75% fully diluted. When the payout ratio is calculated including maintenance capital expenditures the payout ratio was 156%, or 156% when calculated on a fully diluted basis in Q1 2011 compared to 75% or 100% fully diluted in Q1 2010. As discussed in the Capital Expenditures Section the Free Cash Flow less maintenance capital expenditures will be very lumpy from quarter to quarter based on the timing of engine overhauls and aircraft heavy checks. These expenditures were very high at $6.7 million in Q1 2011 compared to $2.1 million in Q1 2010. The maintenance capital expenditures for the remainder of 2011 are expected to be significantly lower than Q1 of 2011.

The payout ratio is considered to be prudent and is reviewed by the Company's Board of Directors on a quarterly basis.

The amounts and record dates of the dividends declared during the three months ended March 31, 2011 and comparative period in 2010 were as follows:

	2011 Dividends			2010 Dividends		
Month	Record date	Per Share	Amount	Record date	Per Share	Amount
January	January 31,2011	$ 0.13	$ 2,006	January 29, 2010	$ 0.13	$ 1,418
February	February 28, 2011	0.13	2,049	February 26, 2010	0.13	1,487
March	March 31, 2011	0.13	2,064	March 31, 2010	0.13	1,545
Total		$ 0.39	$ 6,119		$ 0.39	$ 4,450

4. ANALYSIS OF OPERATIONS

The following section analyzes the financial results of the Company's operations for the three months ended March 31, 2011 and comparative 2010 period. The transition to IFRS has resulted in certain comparative balances in the 2010 period being adjusted. See Section 9 for information on the transition adjustments to IFRS for the Company.

	Three months ended March 31, 2011				Three months ended March 31, 2010			
	Aviation	Manufacturing	Head-office[2]	Consolidated	Aviation	Manufacturing	Head-office[2]	Consolidated
Revenue	$ 76,377	$ 16,560	$ -	$ 92,937	$ 41,602	$ 12,259	$ -	$ 53,861
Expenses[1]	65,500	13,552	1,671	80,723	33,071	10,934	1,208	45,213
EBITDA	10,877	3,008	(1,671)	12,214	8,531	1,325	(1,208)	8,648
Depreciation and amortization				5,988				3,794
Finance costs - interest				2,103				1,818
Acquisition costs				879				17
Foreign exchange gains on debt				-				(83)
Earnings before taxes				3,244				3,102
Current income tax expense (recovery)				(1)				-
Deferred income tax expense (recovery)				1,205				838
Net earnings for the year				$ 2,040				$ 2,264

Note 1): Expenses exclude interest expense, depreciation, amortization, acquisition costs, non-cash expenses and any unusual non-operating one-time items.
Note 2): Head-office is not a separate reportable segment. It includes expenses incurred at the head-office of the Company and is presented for reconciliation purposes.

On a consolidated basis, total revenue for the Company for the three months ended March 31, 2011 increased by 73% or $39.1 million to $92.9 million when compared to the same period in 2010. The main drivers of the increase in revenue for the 2011 period is the addition of Bearskin in the Aviation segment, the addition of the aviation support companies at the end of March 2010, and the strong performance of the manufacturing segment. Bearskin was acquired on the first day of the 2011 period and therefore includes three months of operations with no comparative in 2010. The aviation support companies, which were primarily established as a fuel supplier to our Aviation segment, added $16.4 million in revenue through sales to third parties. It is important to note that the aviation support companies were established primarily to support the Aviation segment and ensure proper service levels to our subsidiaries. Sales to third parties are done at very low margins and as such generate only limited EBITDA and EBITDA margin. The revenues for the Aviation segment increased by 84% to $76.4 million in comparison to the same period in 2010 (or 44% to $60.0 million net of the aviation support companies revenues) and the revenues for the Manufacturing segment increased by 35% to $16.6 million in comparison to 2010.

On a consolidated basis, EBITDA of the Company for the three months ended March 31, 2011 was $12.2 million, an increase of 41% or $3.6 million when compared to the same period in 2010. The main drivers of the increase in EBITDA for the 2011 period were the addition of Bearskin and the strong performance of the Manufacturing segment. The EBITDA for the Aviation segment increased by 27% to $10.9 million in comparison to the same period in 2010 and the EBITDA for the Manufacturing segment increased by 127% to $3.0 million in comparison to the same period in 2010. Costs incurred at the head-office of the Company increased 38% to $1.7 million when compared to 2010.

AVIATION SEGMENT

Aviation Segment	Three months ended March 31,	2011	2010	Variance	Variance %
Revenue		$ 76,377	$ 41,602	$ 34,775	84%
Expenses		65,500	33,071	32,429	98%
EBITDA		$ 10,877	$ 8,531	$ 2,346	27%

The results for the Aviation segment for the quarter were significantly impacted by the January 1, 2011 acquisition of Bearskin Airlines, as well as the revenue generated by the Aviation support group that commenced operations in late March 2010. Revenues earned from these two entities combined were $30.3 million. Revenues earned by Bearskin Airlines during the first quarter of 2011 were $13.6 million and EBITDA for the same period was $3.1 million generating an EBITDA margin of 23%. Revenues earned by the aviation support companies during the first quarter of 2011, were $16.7 million compared to $0.3 million in 2010 with EBITDA of $0.5 million in 2011 and nil in 2010. The aviation support companies were established primarily to support the Aviation segment and generate only limited EBITDA and EBITDA margin. The Aviation segment benefits from better service as well as benefits from combined purchasing power as a result of the aviation support companies.

Revenues generated by the segment's pre-existing operations, excluding the aviation support group, contributed $46.1 million, an increase of $4.8 million or 12%. The acquisition of a new medical contract, which became effective December 2010, contributed $2.6 million in new revenue in the first quarter of 2011 over the prior year quarter. Increased demand in Manitoba and Nunavut as well as the implementation of rate increases and stronger charter revenues generated the balance of the increased revenues.

Operational expenses for the pre-existing operating entities within the segment increased by $6.0 million or 18% from $32.8 million in 2010 to $38.8 million in the first quarter of 2011 over the prior year quarter. This increase in expenses was driven by two main factors. First fuel prices and fuel consumption increased compared to the first quarter of 2010, resulting in fuel costs being $2.7 million higher. The average fuel cost per litre increased by approximately $0.16 placing significant upward pressure on operating expenses. Secondly labour and training costs increased by $1.8 million primarily driven by labour requirements to support the new medical and fuel contracts, as well as labour associated with the introduction of new aircraft. Aircraft parts expense also increased over the prior year as well.

When the support company operations are removed from the Q1 results, EBITDA margins are 17.4% in Q1 2011 compared to 20.5% in Q1 2010 for the rest of the Aviation segment, including Bearskin in the 2011 results. The decrease in margins is primarily the result of the delay in the implementation of the ATR 72's into service and the higher fuel costs experienced over 2010. The delay of the ATR 72's results in higher labour, fuel, and parts costs as we run older aircraft that are less fuel efficient and have higher parts costs until the new ATR 72's are online. Additionally, the transition to a new aircraft requires EIC to employ staff for both aircraft types. As described above fuel costs are significantly higher than Q1 2010. EIC has implemented revenue fuel surcharges to mitigate the costs associated with rising fuel prices; however, the lag associated with implementing the fuel surcharge program results in a drag on EBITDA over the prior year period.

MANUFACTURING SEGMENT

Manufacturing Segment	Three months ended March 31,	2011	2010	Variance	Variance %
Revenue		$ 16,560	$ 12,259	$ 4,301	35%
Expenses		13,552	10,934	2,618	24%
EBITDA		$ 3,008	$ 1,325	$ 1,683	127%

Revenues generated by the Manufacturing segment increased by $4.3 million or 35% as compared to the same period in the prior year. This was the highest level of sales in our manufacturing division in over two years and is the result of widespread improvement across the Company's Manufacturing segment. All operations in the segment showed a significant increase in sales except for a small decrease in the precision metal fabrication operations.

Signs of improvement in manufacturing started to materialize in the second quarter of 2010 and the segment has shown continual improvement since that time. The stainless steel tank operation in the US were the strongest performer in the first quarter of 2011, showing a 75% improvement in revenue. This was driven by a strong order book entering 2011, combined with a very weak first quarter of 2010. The economic recession was the most pronounced in Alberta, however our operations there have shown a steady improvement over the past 12 months. This has resulted in a 40% increase in sales over the first quarter of

2010, driven by all major product lines in Alberta. These two significant increases were offset by a 25% decrease in the Company's precision metal manufacturing operations. The decrease resulted from a slow down from their top customer who normalized their inventory levels during the first quarter of 2011, resulting in a significant reduction in products ordered from the Company.

Following this large increase in sales is a very strong increase in EBITDA, as EBITDA generated by the Manufacturing segment increased by $1.7 million or 127% over the same period in the prior year. The Alberta operations and the stainless steel tank manufacturer each contributed an additional $1.0 million in EBITDA over Q1 of 2010 as both these operations benefited from an increase in sales. The Alberta operations have a lower percentage of materials in their cost of goods sold as compared to the stainless steel tank business and therefore were able to put half of their increase in sales to EBITDA, while the stainless steel tank business was still able to put a very healthy one third of their increase in sales to EBITDA. This was offset by lower margins experienced by the precision metal manufacturing operations as they suffered from lower sales in the first quarter of 2011 after they had ramped up staffing levels to support their record level of sales experienced in 2010.

Overall, margins for the Manufacturing segment increased from 10.8% in the first quarter of 2010 to 18.2% in the first quarter of this year. This large increase is directly attributable to the improved sales in the Alberta operations and in our stainless steel tank line, while all operations still focused on managing costs.

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

HEAD-OFFICE

Head-office Costs	Three months ended March 31,	2011	2010	Variance	Variance %
Expenses		$ 1,671	$ 1,208	$ 463	38%

The head-office costs increased in the three months ended March 31, 2011 by $0.5 million or 38% over the comparative period in 2011. Approximately $0.3 million is a result of increased personnel costs with the growth in the office from the comparative period and the remainder is a result of increased professional fees and travel costs.

During the first quarter of 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 combined expense for the Company's deferred share plan and employee share purchase plan was relatively consistent between both reporting periods.

OTHER NON-EBITDA ITEMS

The following analyzes the changes in the other non-EBITDA income statement items that impacted the change in consolidated net earnings for the three months ended March 31, 2011 in comparison to the same period in 2010. Consolidated net earnings for the three months ended March 31, 2011 was $2.0 million, a decrease of $0.2 million over the comparative period in 2010.

Three months ended March 31,	2011	2010	Variance	Variance %
Depreciation and amortization	$ 5,988	$ 3,794	$ 2,194	58%

The Company's depreciation and amortization for the three months ended March 31, 2011 increased by $2.2 million or 58% over the comparative period in 2010. With the acquisition of Bearskin in 2011, the depreciation and amortization recorded of $1.0 million from Bearskin has no comparative in the 2010 period. Also contributing to the increase are the significant internal growth initiatives of 2010 that totaled of $44.1 million for fiscal 2010 that were depreciated in the 2011 period. The Aviation segment incurred $43.1 million of that amount and as a result the combined depreciation and amortization for the Aviation segment entities, excluding Bearskin, increased by $1.3 million in the 2011 period.

Three months ended March 31,	2011	2010	Variance	Variance %
Finance costs - interest	$ 2,103	$ 1,818	$ 285	16%

The Company incurred additional interest costs for the 2011 period of $0.3 million or 16% in comparison to the comparative period in 2010. The increase is a result of the Company incurring more interest associated with its convertible debentures.

That increase was offset by approximately a $0.1 million decrease in interest associated with the Company's long-term debt, in particular the aircraft financing debt that was repaid at its maturity in the fourth quarter of 2010.

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 2011 period the Company incurred $0.6 million of interest on this series that has no comparative in the 2010 period. Also adding interest was the $30.0 million of Series H convertible debentures that were issued in the third quarter of 2010 and therefore weren't outstanding in the comparative period in 2010 either. The Series H interest incurred in the 2011 period was at 6.5% and totaled $0.6 million.

This was offset by the maturing of the Series B and Series C convertible debentures in the third quarter of 2010 that had $0.1 million of interest in the comparative 2010 period. Also offsetting was the decrease in the principle outstanding on the Series D, F and G convertible debentures as a result of a significant amount of the debenture holders exercising the option to convert the debt into Shares of the Company. The combined decrease in interest on the Series D, F and G convertible debentures in the 2011 period was $0.6 million.

The 2010 comparative period also included $0.1 million of debenture interest on the $9.7 million of Series E debentures that were early redeemed in January 2010.

Three months ended March 31,	2011	2010	Variance	Variance %
Acquisition costs	$ 879	$ 17	$ 862	5071%

During the three months ended March 31, 2011 the Company incurred acquisition costs in relation to the acquisition of WesTower that closed on April 1, 2011. In the comparative period in 2010 the Company incurred very little of acquisition costs. Costs were incurred later in fiscal 2010 with the preparation for the acquisition of Bearskin that closed on January 1, 2011.

Three months ended March 31,	2011	2010	Variance	Variance %
Foreign exchange gains on debt	$ -	$ (83)	$ 83	-100%

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

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

Three months ended March 31,	2011	2010	Variance	Variance %
Current income tax expense (recovery)	$ (1)	$ -	$ (1)	0%
Deferred income tax expense (recovery)	1,205	838	367	44%
Net Income Tax Expense (Recovery)	$ 1,204	$ 838	$ 366	44%

Income tax expense for the 2011 period was $1.2 million, representing an increase of $0.4 million over the comparative period in 2010. The effective tax rate in 2011 was 37% as compared to 27% in the same period in 2010. The main reason for this increase was due to an increase in permanent non-deductible acquisition costs. Additionally, during this period, more income was subject to tax in the United States where the tax rate is higher, resulting in a higher effective rate.

The Company has effectively nil cash taxes as taxable income is offset by tax loss carryforwards.

5. SUMMARY OF QUARTERLY RESULTS

	2011				2010				2009
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(IFRS)	(IFRS)	(IFRS)	(IFRS)	(IFRS)	(CGAAP)	(CGAAP)	(CGAAP)	(CGAAP)
Total revenue	$ 92,937	$ 68,344	$ 64,471	$ 60,894	$ 53,861	$ 58,028	$ 60,175	$ 55,852	$ 37,196
EBITDA	12,214	11,352	12,363	11,905	8,648	9,039	11,128	8,478	4,086
Net earnings / (loss)	2,040	2,913	4,411	4,179	2,264	3,703	3,869	4,032	1,385
Basic	0.13	0.20	0.33	0.29	0.20	0.35	0.39	0.46	0.24
Diluted	0.13	0.20	0.32	0.28	0.19	0.33	0.36	0.44	0.24
Free cash flow	10,515	10,251	10,697	10,563	7,125	7,236	9,966	7,039	3,465

6. LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2011, the Company had a net cash position of $8.7 million (December 31, 2010 of $1.5 million) and net working capital of $19.1 million (December 31, 2010 of $39.7 million), which represents a current ratio of 1.31 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.

	March 31, 2011	December 31, 2010	Change
Cash and cash equivalents	$ 8,740	$ 1,471	$ 7,269
Cash - restricted	-	27,625	(27,625)
Accounts receivable	35,745	30,276	5,469
Inventory	31,533	22,669	8,864
Prepaid expenses	4,015	3,492	523
Accounts payable and accrued expenses	(47,208)	(35,413)	(11,795)
Deferred revenue	(12,822)	(9,329)	(3,493)
Current portion of convertible debentures	(894)	(1,052)	158
Net working capital	$ 19,109	$ 39,739	$ (20,630)

IFRS Impact

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

Also under IFRS reporting the Company presents its 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 8 for information on the transition to IFRS for the Company.

Analysis

The main factor that has impacted the Company's working capital as at March 31, 2011 from year-end 2010 can be attributed to the usage of the restricted cash of $27.6 million that was drawn from the Company's credit facility and put in trust with the legal counsel associated with the acquisition of Bearskin on the following day, January 1, 2011.

Some of the other items impacting the working capital calculation also had significant changes and those changes are partially attributable to the seasonality of the Company's business but mainly are impacted by the $3.2 million of working capital is from Bearskin, which wasn't part of the year-end 2010 amounts. The operations of Keewatin's Baffin Island medevac contract that commenced in mid-December 2010 had less impact on the working capital at year-end 2010 but as at March 31, 2011 the contract has increased working capital items from the operations of the first full quarter since the commencement date.

During the first quarter of 2011 the Company had 311,727 of warrants exercised that generated proceeds of $3.1 million for the Company. As at March 31, 2011, there were less than 100,000 warrants remaining that will expire if not exercised throughout the second quarter of 2011 (April 54,572 and June 42,383).

At the beginning of the first quarter, the Company closed the offering of its Series I 5.75% five year convertible debentures with a par value of $35.0 million. Net proceeds of $33.1 million received by the Company were mainly used in the Company's $32.0 million payment against its outstanding credit facility balance. The conversion price on these debentures is $26.00.

In March 2011 the Company announced the increase to its credit facility from $106.0 million to $235.0 million, and the facility was also extended another year, resulting in a maturity of March 31, 2014. The increase in the facility available was done in preparation for the acquisition of WesTower on April 1, 2011 and to give the Company available credit for any other future acquisitions. The split of the amended credit facility is $200.0 million facility in Canadian funds and $35.0 million facility in US funds. As at March 31, 2011, the Company had $17.0 million outstanding under the Canadian portion and US $8.45 million outstanding under the US portion. Immediately subsequent to this, the Company drew $56.5 million Canadian and US $11.0 million as payment for the acquisition of WesTower. With the closing of the Series J convertible debentures bought deal, as described below, the Company used part of the net proceeds from the closing and made a $40.0 million payment against the credit facility balance outstanding. As of the date of this report, the Company has $35.0 million of its $235.0 million credit facility drawn.

The Company has multiple series of convertible debentures outstanding as outlined below. During the first quarter of 2011 the Company had a combined total of $9.9 million of principal converted into Shares of the Company. As at March 31, 2011, there was $0.9 million of principal in the Series D convertible debentures that will mature in the third quarter of 2011 if their debenture holders don't convert the remaining principal outstanding. The Series D convertible debentures have a conversion price of $13.25. At the time of this report, the Company's current share price is above the conversion price, which could result in more of the Series D debentures converting into Shares of the Company before the maturity date. Regardless of the principal balance outstanding on the Series D convertible debentures at maturity, the Company anticipates having adequate resources to fund these debentures outstanding, utilizing a combination of current cash on hand, cash flow generated from operations and, if necessary, the credit facility. If considered advantageous at the time, in accordance with the terms of this series of debentures, the Company has the ability to settle these debentures through the issuance of Shares.

The Company obtained additional cash through the means described above and also generated $10.8 million from its operations during the three months ended March 31, 2011 (or $10.5 million of Free Cash Flow). The Company used these funds for significant capital expenditures and the repayment of certain debt items, enabling the Company to fund future acquisitions through its credit facility. See Section 3 for more information on the capital expenditures made during the 2011 period.

The Company's dividends are dependent on its ability to generate cash flow from operations and Free Cash Flow. The monthly dividend paid in absolute dollars continues to grow with the continued trend for the debentureholders and warrant holders to convert their instruments into Shares of the Company. The Company has continued to declare dividends of $0.13 per share per month throughout the first three months of 2011 and has been able to do this through generating $10.8 million of cash flow from operations in comparison to the $6.7 million of cash flows from operations during the 2010 period. On a Free Cash Flow basis , the Company generated $10.5 million during the 2011 period compared to $7.1 million in Q1 2010. Subsequent to the first quarter of 2011 the Company announced the increase in its monthly dividend to $0.135 per share and will pay this amount commencing with the April 2011 declared dividend.

The following summarizes the changes in the Shares outstanding of the Company during the three months ended March 31, 2011:

	Date issued	Number of shares
Shares outstanding, beginning of period		14,518,842
Issued upon conversion of convertible debentures	various	693,383
Issued for Bearskin vendors	January 1, 2011	314,047
Issued from warrants exercised	various	311,727
Issued under dividend reinvestment plan (DRIP)	various	39,082
Shares outstanding, end of period		15,877,081

With the acquisition of WesTower at the beginning of the second quarter of 2011, the continued conversion of outstanding convertible debentures and the exercising of warrants, the Shares outstanding changed subsequent to March 31, 2011. The following summarizes the changes in the Shares outstanding of the Company during the month of April 2011.

	Date issued	Number of shares
Shares outstanding, March 31, 2011		15,877,081
Issued for WesTower vendors	April 1, 2011	520,341
Issued upon conversion of convertible debentures	various	225,211
Issued from warrants exercised	various	55,898
Issued to Tribal Councils Investment Group (1)	April 15, 2011	12,728
Issued under dividend reinvestment plan (DRIP)	various	12,660
Shares outstanding, April 30, 2011		16,703,919

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

The following summarizes the changes in the warrants outstanding of the Company during the three months ended March 31, 2011:

	Date issued	Number of warrants
Warrants outstanding, beginning of period		408,682
Warrants exercised	various	(311,727)
Warrants outstanding, end of period		96,955

Subsequent to March 31, 2011 and up to April 30, 2011, 55,898 of the warrants were exercised. In April 2011 a total of 200 warrants expired and the remaining warrants will expire in June 2011 if they are not exercised.

The following summarizes the convertible debentures outstanding as at March 31, 2011 and the changes in the amount of convertible debentures outstanding during the three months ended March 31, 2011:

Series - Year of Issuance	Maturity	Interest Rate	Conversion Price
Series D - 2006	August 12, 2011	8.0%	$ 13.25
Series F - 2009	April 8, 2014	10.0%	$ 10.75
Series G - 2009	September 30, 2014	7.5%	$ 14.50
Series H - 2010	May 31, 2017	6.5%	$ 20.00
Series I - 2011	January 31, 2016	5.75%	$ 26.00

Par value	Balance, beginning of period	Issued	Converted	Matured	Balance, end of period
Series D	$ 1,075	$ -	$ (175)	$ -	$ 900
Series F	1,974	-	(352)	-	1,622
Series G	24,034	-	(9,388)	-	14,646
Series H	30,000	-	-	-	30,000
Series I	-	35,000	-	-	35,000
Total	$ 57,083	$ 35,000	$ (9,915)	$ -	$ 82,168

As described above, subsequent to March 31, 2011 during the month of April 2011 the Company had principal of $3.4 million of convertible debentures converted into 225,211 Shares of the Company.

Subsequent to March 31, 2011, the Company closed the bought deal offering of $50.0 million principal amount, plus an over allotment option of $7.5 million for a combined $57.5 million in seven-year 6.25% Series J convertible senior secured debentures with a $30.60 conversion price.

The contractual obligations of the Company and its subsidiaries as at March 31, 2011 were consistent with those described in the MD&A of the Company as at December 31, 2010 with the exception of the additional contractual obligations associated with Bearskin that was acquired on January 1, 2011. The contractual obligations of Bearskin are mostly leases for a variety of the locations that Bearskin flies to in its operations. The contractual obligations of Bearskin are approximately $400 for the next several years.

7. RELATED PARTY TRANSACTIONS

The related party transactions that the Company entered into during the three months ended March 31, 2011 are consistent with those described in the Company's MD&A for the year ended December 31, 2010. There are no impacts from the transition to IFRS on the Company's related party transactions from the treatment under CGAAP.

8. ACCOUNTING POLICIES

Effective January 1, 2011 and as further described in the Company's interim unaudited Consolidated Financial Statements and related notes for the three months ended March 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 (Note 6)

Fair value as deemed cost for capital assets

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

Borrowing costs

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

Share-based payments

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

Cumulative translation differences

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

Leases

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

Designation of previously recognized financial instruments

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

Presentation Changes

The Company revised the presentation of certain operating items on the statement of operations. Revenues between the Aviation segment and the Manufacturing segment are presented separately. A new line item for the Manufacturing segment's cost of goods sold that was previously combined into a single direct operating expenses line that included direct operating expenses of the Aviation segment is now presented separately from the direct operating expenses of the Aviation segment. Some transactions within the Aviation segment that were previously presented net are now presented gross under IFRS. This pertained 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 tax credit results in those lines no longer being presented in the Company's balance sheet.

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

	December 31, 2010			March 31, 2010			January 1, 2010		
	CGAAP	ADJ	IFRS	CGAAP	ADJ	IFRS	CGAAP	ADJ	IFRS
ASSETS									
CURRENT									
Cash and cash equivalents	$ 1,471	$ -	$ 1,471	$ 4,504	$ -	$ 4,504	$ 4,857	$ -	$ 4,857
Cash - restricted	27,625	-	27,625	-	-	-	-	-	-
Accounts receivable	30,276	-	30,276	20,041	-	20,041	20,922	-	20,922
Inventory	28,269	(5,600)	22,669	28,716	(4,880)	23,836	27,234	(4,506)	22,728
Prepaid expenses	3,809	(317)	3,492	2,732	(110)	2,622	2,401	(54)	2,347
Deferred income tax	6,154	(6,154)	-	4,554	(4,554)	-	4,560	(4,560)	-
	97,604	(12,071)	85,533	60,547	(9,544)	51,003	59,974	(9,120)	50,854
CAPITAL ASSETS	158,439	2,004	160,443	120,806	(1,650)	119,156	119,400	(2,389)	117,011
INTANGIBLE ASSETS	12,842	(588)	12,254	12,995	(17)	12,978	13,371	-	13,371
DEFERRED INCOME TAX	28,444	2,594	31,038	33,748	2,657	36,405	34,618	2,750	37,368
GOODWILL	39,678	-	39,678	39,988	-	39,988	40,446	-	40,446
	$ 337,007	$ (8,061)	$ 328,946	$ 268,084	$ (8,554)	$ 259,530	$ 267,809	$ (8,759)	$ 259,050
LIABILITIES									
CURRENT									
Accounts payable and accrued expenses	$ 35,210	$ 203	$ 35,413	$ 25,195	$ 56	$ 25,251	$ 26,031	$ 64	$ 26,095
Deferred revenue	7,819	1,510	9,329	7,568	1,380	8,948	6,626	1,315	7,941
Current portion of long-term debt	-	-	-	2,700	-	2,700	2,943	-	2,943
Current portion of convertible debentures	1,052	-	1,052	3,126	-	3,126	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)	-	3,464	(3,464)	-
	48,781	(2,987)	45,794	42,053	(2,028)	40,025	54,516	(2,085)	52,431
LONG-TERM DEBT	53,100	-	53,100	30,271	-	30,271	25,447	-	25,447
CONVERTIBLE DEBENTURES	49,461	254	49,715	35,547	129	35,676	36,150	129	36,279
OVERHAUL ACCRUAL	11,103	(11,103)	-	7,888	(7,888)	-	7,565	(7,565)	-
DEFERRED INCOME TAX	-	-	-	374	(223)	151	638	(229)	409
DEFERRED CREDIT	31,714	(31,714)	-	35,650	(35,650)	-	36,191	(36,191)	-
	194,159	(45,550)	148,609	151,783	(45,660)	106,123	160,507	(45,941)	114,566
EQUITY									
SHARE CAPITAL	148,046	-	148,046	116,538	-	116,538	104,451	-	104,451
CONVERTIBLE DEBENTURES EQUITY COMPONENT	4,484	(1,448)	3,036	3,359	(860)	2,499	3,641	(882)	2,759
WARRANTS	155	-	155	656	-	656	952	-	952
CONTRIBUTED SURPLUS	102	-	102	61	-	61	61	-	61
CUMULATIVE EARNINGS	46,018	39,611	85,629	35,486	38,640	74,126	33,124	38,738	71,862
CUMULATIVE DIVIDENDS	(55,943)	-	(55,943)	(40,051)	-	(40,051)	(35,601)	-	(35,601)
ACCUMULATED OTHER COMPREHENSIVE INCOME	(14)	(674)	(688)	252	(674)	(422)	674	(674)	-
	142,848	37,489	180,337	116,301	37,106	153,407	107,302	37,182	144,484
	$ 337,007	$ (8,061)	$ 328,946	$ 268,084	$ (8,554)	$ 259,530	$ 267,809	$ (8,759)	$ 259,050

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 overlying aircraft. Thirdly, previously expensed overhaul and maintenance costs on certain aircraft under the Company's CGAAP overhaul provision accounting policy were capitalized and amortized to each balance sheet date using a useful life that is until the next overhaul event is planned to occur. Lastly, several aircraft within the Aviation segment's fleet were adjusted to fair value.

- Intangible assets were reduced for certain acquisition costs relating to the acquisition of Bearskin that are expensed in the period incurred under IFRS.
- Deferred income taxes shows a net increase to the long-term asset as a result of reclassifying the current portion and the tax impact of all the other IFRS balance sheet conversion items.
- Current liabilities were impacted by the addition of certain accruals within accounts payable and accrued liabilities, the recognition of Perimeter's customer loyalty program that will be used for future flights, and the removal of the current portion of the deferred tax credit.
- As mentioned above, the Company's policy on aircraft related assets' overhaul and maintenance events, which were previously accrued over the period of use of the aircraft until the next overhaul event, is no longer done under IFRS. As a result, the overhaul provision is removed and net book values of the last overhauls are recognized as capital assets.
- The deferred tax credit is prohibited under IFRS and removed from the Company's balance sheet.
- Equity items were adjusted on the transition for the recognition of certain deferred income tax amounts on the outstanding convertible debenture conversion options, the IFRS 1 election to reset the cumulative translation adjustment within accumulated other comprehensive income, and the net impact of the other IFRS transition balance sheet adjustments through opening retained earnings and the earnings for fiscal 2010.

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

	Year Ended December 31, 2010			Three Months Ended March 31, 2010		
	CGAAP	ADJ	IFRS	CGAAP	ADJ	IFRS
REVENUE						
Aviation	$ 189,321	$ 2,876	$ 192,197	$ 40,997	$ 605	$ 41,602
Manufacturing	55,373	-	55,373	12,259	-	12,259
	244,694	2,876	247,570	53,256	605	53,861
EXPENSES						
Direct operating - excluding depreciation and amortization	123,474	(8,700)	114,774	26,294	(1,029)	25,265
Cost of goods sold - excluding depreciation and amortization	36,179	-	36,179	7,899	-	7,899
General and administrative	52,636	(287)	52,349	12,101	(52)	12,049
Depreciation and amortization	10,472	6,126	16,598	2,561	1,233	3,794
	222,761	(2,861)	219,900	48,855	152	49,007
EARNINGS BEFORE THE FOLLOWING	21,933	5,737	27,670	4,401	453	4,854
Interest	8,057	(581)	7,476	1,940	(122)	1,818
Acquisition costs	-	666	666	-	17	17
Foreign exchange gains on debt	(55)	-	(55)	(83)	-	(83)
EARNINGS BEFORE INCOME TAXES	13,931	5,652	19,583	2,544	558	3,102
INCOME TAX EXPENSE (RECOVERY)						
Current	-	-	-	-	-	-
Deferred	1,037	4,779	5,816	182	656	838
	1,037	4,779	5,816	182	656	838
NET EARNINGS FOR THE PERIOD	$ 12,894	$ 873	$ 13,767	$ 2,362	$ (98)	$ 2,264
OTHER COMPREHENSIVE INCOME (LOSS), net of tax						
Cumulative translation adjustment	(688)	-	(688)	(422)	-	(422)
COMPREHENSIVE INCOME FOR THE PERIOD	$ 12,206	$ 873	$ 13,079	$ 1,940	$ (98)	$ 1,842

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 as a result of 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 allocated to the assets acquired.
- Deferred income taxes were adjusted accordingly for the above income statement items.

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

	Q1-2010	Q2-2010	Q3-2010	Q4-2010	Fiscal 2010
REVENUE					
Aviation	$ 41,602	$ 48,056	$ 50,240	$ 52,299	*$ 192,197*
Manufacturing	12,259	12,838	14,231	16,045	*55,373*
	53,861	60,894	64,471	68,344	247,570
EXPENSES					
Direct operating - excluding depreciation and amortization	25,265	28,055	29,526	31,928	114,774
Cost of goods sold - excluding depreciation and amortization	7,899	8,350	9,269	10,661	36,179
General and administrative	12,049	12,584	13,313	14,403	52,349
Depreciation and amortization	3,794	3,892	4,287	4,625	16,598
	49,007	52,881	56,395	61,617	219,900
EARNINGS BEFORE THE FOLLOWING	4,854	8,013	8,076	6,727	27,670
Interest	1,818	2,018	1,963	1,677	7,476
Acquisition costs	17	-	9	640	666
Foreign exchange gains on debt	(83)	23	(12)	17	(55)
EARNINGS BEFORE INCOME TAXES	3,102	5,972	6,116	4,393	19,583
INCOME TAX EXPENSE (RECOVERY)					
Current	-	1	22	(23)	-
Deferred	838	1,792	1,683	1,503	5,816
	838	1,793	1,705	1,480	5,816
NET EARNINGS FOR THE PERIOD	$ 2,264	$ 4,179	$ 4,411	$ 2,913	$ 13,767
OTHER COMPREHENSIVE INCOME (LOSS), net of tax					
Cumulative translation adjustment	(422)	651	(450)	(467)	(688)
COMPREHENSIVE INCOME FOR THE PERIOD	$ 1,842	$ 4,830	$ 3,961	$ 2,446	$ 13,079

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 1 – First-time Adoption of International Financial Reporting Standards

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

IFRS 7 – Financial Instruments: Disclosures

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

IFRS 9 – Financial Instruments

IFRS 9 – Financial Instruments was issued in November 2009. 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 is likely to affect the Corporation's accounting for its financial assets. The Standard is not applicable until annual periods beginning on or after January 1, 2013, but is available for early adoption. The Company has not fully assessed the impact of adopting IFRS 9; however, it anticipates that its impact will be limited.

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 IFRS 12; however, it anticipates that there will be no impact on the Company..

9. CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions about future events that may affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods presented. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described in the Company's MD&A for the year ended December 31, 2010 and in Note 5 of the interim condensed consolidated financial statements for the three months ended March 31, 2011. The Company bases its assumptions and estimates on

parameters available when the consolidated financial statements are prepared. Existing circumstances and assumptions about future developments however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

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

Business Combination

The Company's acquisitions have been accounted for using the purchase method of accounting. Under the purchase method, the acquiring company adds to its balance sheet the estimated fair values of the acquired company's assets and liabilities. There are various assumptions made when determining the fair values of the acquired company's assets and liabilities. The most significant assumptions and those requiring the most judgment involve the estimated fair values of intangible assets. The intangible assets acquired that require critical accounting estimates are customer contracts, customer relationships, customer lists, certifications and brand name. To determine the fair value of these intangible assets, the Company adopted the excess earning method. This valuation technique values the intangible assets based on the capitalization of the earnings, which are calculated to be in excess of what a reasonable amount of earnings would be on the tangible assets used to generate the earnings associated with the intangible asset. Significant assumptions include, among others, the determination of projected revenues, cash flows, customer retention rates, discount rates and anticipated average income tax rates.

Overhaul Provision

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

Deferred Income Taxes

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

10. CONTROLS AND PROCEDURES

Internal Controls over Financial Reporting

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

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

Management has evaluated the design of the Company's internal controls over financial reporting as of March 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 controls, including controls around change management, security, and access controls. This weakness in information technology general controls has the potential to result in material misstatements in the financial statements as well as inappropriate authorizations of transactions. Although the information technology control design has been completed for some of the subsidiaries during 2010, further design of information technology

controls on the remaining subsidiaries has yet to be completed. The Company continues to work on the design, evaluation and implementation of information technology controls.

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

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

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

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

Disclosure Controls and Procedures

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

11. RISK FACTORS

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

Risk Management

The Company and its subsidiaries are subject to a number of business risks. These risks relate to the structure of the Company and to the operations at the subsidiary entities. The following sections summarize the principal risks and uncertainties that have changed significantly r from those reported in the Company's MD&A for the year ended December 31, 2010 and that could affect the Company's future business results going forward with an explanation for how these risks are managed to an acceptable level.

Acquired New Industries

With the acquisition of WesTower communications subsequent to March 31, 2011, the Company is exposed to the risk of having operations in a new industry going forward into the second quarter of 2011. For the WesTower acquisition, the Company is exposed to the telecommunications industry which is where the majority of WesTower's business operations are within. The telecommunications industry within North America consists of both highly innovative items and basic infrastructure. WesTower is primarily focused on the metal manufacturing products and services for communication towers within this industry.

12. OUTLOOK

Acquisition strategy

The Company completed the acquisition of Westower Communications for $79 million on April 1, 2011. Westower will be part of the consolidated group of companies within the Manufacturing segment starting the second quarter of 2011. The deal follows the acquisition of Bearskin on Jan. 1, 2011, which is part of the Aviation segment.

Despite the $111.5 million worth of acquisitions within the first four months of the year, the Company maintains $200 million in available capital under its amended senior credit facility, after both increasing its credit facility to $235 million and successfully raising $57.5 million in convertible debentures in May 2011.

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 to be strong, there can be no assurance that target companies that meet the Company's standards will be uncovered.

The Company believes that the current market atmosphere, created from the 2008/2009 crash of the financial markets, has resulted in fewer buyers and lower purchase multiples. This combined with the Company's current access to the capital markets has created an attractive acquisition environment. The Company does not expect these conditions to last for a prolonged period, and has already started seeing more buyers re-emerge, which will ultimately drive up multiples.

Aviation Segment

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

As mentioned in the annual report outlook section, the food mail program, wherein healthy foods are shipped to northern and remote communities, was replaced on April 1, 2011 with the nutrition north program. Historically the Federal government, through Canada Post, contracted with air carriers to ship healthy foods to the north and then set a discounted postal rate to allow retailers and end users to ship these nutritious foods at a discounted rate. This program has been replaced with a direct subsidy to retailers who will then make their own shipping arrangements. Calm and Perimeter were successful in transitioning this business and have signed contracts with major retailers. This program historically allowed individuals to access food mail subsidies directly, rather than through northern retailers. This part of the program has declined significantly and therefore reduced this revenue source at Perimeter.

The Aviation segment has two significant contracts with the Government of Nunavut expiring in 2011. The first is Keewatin's medevac (air ambulance) contract for the Keewatin district and the second is the medical transport contract for passengers travelling on both Keewatin and Calm Air's scheduled service. Keewatin's medevac contract was issued over eight years ago and after several extensions, expires at the end of June 2011. The Company remains confident that Keewatin will retain the contract as it is the only company with appropriate infrastructure to support this type of operations in this region. The Government of Nunavut is believed to be very happy with the service offered by Keewatin in this niche industry. The medical transport contract was a three year contract and was recently extended to July 2011 in order for the Government of Nunavut to review bids for this tender. The tender is expected to have multiple bidders including an existing competitor providing jet service between Rankin and Winnipeg. Keewatin currently has 33% of this contract and Calm, via a subcontract with Canadian North, has the other 67%. It would be unrealistic for the Company to expect to retain 100% of this business overall. Offsetting a potential loss of any portion of the medical travel business could potentially be the government duty travel (employee travel) which has not been tendered previously but is a part of the upcoming tender. The Company's competitor maintains most of this business on their jet. Calm Air and Keewatin will both review the makeup of their fleet to ensure it is optimal for the tender process.

The second ATR 72 aircraft purchased by Calm Air in the third quarter of 2010 has completed its conversion to a freighter configuration in the second quarter of 2011. The first ATR 72 will go through a heavy check inspection in the first half of the second quarter. Having both of the ATR 72's in service late in the second quarter of 2011, will not only increase capacity but will improve margins as the ATR 72's replace older and much less efficient Hawker 748's. Perimeter has recently purchased an additional Metro III aircraft. The aircraft will add capacity to Perimeter's fleet but is not expected to be operational until late in the second quarter.

As mentioned in the last outlook section, the Company continues to look for opportunities to expand their established foothold in Northern Ontario. On May 2nd, Bearskin began two new initiatives in their operating region. The first was to add a new scheduled service between the Kitchener/Waterloo and Montreal airports. The route was mirrored after the Kitchener/Waterloo and Ottawa route which was added approximately 30 months ago. The second initiative was to add capacity between Winnipeg and Thunder Bay. Bearskin was able to use an excess Saab 340 from Calm's fleet, which subsequently freed up Metro aircraft for the new Montreal route. The cooperation between Bearskin and Calm is an excellent example of synergies between the various airlines within the Company.

Jet Fuel prices have continued to rise in correlation with the price of oil. The Company's aviation companies have implemented fuel surcharges throughout Q1. While these fuel surcharges lag the actual price increases the airlines incur, they are able to recoup them over time.

Should fuel prices continue to increase materially, further price increases may be necessary. All of the Company's airlines are able to pass along price increases, but are mindful of any price increase as their service is essential to the communities they operate in. The Aviation segment is in a competitively strong position for fuel purchases as it has entered into an agreement to combine the fuel purchases of its four subsidiaries with a common supplier.

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

Manufacturing Segment

Overall the manufacturing segment continues to improve its performance and outlook versus the same period last year. The optimism is based on growing order books and increased quoting activity. Our customer base across the segment continues to convey a positive tone, and the continued rise in the price of oil has created strong drilling activity and production throughout the Alberta marketplace, which continue to fuel support services and manufacturing in the region. While none of our manufacturing entities is performing at their historical peaks at this point, management remains optimistic about the operating environment for our subsidiaries.

The continued rise of the price of crude oil has resulted in a return of larger scale purchasing and continued development of several projects throughout the region. While the order book at Jasper Tank and the sales levels at Water Blast have not returned to 2006 – 2007 levels, they are both at two year highs. Management remains optimistic of mid term prospects, but we are mindful of the lower levels of natural gas exploration and development, and the short term inflationary trend in labour, both of which contributed to shortening the last boom market for this region.

A strong emphasis on marketing and an eventual return of capital projects put on hold by some of Stainless' larger customers has resulted in a strong order book. Despite management's optimism, the company will need to see the return of larger field project jobs before it can return to its record results obtained prior to the global recession.

With record results in 2010, Overlanders was content to have a static year in 2011 as it absorbed new production from some existing and new customers. Production was expected to level off as several customers had ramped up production for new product runs to build up inventory. While Overlanders has invested in additional capital expenditures to produce at peak levels during 2010, it has yet to see any significant reduction in capacity in their regional market. This has been surprising as several competitors were seen as less financially capable, and some production capacity was expected to fall away. The short term risk is that these struggling competitors will drive down prices in the short and mid-term in an effort to retain some market share.

Westower was acquired at the start of the second quarter of 2011. We examined several factors throughout our due diligence process in order to be comfortable in the earnings prospects going forward. Two of the best indicators of future performance are the company's order book and discussions with major customers about their expectations and upcoming projects. From these items as well as management's expectations, we expect Westower's midterm prospects to be in line with 2009 and 2010 performance which were two of the company's best years. On a longer term basis, the 4G build out in the U.S. which is expected to be followed by a 4G build out in Canada over the next several years is expected to keep the company busy for several years.

Despite potential limiting factors such as increasing labour costs in the oil patch, the lack of natural gas exploration and the risk of a relapse in the previous economic weakness, management remains optimistic that the order book and sales activity of the manufacturing portfolio will continue for the short and midterm.

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited, in thousands of Canadian dollars)

As at	March 31 2011	December 31 2010	January 1 2010
ASSETS			
CURRENT			
Cash and cash equivalents	$ 8,740	$ 1,471	$ 4,857
Cash - restricted (Note 6)	-	27,625	-
Accounts receivable	35,745	30,276	20,922
Inventory	31,533	22,669	22,728
Prepaid expenses	4,015	3,492	2,347
	80,033	85,533	50,854
CAPITAL ASSETS	191,496	160,443	117,011
INTANGIBLE ASSETS	14,666	12,254	13,371
DEFERRED INCOME TAX ASSETS	22,730	31,038	37,368
GOODWILL	46,354	39,678	40,446
	$ 355,279	$ 328,946	$ 259,050
LIABILITIES			
CURRENT			
Accounts payable and accrued expenses	$ 47,208	$ 35,413	$ 26,095
Deferred revenue	12,822	9,329	7,941
Current portion of long-term debt	-	-	2,943
Current portion of convertible debentures (Note 10)	894	1,052	5,761
Current portion of debentures	-	-	9,691
	60,924	45,794	52,431
LONG-TERM DEBT (Note 9)	24,828	53,100	25,447
CONVERTIBLE DEBENTURES (Note 10)	72,434	49,715	36,279
DEFERRED INCOME TAX LIABILITY	-	-	409
	158,186	148,609	114,566
EQUITY	197,093	180,337	144,484
	$ 355,279	$ 328,946	$ 259,050

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

For the three months ended March 31		2011		2010
REVENUE				
Aviation	$	76,377	$	41,602
Manufacturing		16,560		12,259
		92,937		53,861
EXPENSES				
Direct operating - excluding depreciation and amortization		57,531		25,265
Cost of goods sold - excluding depreciation and amortization		10,338		7,899
General and administrative		12,854		12,049
Depreciation and amortization		5,988		3,794
		86,711		49,007
EARNINGS BEFORE THE FOLLOWING		6,226		4,854
Finance costs - interest		2,103		1,818
Acquisition costs (Note 6)		879		17
Foreign exchange gains on debt		-		(83)
EARNINGS BEFORE INCOME TAXES		3,244		3,102
INCOME TAX EXPENSE (RECOVERY)				
Current		(1)		-
Deferred		1,205		838
		1,204		838
NET EARNINGS FOR THE PERIOD, attributable to common shareholders	$	2,040	$	2,264
EARNINGS PER SHARE (Note 15)				
Basic	$	0.13	$	0.20
Diluted	$	0.13	$	0.19

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands of Canadian dollars)

For the three months ended March 31		2011		2010
NET EARNINGS FOR THE PERIOD, attributable to common shareholders	$	2,040	$	2,264
OTHER COMPREHENSIVE INCOME (LOSS),				
Cumulative translation adjustment, net of tax (Note 21)		(315)		(422)
COMPREHENSIVE INCOME FOR THE PERIOD, attributable to common shareholders	$	1,725	$	1,842

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited, in thousands of Canadian dollars)

						Retained Earnings			
	Share Capital	Warrants	Convertible Debentures - Equity Component	Contributed Surplus - Matured Debentures	Deferred Share Plan	Cumulative Earnings	Cumulative Dividends	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2010	$ 104,451	$ 952	$ 2,759	$ 61	$ -	$ 71,862	$ (35,601)	$ -	$ 144,484
Warrants exercised into shares	8,064	(296)	-	-	-	-	-	-	7,768
Convertible debentures converted into shares	3,808	-	(260)	-	-	-	-	-	3,548
Shares issued under dividend reinvestment plan	215	-	-	-	-	-	-	-	215
Dividends declared	-	-	-	-	-	-	(4,450)	-	(4,450)
Comprehensive income	-	-	-	-	-	2,264	-	(422)	1,842
Balance, March 31, 2010	$ 116,538	$ 656	$ 2,499	$ 61	$ -	$ 74,126	$ (40,051)	$ (422)	$ 153,407
Balance, January 1, 2011	$ 148,046	$ 155	$ 3,036	$ 102	$ -	$ 85,629	$ (55,943)	$ (688)	$ 180,337
Shares issued for Bearskin vendors (Note 6)	5,512	-	-	-	-	-	-	-	5,512
Warrants exercised into shares	3,236	(119)	-	-	-	-	-	-	3,117
Convertible debentures converted into shares	9,731	-	(600)	-	-	-	-	-	9,131
Convertible debentures issued	-	-	1,491	-	-	-	-	-	1,491
Shares issued under dividend reinvestment plan	721	-	-	-	-	-	-	-	721
Deferred share plan amendment (Note 17)	-	-	-	-	1,070	-	-	-	1,070
Deferred share vesting	-	-	-	-	108	-	-	-	108
Comprehensive income	-	-	-	-	-	2,040	-	(315)	1,725
Dividends declared	-	-	-	-	-	-	(6,119)	-	(6,119)
Balance, March 31, 2011	$ 167,246	$ 36	$ 3,927	$ 102	$ 1,178	$ 87,669	$ (62,062)	$ (1,003)	$ 197,093

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of Canadian dollars)

For the three months ended March 31	2011	2010
OPERATING ACTIVITIES		
Net earnings for the period	$ 2,040	$ 2,264
Items not affecting cash:		
Depreciation and amortization	5,988	3,794
Accretion of interest	420	368
Long-term debt discount (paid) accretion	-	(69)
Foreign exchange (gain) / loss on debt (unrealized)	21	(81)
Loss/(gain) on sale of disposal of capital assets	(146)	-
Deferred income tax	1,205	838
Deferred share program share-based vesting	108	-
Other	-	(6)
	9,636	7,108
Changes in non-cash operating working capital items (Note 18)	1,140	(442)
	10,776	6,666
FINANCING ACTIVITIES		
Proceeds from (repayment of) long-term debt, net of issuance costs	(28,163)	4,864
Proceeds from issuance of debentures, net of issuance costs (Note 10)	33,129	-
Payment of matured debentures	-	(9,691)
Proceeds from issuance of shares, net of issuance costs	3,838	7,984
Cash dividends / distributions (Note 14)	(6,119)	(4,450)
	2,685	(1,293)
INVESTING ACTIVITIES		
Purchase of capital assets, net of disposals	(8,776)	(5,585)
Purchase of intangible assets	(20)	-
Cash outflow for acquisitions and acquisition costs (Note 6)	(27,625)	(141)
Restricted cash (Note 6)	27,625	-
Cash acquired in acquisitions (Note 6)	2,604	-
	(6,192)	(5,726)
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,269	(353)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,471	4,857
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 8,740	$ 4,504
Supplementary cash flow information		
Interest paid	$ 1,357	$ 2,946
Income taxes paid (recovery)	$ (7)	$ (24)

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

Notes to the Condensed Consolidated Interim Financial Statements

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

1. ORGANIZATION

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

As at March 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., Jasper Tank Ltd. ("Jasper"), Overlanders Manufacturing LP ("Overlanders"), and Water Blast Manufacturing LP ("Water Blast"). Stainless Fabrication, Inc. ("Stainless") is a wholly owned subsidiary of Jasper. Through the Company's subsidiaries, products and services are provided in two business segments: Aviation and Manufacturing.

As described in Note 22, subsequent to the period the Company closed the acquisition of WesTower Communications ("WesTower") on April 1, 2011. WesTower will be a wholly-owned subsidiary and part of the Manufacturing segment.

2. BASIS OF PREPARATION AND ADOPTION OF IFRS

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

These condensed consolidated interim financial statements are for the three months ended March 31, 2011 and have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1. Subject to certain transition elections disclosed in Note 4, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010.

The policies applied in these condensed consolidated interim financial statements are based on IFRS's issued and outstanding as of May 13, 2011, the date the Board of Directors of the Company approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the Company's CGAAP annual financial statements for the year ended December 31, 2010. Note 4 discloses IFRS information for the year ended December 31, 2010 that is material to an understanding of these condensed consolidated interim financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated interim financial statements have been prepared using the following significant accounting policies:

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., Jasper, Overlanders, and Water Blast, and their 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 services in the Aviation segment and sales of manufacturing products 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 balance sheet 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 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 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.

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 is US dollars.

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

Transactions and balances

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

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 March 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 22 – Subsequent Events.

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 balance sheet 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 operations 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 operations. 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 operations as part of interest income. Dividends on available-for-sale equity instruments are recognized in the statement of operations 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 operations 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 balance sheet within other assets, warrants or other liabilities 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 its fluctuations in foreign currencies.

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.

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 operations 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
Backlog	Pro rata based on expected revenues
Non-compete contracts	Straight-line over 5 years
Operating certificates	Straight-line over 2 – 30 years
Software	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. Management reviews the carrying value of goodwill for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired. Any excess of carrying value over the fair value will be charged to income in the period in which the impairment is determined.

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 or the "CGU"). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Goodwill is reviewed for impairment annually or at any time if an indicator of impairment exists.

Goodwill acquired through a business combination is allocated to each CGU, or group of CGUs, that are expected to benefit from the related business combination. 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*

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance

sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from 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 determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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

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

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

The amendment of the Deferred Share Plan effective January 1, 2011 is accounted for as an exchange of the pre-amended plan under the liability method for an equity award with the same fair value. This resulted in the reclassification of the liability recorded under the pre-amended plan being reclassed to equity as of the effective date of the amendment.

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

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 contribution become payable and is recorded within general and administrative expenses of the Aviation segment.

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 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) *Share Capital*

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

t) *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 (Note 12). 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.

u) *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.

v) *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 is calculated using the "if converted" method.

Accounting standards issued but not yet effective

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

IFRS 1 has been amended to create additional exemptions (i) for when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS, and (ii) to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. These amendments are effective for annual periods beginning on or after July 1, 2011.

IFRS 7 – Financial Instruments: Disclosures

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

IFRS 9 – Financial Instruments

IFRS 9 – Financial Instruments was issued in October 2010. This Standard is the first step in the process to replace IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and financial liabilities, and is likely to affect the Corporation's accounting for its financial assets. The Standard is not applicable until annual periods beginning on or after January 1, 2013, but is available for early adoption. The Company has not fully assessed the impact of adopting IFRS 9; however, it anticipates that its impact will be limited.

IAS 12 – Income Taxes

Amendments regarding Deferred Tax: Recovery of Underlying Assets

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

4. TRANSITION TO IFRS

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

(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			March 31, 2010			January 1, 2010		
	4(iii)	CGAAP	ADJ	IFRS	CGAAP	ADJ	IFRS	CGAAP	ADJ	IFRS
ASSETS										
CURRENT										
Cash and cash equivalents		$ 1,471	$ -	$ 1,471	$ 4,504	$ -	$ 4,504	$ 4,857	$ -	$ 4,857
Cash - restricted		27,625	-	27,625	-	-	-	-	-	-
Accounts receivable		30,276	-	30,276	20,041	-	20,041	20,922	-	20,922
Inventory	a	28,269	(5,600)	22,669	28,716	(4,880)	23,836	27,234	(4,506)	22,728
Prepaid expenses	b	3,809	(317)	3,492	2,732	(110)	2,622	2,401	(54)	2,347
Deferred income tax	c	6,154	(6,154)	-	4,554	(4,554)	-	4,560	(4,560)	-
		97,604	(12,071)	85,533	60,547	(9,544)	51,003	59,974	(9,120)	50,854
CAPITAL ASSETS	d,h	158,439	2,004	160,443	120,806	(1,650)	119,156	119,400	(2,389)	117,011
INTANGIBLE ASSETS	l	12,842	(588)	12,254	12,995	(17)	12,978	13,371	-	13,371
DEFERRED INCOME TAX	c,j	28,444	2,594	31,038	33,748	2,657	36,405	34,618	2,750	37,368
GOODWILL		39,678	-	39,678	39,988	-	39,988	40,446	-	40,446
		$ 337,007	$ (8,061)	$ 328,946	$ 268,084	$ (8,554)	$ 259,530	$ 267,809	$ (8,759)	$ 259,050
LIABILITIES										
CURRENT										
Accounts payable and accrued expenses		$ 35,210	$ 203	$ 35,413	$ 25,195	$ 56	$ 25,251	$ 26,031	$ 64	$ 26,095
Deferred revenue	e	7,819	1,510	9,329	7,568	1,380	8,948	6,626	1,315	7,941
Current portion of long-term debt		-	-	-	2,700	-	2,700	2,943	-	2,943
Current portion of convertible debentures		1,052	-	1,052	3,126	-	3,126	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)	-	3,464	(3,464)	-
		48,781	(2,987)	45,794	42,053	(2,028)	40,025	54,516	(2,085)	52,431
LONG-TERM DEBT		53,100	-	53,100	30,271	-	30,271	25,447	-	25,447
CONVERTIBLE DEBENTURES	n	49,461	254	49,715	35,547	129	35,676	36,150	129	36,279
OVERHAUL ACCRUAL	d	11,103	(11,103)	-	7,888	(7,888)	-	7,565	(7,565)	-
DEFERRED INCOME TAX	j	-	-	-	374	(223)	151	638	(229)	409
DEFERRED CREDIT	f	31,714	(31,714)	-	35,650	(35,650)	-	36,191	(36,191)	-
		194,159	(45,550)	148,609	151,783	(45,660)	106,123	160,507	(45,941)	114,566
EQUITY										
SHARE CAPITAL		148,046	-	148,046	116,538	-	116,538	104,451	-	104,451
CONVERTIBLE DEBENTURES										
EQUITY COMPONENT	j,n	4,484	(1,448)	3,036	3,359	(860)	2,499	3,641	(882)	2,759
WARRANTS		155	-	155	656	-	656	952	-	952
CONTRIBUTED SURPLUS		102	-	102	61	-	61	61	-	61
CUMULATIVE EARNINGS	k	46,018	39,611	85,629	35,486	38,640	74,126	33,124	38,738	71,862
CUMULATIVE DIVIDENDS		(55,943)	-	(55,943)	(40,051)	-	(40,051)	(35,601)	-	(35,601)
ACCUMULATED OTHER										
COMPREHENSIVE INCOME	g	(14)	(674)	(688)	252	(674)	(422)	674	(674)	-
		142,848	37,489	180,337	116,301	37,106	153,407	107,302	37,182	144,484
		$ 337,007	$ (8,061)	$ 328,946	$ 268,084	$ (8,554)	$ 259,530	$ 267,809	$ (8,759)	$ 259,050

		Year Ended December 31, 2010			Three Months Ended March 31, 2010		
	4(iii)	CGAAP	ADJ	IFRS	CGAAP	ADJ	IFRS
REVENUE							
Aviation	e,i	$ 189,321	$ 2,876	$ 192,197	$ 40,997	$ 605	$ 41,602
Manufacturing		55,373	-	55,373	12,259	-	12,259
		244,694	2,876	247,570	53,256	605	53,861
EXPENSES							
Direct operating - excluding depreciation and amortization	b,d,i	123,474	(8,700)	114,774	26,294	(1,029)	25,265
Cost of goods sold - excluding depreciation and amortization		36,179	-	36,179	7,899	-	7,899
General and administrative	i	52,636	(287)	52,349	12,101	(52)	12,049
Depreciation and amortization	d	10,472	6,126	16,598	2,561	1,233	3,794
		222,761	(2,861)	219,900	48,855	152	49,007
EARNINGS BEFORE THE FOLLOWING		21,933	5,737	27,670	4,401	453	4,854
Interest	h	8,057	(581)	7,476	1,940	(122)	1,818
Acquisition costs	l	-	666	666	-	17	17
Foreign exchange gains on debt		(55)	-	(55)	(83)	-	(83)
EARNINGS BEFORE INCOME TAXES		13,931	5,652	19,583	2,544	558	3,102
INCOME TAX EXPENSE (RECOVERY)							
Current	j	-	-	-	-	-	-
Deferred	f	1,037	4,779	5,816	182	656	838
		1,037	4,779	5,816	182	656	838
NET EARNINGS FOR THE PERIOD		$ 12,894	$ 873	$ 13,767	$ 2,362	$ (98)	$ 2,264
OTHER COMPREHENSIVE INCOME (LOSS), net of tax							
Cumulative translation adjustment	g	(688)	-	(688)	(422)	-	(422)
COMPREHENSIVE INCOME FOR THE PERIOD		$ 12,206	$ 873	$ 13,079	$ 1,940	$ (98)	$ 1,842

Earnings per share information under IFRS

Period	Basic	Diluted
Three months ended March 31, 2010	$0.20	$0.20
Fiscal 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 January 1, 2010, this adjustment reduced inventory and increased capital assets by $4,506 (March 31, 2010 – $4,880 and December 31, 2010 – $5,600).

(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 January 1, 2010 adjustment removes the prepaid balance of $54 that was outstanding and is recorded against retained earnings (March 31, 2010 – $110 and December 31, 2010 – $317). Direct operating costs of the Aviation segment increased during the three months ended March 31, 2010 by $56 (fiscal 2010 – $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 January 1, 2010 adjustment reclassifies the $4,560 future income tax asset current balance to long-term (March 31, 2010 – $4,554 and December 31, 2010 – $6,154).

(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 January 1, 2010 adjustment removes the overhaul accrual balance of $7,565 through retained earnings (March 31, 2010 – $7,888 and December 31, 2010 – $11,103) and recognizes the net book value for the most recent overhaul events. Direct operating expenses of the Aviation segment decreased by $1,647 for the three months ended March 31, 2010 as a result of overhaul and maintenance related costs being capitalized under IFRS and not expensed (fiscal 2010 – $11,484).

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

The overall January 1, 2010 adjustment to decrease capital assets of the Aviation segment was $2,389 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 (March 31, 2010 – decrease of $1,650 and December 31, 2010 – increase of $2,004). Depreciation of capital assets of the Aviation segment increased by $1,233 for the three months ended March 31, 2010 (fiscal 2010 – $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 redeems 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 who the awards are issued. The opening balance sheet adjustment will include the creation of the deferred revenue amount representing fair value of the points outstanding on January 1, 2010 for $1,315 and is recorded against retained earnings (March 31, 2010 – $1,380 and December 31, 2010 – $1,510). The revenues recognized in the Aviation segment for the three months ended March 31, 2010 was adjusted by a net decrease of $65 (fiscal 2010 – $195).

(f) Deferred Tax Credit: as a result of the conversion to a corporation in 2009 the Company recognized a deferred tax credit related to acquired tax benefits in accordance with CGAAP. Generally a deferred credit isn't recognized under IFRS as it is inconsistent with the conceptual framework. Under IFRS this event would result in a gain being recognized in the period of the event as compared to the CGAAP requirement to amortize the credit to income tax expense in proportion to the net reduction in the deferred income tax asset that gave rise to the deferred credit. The January 1, 2010 adjustment removes the current and long-term portions of the deferred tax credit totaling $39,655 through retained earnings (March 31, 2010 – $39,114 and December 31, 2010 – $36,414). The deferred income tax expense recognized for the three months ended March 31, 2010 increased by $656 (fiscal 2010 – $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 (March 31, 2010 – $674 and 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 three months ended March 31, 2010 was decreased by $122 (fiscal 2010 – $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 by $3,071 for the year (three months ended March 31 – $670). 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 future income tax balances as a result of the conversion adjustments:

	Reference	December 31 2010	March 31 2010	January 1 2010
Net deferred income tax asset under CGAAP		$ 34,598	$ 37,928	$ 38,540
Capital assets	(d)	(682)	412	645
Borrowing costs	(h)	157	33	-
Rotable parts	(a)	1,515	1,318	1,218
Pilot training bonds	(b)	86	30	15
Loyalty program	(e)	408	373	355
Overhaul accrual	(d)	(2,998)	(2,130)	(2,043)
Indefinite life intangible assets	below	(605)	(605)	(605)
Convertible debenture conversion option	below	(1,028)	(692)	(753)
Non-deductible portion of intangible assets	below	(413)	(413)	(413)
Net deferred income tax asset under IFRS		$ 31,038	$ 36,254	$ 36,959

The Company has determined to use the 'recovery through use' method for determining the temporary difference associated with indefinite life intangible assets indentified 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	March 31 2010	January 1 2010
Retained earnings under CGAAP		$ 46,018	$ 35,486	$ 33,124
Pilot training bonds - removal	(b)	(317)	(110)	(54)
Deferred tax credit - removal	(f)	36,414	39,114	39,655
Capital assets - capitalized overhaul costs & revaluation	(d)	(4,177)	(6,652)	(6,895)
Overhaul accrual - reversal	(d)	11,103	7,888	7,565
Customer loyalty program - recognized deferred revenue	(e)	(1,510)	(1,380)	(1,315)
Capital assets - capitalized borrowing costs	(h)	581	122	-
Acquisition costs - expensed	(l)	(666)	(17)	-
Deferred income taxes	(j)	(2,366)	(943)	(828)
Cumulative translation adjustment	(g)	674	674	674
Other		(125)	(56)	(64)
Retained earnings under IFRS		$ 85,629	$ 74,126	$ 71,862

(l) Acquisition Costs: the Company's accounting policy under IFRS for acquisition costs is to expense these costs when

incurred. Under CGAAP the Company would include these costs as part of the consideration of the purchase price allocated to the assets acquired. Acquisition costs incurred by the Company during the three months ended March 31, 2010 was $17 (fiscal 2010 – $640) 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 22)

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

(iv) Impact on cash flows

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

5. ADDITIONAL IFRS INFORMATION

The following IFRS disclosures relating to the year ended December 31, 2010 are material to an understanding of these interim financial statements.

a) Critical accounting estimates

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

Business Combination

The Company's acquisitions have been accounted for using the purchase method of accounting. Under the purchase method, the acquiring company adds to its balance sheet the estimated fair values of the acquired company's assets and liabilities. There are various assumptions made when determining the fair values of the acquired company's assets and liabilities. The most significant assumptions and those requiring the most judgment involve the estimated fair values of intangible assets. The intangible assets acquired that require critical accounting estimates are customer contracts, customer relationships, customer lists, certifications and brand name. To determine the fair value of these intangible assets, the Company adopted the excess earning method. This valuation technique values the intangible assets based on the capitalization of the earnings, which are calculated to be in excess of what a reasonable amount of earnings would be on the tangible assets used to generate the earnings associated with the intangible asset. Significant assumptions include, among others, the determination of projected revenues, cash flows, customer retention rates, discount rates and anticipated average income tax rates.

No business combinations took place for the Company during the 2010 year. See Note 6 for the acquisition of Bearskin on January 1, 2011 and the subsequent event (Note 22) for the acquisition of WesTower on April 1, 2011.

Long-Term Asset Impairment

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. These calculations require the use of estimates and forecasts of future cash flows. The cash flows are derived from the budget for the next five years. Qualitative factors, including market presence and trends, strength of customer relationships, strength of local management, strength of debt and capital markets, and degree of variability in cash flows, as well as other factors, are considered when making assumptions with regard to future cash flows and the appropriate discount rate. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. A change in any of the significant assumptions or estimates used to evaluate goodwill and other non financial assets could result in a material change to the results of operations. The Company tests whether goodwill has suffered any impairment at least annually in accordance with the accounting policy stated in Note 3(m). Other non-financial assets are tested for impairment when indicators of impairment arise.

The key assumptions used to determine the recoverable amount for the different CGUs are:
- budgeted EBITDA margin 17.7%
- weighted average cost of capital 9.6%
- inflation rate 3%

Stainless Revenue Recognition

Stainless operates 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 result in actual results that are different from estimates.

Deferred Income Taxes

The Company recognizes deferred tax assets, related tax-loss carryforwards and other deductible temporary differences where it is probable that sufficient future taxable income can be generated in order to fully utilize such losses and

deductions. This requires significant estimates and assumptions regarding future earnings, and the ability to implement certain tax planning opportunities in order to assess the likelihood of utilizing such losses and deductions. These estimates and assumptions are subject to uncertainty and if changed could materially affect the assessment of the ability to fully realize the benefit of the deferred tax assets.

The Company is subject to income taxes in both Canada and the United States. Significant judgment is required in determining the provision for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

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

During the three months ended March 31, 2011, the Company's effective tax rate was 37% (three months ended March 31, 2010 – 27%) of income (loss) before tax. For the three months ended March 31, 2011, a 1% increase in the effective tax rate would have increased the tax expense by $324 (1% increase on three months ended March 31, 2010 – increase in tax expense $310).

Fair Value of Capital Assets

On January 1, 2010 the Company increased the carrying value of certain aircraft related items within the Aviation segment's capital assets to their respective fair values (Note 4(iii)). The fair values used were determined by valuations provided by a third party.

b) *Capital assets*

The following includes the summary of capital assets by category and the continuity of capital assets for the 2010 year:

January 1, 2010	Cost	Accumulated Depreciation	Net Book Value
Land	$ 617	$ -	$ 617
Buildings	32,976	4,439	28,537
Aircraft frames	52,563	16,000	36,563
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	$ 166,602	$ 49,591	$ 117,011

December 31, 2010	Cost 2	Accum 2	NBV	Cost	Accumulated Depreciation	Net Book Value
Land				$ 705	$ -	$ 705
Buildings				41,540	6,082	35,458
Aircraft frames				74,918	20,370	54,548
Aircraft engines				56,613	24,186	32,427
Aircraft propellers				11,869	4,224	7,645
Aircraft landing gear				9,917	3,373	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				$ 230,659	$ 70,216	$ 160,443

	Year Ended December 31, 2010						
Net Book Value	Opening	Additions	Disposals	Depreciation	Exchange Differences	Impairment	Ending
Land	$ 617	$ 88	$ -	$ -	$ -	$ -	$ 705
Buildings	28,537	8,564	-	(1,643)	-	-	35,458
Aircraft frames	36,563	22,819	(464)	(4,370)	-	-	54,548
Aircraft engines	22,391	14,860	(260)	(4,562)	-	-	32,429
Aircraft propellers	6,094	2,918	(121)	(1,247)	-	-	7,644
Aircraft landing gear	4,352	2,666	(1)	(473)	-	-	6,544
Aircraft rotable parts	4,506	10,605	(6,851)	(273)	-	-	7,987
Equipment	11,885	3,753	(90)	(2,286)	(126)	-	13,136
Other	615	369	-	(313)	(6)	-	665
Leasehold improvements	1,451	56	-	(166)	(14)	-	1,327
Total	$ 117,011	$ 66,698	$ (7,787)	$ (15,333)	$ (146)	$ -	$ 160,443

c) *Intangible assets*

The following includes the summary of intangible assets by category and the continuity of intangible assets for the 2010 year:

January 1, 2010	Cost	Accumulated Depreciation	Net Book Value
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

December 31, 2010	Cost	Accumulated Depreciation	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

							Year Ended December 31, 2010
Net Book Value	Opening	Additions	Disposals	Depreciation	Exchange Differences	Impairment	Ending
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

d) Long-term debt

The following is the continuity of long-term debt for the 2010 year:

					Year ended December 31, 2010
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Current portion of long-term debt					
Aircraft finance debt	$ 2,943	$ -	$ (2,943)	$ -	$ -
	$ 2,943	$ -	$ (2,943)	$ -	$ -
Long-term debt					
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

Note: BA's refers to Bankers Acceptances that the Company enters into as part of it choosing the base interest rate of the credit facility.

e) Compensation of key management

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 2010 year included:

	2010
Salaries and short-term employee benefits	$ 2,016
Share-based payments	373
	$2,389

f) Earnings per share

Year ended December 31, 2010		2010
Net earnings for the year, available to common shareholders	$	13,767
Dilutive effect of convertible debentures		5,051
Add back impact from anti-dilutive factors		(4,977)
Dilutive effect of warrants		-
Diluted earnings for the year	$	13,841
Basic weighted average number of shares		12,918,183
Dilutive effect of convertible debentures		3,784,504
Add back impact from anti-dilutive factors		(3,702,957)
Dilutive effect of warrants		420,105
Diluted basis average number of shares		13,419,835
Earnings per share:		
Basic	$	1.07
Diluted	$	1.03

6. ACQUISITIONS

Acquisition of Bearskin Airlines

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

The results of operations are included in the Company's consolidated statement of operations since the date of acquisition and Bearskin is part of the Aviation segment.

The acquisition price of $33,137 million was funded through a combination of $27.6 million of debt financing from the Company's credit facility, which was presented as a deposit in trust as at December 31, 2010, and the issuance of the Company's common shares worth $5.5 million 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 is being finalized and any adjustment needed will be finalized during the second quarter of 2011.

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

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

Fair value of assets acquired:	
Cash	$ 2,604
Accounts receivable	956
Inventory	4,963
Prepaid expenses	118
Capital assets	27,820
Intangible assets	2,769
	39,230
Less fair value of liabilities assumed:	
Accounts payable and accrued liabilities	3,773
Deferred revenue	2,504
Future income taxes	6,828
Fair value of identifiable net assets acquired	26,125
Goodwill	7,012
Total purchase consideration	$ 33,137

Of the $2,769 acquired intangible assets, $2,129 was assigned to brand names, $236 was assigned to customer relationships, $145 was assigned to non-compete agreements, $177 was assigned to contracts, and $82 was assigned to booked tickets. All the intangibles acquired are subject to amortization with the exception of the brand which is considered to have indefinite life.

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

WesTower Communications

As described in Note 22 – Subsequent Events, the Company completed the acquisition of WesTower Communications ("WesTower") on April 1, 2011. No results for WesTower are included in the results of the Company for the three months ended March 31, 2011. WesTower will be part of the Manufacturing segment and its results will be included from the date of the transaction.

7. CAPITAL ASSETS

As described in Note 6, the Company acquired capital assets totaling $27,841 with the acquisition of Bearskin on January 1, 2011.

Depreciation for the three months ended March 31, 2011 was $5,653 (2010 – $3,451).

8. INTANGIBLE ASSETS & GOODWILL

As described in Note 6, the Company acquired intangible assets totaling $3,214 and goodwill totaling $6,783 with the acquisition of Bearskin on January 1, 2011.

Amortization of intangible assets for the three months ended March 31, 2011 was $335 (2010 – $343).

9. LONG-TERM DEBT

	March 31 2011	December 31 2010
Revolving term facility		
Canadian dollar amounts drawn	$ 17,000	$ 46,000
United States dollar amounts drawn	8,212	7,410
Total credit facility debt outstanding, principal value	25,212	53,410
less: unamortized transaction costs	(384)	(310)
less: unamortized discount on outstanding BA's	-	-
Net credit facility debt	24,828	53,100
less: current portion of Aircraft finance debt	-	-
Long-term debt balance	$ 24,828	$ 53,100

The following is the continuity of long-term debt for the three months ended March 31, 2011:

	Three months ended March 31, 2011				
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Long-term debt - current portion					
Credit facility amounts drawn					
Canadian dollar portion	$ 46,000	$ 3,000	$ (32,000)	$ -	$ 17,000
United States dollar portion	7,410	1,000	-	(198)	8,212
	53,410	4,000	(32,000)	(198)	25,212
Unamortized transaction costs	(310)				(384)
Unamortized discount on outstanding BA's	-				-
	$ 53,100	$ 4,000	$ (32,000)	$ (198)	$ 24,828

Credit Facility

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 three months ended March 31, 2011 totaled $135 and will be amortized over the remaining term of the facility at the time the costs were incurred. Amortization of transaction costs included in interest expense for the three months ended March 31, 2011 was $62 (2010 – $121).

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

Summary of the debt component of the convertible debentures:

	2011 Balance, Beginning of Period	Debentures Issued	Accretion Charges	Debentures Converted	Repaid on Maturity	2011 Balance, End of Period	2010 Balance
Series D	$ 1,061	$ -	$ (3)	$ (164)	$ -	$ 894	$ 1,061
Series F	1,869	-	2	(331)	-	1,540	1,869
Series G	22,545	-	25	(8,779)	-	13,791	22,545
Series H	27,776	-	67	-	-	27,843	27,776
Series I	-	32,796	81	-	-	32,877	-
						76,945	53,251
less: unamortized transaction costs						(3,617)	(2,484)
Convertible Debentures - Debt Component, end of period						73,328	50,767
less: current portion						(894)	(1,052)
Convertible Debentures - Debt Component (long-term portion)						$ 72,434	$ 49,715

During the three months ended March 31, 2011 convertible debentures totaling a face value of $9,915 were converted at various times into 693,383 Shares of the Company (2010 – $3,679 face value into 309,439 Shares). Interest expense recorded during the three months ended March 31, 2011 for the convertible debentures was $1,573 (2010 – $1,138).

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 principal amount of debentures were issued and will mature in 2016. Interest is payable semi-annually in arrears, in cash, on January 31 and July 31 of each year. The maturity of the debentures is January 31, 2016.

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 $1,871 were incurred during the three months ended March 31, 2011 in relation to the issuance of the Series I debentures ($118 allocated to the equity portion for this series).

Series J Convertible Debenture Offering

As described in Note 24 – Subsequent Events, the Company announced the bought deal offering of $57,500 principal in seven-year 6.25% Series J convertible senior secured debentures with a $30.50 conversion price that is expected to closed on May 4, 2011.

Convertible Debentures Equity Component

Summary of the equity component of the convertible debentures:

	March 31 2011	December 31 2010
Series D - 2006	$ 53	$ 64
Series F - 2009	88	108
Series G - 2009	685	1,254
Series H - 2010	1,610	1,610
Series I - 2011	1,491	-
Convertible Debentures - Equity Component, end of period	$ 3,927	$ 3,036

11. SHARE CAPITAL

Changes in the Shares issued and outstanding during the three months ended March 31, 2011 are as follows:

	Number of shares	2011 Amount
Share capital, beginning of period	14,518,842	$ 148,046
Issued from warrants exercised	311,727	3,236
Issued under dividend reinvestment plan (DRIP)	39,082	721
Issued upon conversion of convertible debentures	693,383	9,731
Issued for Bearskin vendors	314,047	5,512
Share capital, end of period	15,877,081	$ 167,246

12. WARRANTS

Changes in the warrants issued and outstanding during the three months ended March 31, 2011 are as follows:

	Date issued	Number of warrants	2011 Amount
Warrants outstanding, beginning of period		408,682	$ 155
Warrants exercised	various	(311,727)	(119)
Warrants outstanding, end of period		96,955	$ 36

During the three months ended March 31, 2011 a total of $3,236 was transferred to share capital for the warrants exercised which includes the $10.00 exercise price per warrant. The warrants outstanding as at March 31, 2011 expire in the second quarter of 2011 (54,572 in April and 42,383 in June).

13. CAPITAL MANAGEMENT

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

The Company's objective in managing capital is to:

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

The Company actively manages and monitors the capital structure and makes adjustments based on the objectives described

above in response to changes in economic conditions and the risk characteristics of the underlying assets.

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

	March 31 2011	December 31 2010
Total senior debt outstanding, principal value	$ 25,212	$ 53,410
Convertible debentures outstanding, face value	82,168	57,083
Shares	167,246	148,046
Warrants	36	155
Total capital	$ 274,662	$ 258,694

The Company considers the existing level of equity capital to be adequate in the context of current operations and the Company's strategic plan. The Company expects that its dividends to its shareholders during the remainder of 2011 will be funded by earnings and operating cash flows generated by its operating subsidiaries.

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

Changes in the capital of the Company over the three months ended March 31, 2011 are mainly attributed to the issuance of the Series I convertible debentures, the exercising of warrants into Shares and offset by the net repayment of credit facility.

14. DIVIDENDS DECLARED

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

Cumulative dividends during the three months ended March 31, 2011 and the comparative period in 2010 are as follows:

	2011	2010
Cumulative dividends, beginning of period	$ 55,943	$ 35,601
Dividends during the year	6,119	20,342
Cumulative dividends, end of period	$ 62,062	$ 55,943

The amounts and record dates of the dividends during the three months ended March 31, 2011 and the comparative period in 2010 are as follows:

			2011 Dividends			2010 Dividends
Month	Record date	Per Share	Amount	Record date	Per Share	Amount
January	January 31,2011	$ 0.13	$ 2,006	January 29, 2010	$ 0.13	$ 1,418
February	February 28, 2011	0.13	2,049	February 26, 2010	0.13	1,487
March	March 31, 2011	0.13	2,064	March 31, 2010	0.13	1,545
Total		$ 0.39	$ 6,119		$ 0.39	$ 4,450

Subsequent to March 31, 2011 and before these consolidated interim financial statements were authorized, the Company declared a dividend of $0.135 per share for April 2011.

15. EARNINGS PER SHARE

The computation for basic and diluted earnings per share for the 2010 and comparative 2009 years are as follows:

Three months ended March 31		2011		2010
Net earnings for the period, available to common shareholders	$	2,040	$	2,264
Dilutive effect of convertible debentures		1,163		830
Add back impact from anti-dilutive factors		(1,156)		(781)
Dilutive effect of warrants		-		-
Diluted earnings for the period	$	2,047	$	2,313
Basic weighted average number of shares		15,492,296		11,262,277
Dilutive effect of convertible debentures		4,190,164		3,335,048
Add back impact from anti-dilutive factors		(4,114,569)		(3,123,701)
Dilutive effect of warrants		47,513		618,429
Diluted basis average number of shares		15,615,404		12,092,053
Earnings per share:				
Basic	$	0.13	$	0.20
Diluted	$	0.13	$	0.19

16. SEGMENTED INFORMATION

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

On January 1, 2011 the Company acquired Bearskin (Note 6) and results for Bearskin since the acquisition date are included in the Aviation segment. Subsequent to March 31, 2011, the Company acquired WesTower that will be added to the Manufacturing segment (Note 24) from the April 1, 2011 acquisition date.

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

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

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

	Three months ended March 31, 2011				Three months ended March 31, 2010			
	Aviation	Manufacturing	Company	Consolidated	Aviation	Manufacturing	Company	Consolidated
Revenue	$ 76,377	$ 16,560	$ -	$ 92,937	$ 41,602	$ 12,259	$ -	$ 53,861
EBITDA	10,877	3,008	(1,671)	12,214	8,531	1,325	(1,208)	8,648
Depreciation and amortization				5,988				3,794
Finance costs - interest				2,103				1,818
Acquisition costs				879				17
Foreign exchange gains on debt				-				(83)
Earnings before tax				$ 3,244				$ 3,102

	March 31, 2011				December 31, 2010			
	Aviation	Manufacturing	Company	Consolidated	Aviation	Manufacturing	Company	Consolidated
Total assets	$ 233,720	$ 37,597	$ 83,962	$ 355,279	$ 179,663	$ 44,696	$ 104,587	$ 328,946
Net capital asset additions	8,728	33	15	8,776	57,643	1,392	41	59,076
Goodwill	20,447	25,907	-	46,354	13,435	26,243	-	39,678

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

Three months ended March 31	2011	2010
Canada	$ 85,636	$ 49,565
United States	7,301	4,296
Total revenue for period	$ 92,937	$ 53,861

	As at March 31, 2011		As at December 31, 2010	
	Capital Assets	Goodwill	Capital Assets	Goodwill
Canada	$ 189,032	$ 32,019	$ 157,774	$ 25,007
United States	2,464	14,335	2,669	14,671
	$ 191,496	$ 46,354	$ 160,443	$ 39,678

As a result of the foreign currency policy for the consolidation of Stainless, the goodwill recorded for Stainless (US $14,751) is valued at the period-end exchange rate and as a result fluctuates as the Canadian dollar reporting currency changes in comparison to the US dollar.

17. DEFERRED SHARE PLAN

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

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

18. CHANGES IN WORKING CAPITAL ITEMS

The changes in non-cash operating working capital items during the three months ended March 31, 2011 and the comparative period in 2010 are as follows:

Three months ended March 31,	2011	2010
Accounts receivable	$ (4,561)	$ 770
Inventory	(3,901)	(1,108)
Prepaid expenses	(405)	(275)
Accounts payable and accrued charges	9,107	(583)
Deferred revenue	990	877
Foreign currency adjustments	(90)	(123)
Net change in working capital items	$ 1,140	$ (442)

19. COMMITMENTS

The acquisition of Bearskin on January 1, 2011 increases the contractual obligations of the Company. The contractual obligations of Bearskin are mostly leases for a variety of the locations that Bearskin flies to in its operations. The contractual obligations of Bearskin are approximately $400 for the next several years.

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary.

Market Risk

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

Interest Rates

The Company is subject to the risk that future cash flows associated with the credit facility outstanding (Note 10) will fluctuate due to fluctuations in interest rates and the degree of volatility of the rates. The Company manages this risk and seeks financing terms in individual arrangements that are most advantageous. The Company has not used derivative instruments to mitigate this risk.

The terms of the credit facility allow for the Company to choose the base interest rate between Prime, Bankers Acceptances or London Inter Bank Offer Rate ("LIBOR"). At March 31, 2011, $17,000 was outstanding under Canadian Prime and US $8,450 was outstanding under US LIBOR.

21. OTHER COMPREHENSIVE INCOME (LOSS)

During the three months ended March 31, 2011 the Company had other comprehensive losses of $315 (net of $29 tax) that relates to foreign currency translation adjustments of the operations of Stainless from US dollars to the Canadian dollar reporting currency (2010 – losses of $422, net of $42 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.

22. SUBSEQUENT EVENTS

Acquisition Target – WesTower Communications

During the first quarter of 2011 the Company announced on that it signed a letter of intent to acquire the shares of WesTower Communications ("WesTower"), which 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 Company completed the acquisition on April 1, 2011. The acquisition price is $79 million and will be funded through a combination of the use of available proceeds in the Company's senior credit facility and Shares of the Company to the Westower vendors totaling 15% of the purchase price (520,341 Shares).

The results of operations will be included in the Company's consolidated statement of operations from the date acquisition and as a result the three months ended March 31, 2011 financial statements do not include any results of WesTower. The Company expensed acquisition costs of $879 during the three months ended March 31, 2011.

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 of $57,500 principal amount of debentures were issued (including a $7,500 overallotment announced May 9, 2011) and will mature on May 31, 2018. The Company will use the net proceeds of the offering to reduce the amount outstanding of the Company's credit facility and general corporate purposes.