Exchange

Income

Corporation

First Quarter Report

For the three months ended

March 31, 2012

President & CEO's Message

The First Quarter of 2012 was a busy one for EIC. Our model at EIC has always been based on two key tenets: disciplined acquisition and disciplined management of our subsidiaries. We completed the acquisition of Custom Helicopters, our first entry into the rotary wing aviation business. We continue to actively source and evaluate further opportunities to grow through acquisition. Our focus in the first quarter however was on growing our existing businesses in order to maximize the long term return on these assets.

Calm Air was busy obtaining, overhauling and licensing our new Dornier jet for use into Nunavut. This jet flew its inaugural flight in the last week of April. Our Aviation Group also announced our plan to build a new heavy overhaul facility to be located at the James Armstrong Richardson International Airport in Winnipeg. Construction should begin late in the second quarter. WesTower focused on increasing its staffing and internal infrastructure to enable it to handle not only the new work from AT&T but from other cellular providers as well. We also completed our largest stock offering to date raising $57.5 million to strengthen our balance sheet and enable the Company to move quickly when the right opportunities are uncovered.

We are very excited about the acquisition of Custom. While it is not a large transaction, it opens a whole new market of unique niche acquisition opportunities. Custom has a very strong management team and has always demonstrated exceptional maintenance capabilities. These attributes make it an ideal base for us to expand into the rotary wing business.

The first quarter is always the slowest part of the year for EIC, particularly in the Aviation sector where the availability of winter roads reduces demand for our services while the communities can be reached more inexpensively, albeit far more slowly by land. This trend is the same in Custom as it is in our fixed wing operations. This challenge was exacerbated by three factors in 2012. Firstly, Calm Air was utilizing a jet operated under a wet lease arrangement while we completed the necessary steps to operate it ourselves. This was an expensive process, but I am pleased to announce that we are now operating our own aircraft and the leased aircraft has been returned. Secondly, weather was very difficult in March. Freezing rain in central and northern Manitoba effectively shut down Calm Air's operations for almost a full week. While inclement weather is always part of our business, to be shut down for this prolonged period is abnormal and significantly reduced revenue and profitability in this period. Finally, WesTower continues to ramp up for the new AT&T turf contract work, adding staff and building our infrastructure. Until these new assets are fully deployed later this year, they will be a short term drag on earnings.

In spite of these challenges I am pleased to report that our revenues grew by 87% in the first quarter to $146.7 million. EBITDA grew by 15% to $14.1 million. Free Cash Flow grew by 6% to $11.2 million. Free Cash Flow less Maintenance Capital Expenditures was essentially flat, up 1% to $3.9 million.

We are very excited about the future. Our existing operations have invested and continue to invest in initiatives which will increase revenue and profitability in the future. WesTower in particular is expected to begin to reap the benefits of these efforts in the future as the expanded operations hit their stride. Our balance sheet is very strong with approximately $210 million available under our long term facilities to grow our business in the future. In short, while the first quarter was not without its challenges, we are excited about our position and the balance of 2012. We intend to stay true to our model. Discipline works.

Mike Pyle
President & CEO

Management's Discussion and Analysis

May 8, 2012

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, 2012 ("Consolidated Financial Statements") of Exchange Income Corporation ("EIC" or "the Company"). All amounts are stated in thousands of Canadian dollars, except per share data, unless otherwise stated.

These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of financial statements. This MD&A should be read in conjunction with the Consolidated Financial Statements of the Company for the three months ended March 31, 2012 and its annual MD&A for the year ended December 31, 2011.

FORWARD-LOOKING STATEMENTS

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

By their nature, forward-looking statements require assumptions and are subject to inherent risks and uncertainties including those discussed in this interim report. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. Readers of this interim report are cautioned to not place undue reliance on forward-looking statements made or incorporated by reference herein because a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to those risk factors set out in this interim report described in Section 11 – Risk Factors of the MD&A. We caution that the list of risk factors set out herein is not exhaustive and that when relying on forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements.

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

NON-GAAP FINANCIAL MEASURES

EBITDA, Free Cash Flow and Adjusted Net Earnings are not recognized measures under the CICA Handbook ("GAAP") and are, therefore, defined below.

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

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

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

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

ADDITIONAL INFORMATION

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

1. FINANCIAL HIGHLIGHTS

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

FINANCIAL PERFORMANCE	2012	per share basic	per share fully diluted	2011	per share basic	per share fully diluted
For the three months ended						
Revenue (Note 1)	$ 146,683			$ 78,522		
EBITDA	14,061			12,214		
Net earnings	910	0.05	0.05	2,040	0.13	0.13
Adjusted net earnings	1,567	0.09	0.09	3,161	0.20	0.20
Free cash flow	11,167	0.61	0.54	10,515	0.68	0.59
Free cash flow less maintenance capital expenditures	3,866	0.21	0.21	3,844	0.25	0.25
Dividends declared	7,553	0.405		6,119	0.39	
FINANCIAL POSITION	March 31, 2012			December 31, 2011		
Working capital	$ 66,625			$ 67,277		
Capital assets	248,031			220,190		
Total assets	525,327			478,401		
Senior debt	25,708			49,234		
Equity	284,249			225,637		
SHARE INFORMATION	March 31, 2012			December 31, 2011		
Common shares outstanding	20,216,367			17,399,182		

Note 1): Certain transactions of the Company's aviation support entities where it is acting as an agent to sell fuel to third parties are measured on a net basis. An adjustment to the prior year's financial results as a result of changing the measurement from a gross basis between revenue and direct operating expenses occurred during the third quarter of 2011. As a result, the comparative 2011 period was reduced by $14.4 million from what was originally recorded in the first quarter 2011 interim MD&A. This change in measurement had no impact on the financial measures generated for the period above except revenues.

2. OVERVIEW

EXCHANGE INCOME CORPORATION

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

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

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

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

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

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

(b) Manufacturing – providing a variety of metal manufacturing goods and related services in a variety of industries and geographic markets throughout North America. WesTower was acquired on April 1, 2011 and is a manufacturer, installer, and maintenance service provider of communication towers and sites in both Canada and the United States. Stainless manufactures specialized stainless steel tanks, vessels and processing equipment. Water Blast and Jasper Tank together make up the Alberta operations. Water Blast specializes in the manufacturing of specialized heavy duty pressure washing and steam systems and Jasper Tank manufactures custom tanks for the transportation of various products, but primarily oil, gasoline and water. Water Blast is also the exclusive distributor in Alberta and British Columbia for Hotsy pressure washing cleaning equipment, which is used for a variety of light commercial and industrial applications. Overlanders manufactures precision sheet metal and tubular products.

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

Acquisition – Custom Helicopters

On February 1, 2012, the Company closed the acquisition of the shares of Custom Helicopters Ltd. ("Custom"), a privately-owned provider of helicopter-based aviation services in Manitoba and Nunavut. The acquisition price of $28.2 million has been funded through a combination of $23.9 million of cash through debt financing from the Company's credit facility and the issuance of the Company's common shares ("Shares") worth $4.3 million to the vendors of Custom (170,121 Shares).

The acquisition has been immediately accretive to the Company's 2012 key financial metrics, including EBITDA, cash flows, earnings per share and Free Cash Flows. The Company's results for the three months ended March 31, 2012 include Custom's financial results since the closing date of the acquisition. For the two months of operations included in the Company's first quarter results for 2012 Custom contributed third party revenues of $2.5 million, EBITDA of $0.9 million and total assets of $38.0 million.

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

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

Prior Year's Acquisitions

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

Bearskin

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

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

WesTower

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

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

3. KEY PERFORMANCE INDICATORS

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

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

EBITDA

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

EBITDA	Three months ended March 31,		2012		2011
Earnings before income tax		$	1,298	$	3,244
Depreciation and amortization			8,946		5,988
Finance costs - interest			3,441		2,103
Acquisition costs			376		879
		$	14,061	$	12,214

FREE CASH FLOW

FREE CASH FLOW	Three months ended March 31,		2012		2011
Cash flows from operations		$	6,900	$	10,776
Change in non-cash working capital items			3,891		(1,140)
Acquisition costs			376		879
		$	11,167	$	10,515
per share - Basic		$	0.61	$	0.68
per share - Fully Diluted		$	0.54	$	0.59

During the first quarter of 2012 the Company generated Free Cash Flow of $11.2 million, which is $0.7 million or 6% higher than the $10.5 million generated in comparative 2011 period. The increase for the 2012 period can be attributed to the increase in EBITDA of $1.8 million or 15%, offset by the higher levels of cash interest and cash taxes. EBITDA is described in detail in Section 4 – Analysis of Operations, but overall can be explained by the additions of WesTower and Custom. Those entities were not part of the comparative period but those additions were offset by the net decrease in the Company's pre-existing operations, in particular the Aviation segment. The Company's cash interest costs increased as a result of higher debt loads during the 2012 period, specifically having Series J convertible debentures outstanding in the 2012 period, which resulted in an additional cash interest cost of $0.9 million. Overall, the Company's cash interest costs increased by $1.0 million. The Company also incurred additional cash interest costs of $0.1 million as more of its operating entities that do not have access to non-capital losses generate taxable income.

On a per share basis, Free Cash Flow for the first quarter of 2012, decreased to $0.61 ($0.54 fully diluted) from $0.68 ($0.59 fully diluted) in the same period in 2011, which is a decrease of 10% (8% fully diluted). The per share amounts decreased even though the absolute Free Cash Flow amounts increased. This is a result of the increased number of Shares outstanding between the comparable periods. The amount of Shares outstanding at March 31, 2012 was over 20.2 million, which is 27% higher than the Shares outstanding at the same point in 2011. As a result, the additional Shares outstanding diluted the increase in Free Cash Flow for 2012. The additional Shares outstanding were impacted by certain events described in Section 6 – Liquidity and Capital Resources.

The increase in Shares outstanding significantly decreases the per share result and the share issuance during the first quarter of 2012 where the Company used $50 million of the proceeds to repay debt contributed to this impact. These decisions will continue to impact the per share results of the Company until these funds are deployed. As at March 31, 2012, the de-leveraged balance sheet puts the Company in a position to finance approximately a $210 million acquisition without the need for additional equity financing. Subsequent event items also described in Section 6 occurred which impacted the amount of financing available to the Company as some debt has been taken on to fund working capital requirements of WesTower turf contracts in the United States.

FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENDITURES

FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENDITURES	Three months ended March 31,	2012	2011
Free Cash Flow		$ 11,167	$ 10,515
Maintenance Capital Expenditures		7,301	6,671
		$ 3,866	$ 3,844
per share - Basic		$ 0.21	$ 0.25
per share - Fully Diluted		$ 0.21	$ 0.25

The Company generated Free Cash Flow less maintenance capital expenditures of $3.9 million for the first quarter of 2012, which is consistent with the same period in 2011. The 6% increase in Free Cash Flow described above was offset by an increase of $0.6 million or 9% in the maintenance capital expenditures. The expenditures increased to $7.3 million for the 2012 period and are described in detail in the Capital Expenditures Section.

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

On a basic per share basis, Free Cash Flow less maintenance capital expenditures for the first quarter of 2012 decreased to $0.21 (basic and fully diluted) in comparison to $0.25 (basic and fully diluted) in the same period in 2011. The decrease of 16% (basic and fully diluted) is a result of the increased Shares outstanding for the Company during the 2012 period. The maintenance capital expenditure component of this metric is described further below and accounted for the $0.40 decrease from Free Cash Flow. The maintenance capital expenditures impact for the comparable period in 2011 was $0.43 per share.

CAPITAL EXPENDITURES

CAPITAL EXPENDITURES	Three months ended March 31,	2012	2011
Cash maintenance capital expenditures		$ 7,029	$ 6,671
add: finance lease principal payments		272	-
Maintenance capital expenditures		7,301	6,671
Growth capital expenditures		8,307	2,123
		$ 15,608	$ 8,794
Maintenance capital expenditures per share - Basic		$ 0.40	$ 0.43
Growth capital expenditures per share - Basic		0.45	0.14
Total capital expenditures per share - Basic		$ 0.85	$ 0.57

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

Maintenance Capital Expenditures

Total maintenance capital expenditures for Q1 2012 totaled $7.3 million compared to $6.7 million in Q1 2011, an increase of $0.6 million. The Aviation segment continues to make up the majority, as it spent $6.4 million versus the $0.8 million in the Manufacturing segment and $0.1 million at head office.

Custom and WesTower, which are not in the comparable 2011 period, accounted for $0.2 million and $0.6 million of the increase. The maintenance capital expenditures will vary from period to period based on the timing of maintenance events in the Aviation segment. The total maintenance capital expenditures of $7.3 million are at a level that is indicative of an average quarter. The majority of the Aviation segment's maintenance capital expenditures relate to engine overhauls, heavy checks and rotable additions. The expenditures at EIC's various airlines are generally proportionate to the size and number of aircraft they operate. As discussed above the maintenance capital expenditures will fluctuate from quarter to quarter and from year to year. The first quarter of 2012 was a typical quarter however the Company expects the maintenance capital expenditures in the second quarter of 2012 to be higher than an average quarter as a result of engine overhauls and heavy checks that are scheduled to be performed in that quarter.

The Manufacturing segment's capital expenditures were mainly from WesTower which spent $0.6 million during the period, which includes $0.3 million of capital lease payments. The Manufacturing segment's capital expenditures are largely equipment and vehicles. As a result of the acquisition of WesTower, the Company now has finance leases for vehicles. These finance lease principal payments do not show up as part of the Free Cash Flow or the capital expenditures that tie into the statement of cash flows. In order to fully reflect the Free Cash Flow after maintenance capital expenditures as the cash flow generated, the Company has disclosed the finance lease principal payments and deducted this from the Free Cash Flow less maintenance capital expenditures calculation. For the first quarter of 2012, these finance lease principal payments amounted to $0.3 million.

Growth Capital Expenditures

The Company invested a total of $8.3 million in growth capital expenditures during the first quarter of 2012. The majority of the growth capital expenditures were in the Aviation segment which accounted for $7.7 million of the growth capital expenditures. The major growth capital expenditures were for additional aircraft and infrastructure at the James Armstrong Richardson International Airport in Winnipeg. Total aircraft growth capital expenditures were $2.7 million which include modifications of the Dornier jet purchased at the end of 2011 that will be utilized in Calm Air's scheduled passenger operations which provide service to the Government of Nunavut under a contract signed in September 2011, and a new Metro III to service Bearskin's business. In addition to these aircraft expenditures $4.5 million was spent to acquire the infrastructure at the Winnipeg airport that was announced in January of 2012. The Company will begin to incur construction costs for a new hangar on this property towards the end of the second quarter. The other major growth capital expenditure in the Aviation segment was fuel tanks for the fixed based operator service, which is an aviation support business that the Company entered into in 2010. The Manufacturing segment spent $0.5 million on office equipment and manufacturing equipment, of which $0.4 million was for WesTower to largely support its additional crews and new office as a result of the new AT&T contract.

DIVIDENDS & PAYOUT RATIO

The amounts and record dates of the dividends declared during the three months ended March 31, 2012 and the comparative period in 2011 were as follows:

	2012 Dividends			2011 Dividends		
Month	Record date	Per Share	Amount	Record date	Per Share	Amount
January	January 31, 2012	$ 0.135	$ 2,390	January 31, 2011	$ 0.13	$ 2,006
February	February 29, 2012	0.135	2,423	February 28, 2011	0.13	2,049
March	March 30, 2012	0.135	2,740	March 31, 2011	0.13	2,064
Total		$ 0.405	$ 7,553		$ 0.39	$ 6,119

Actual dividends for the three months ended March 31, 2012 totaled $7.6 million, which was an increase of 23% from the comparative period in 2011 when the actual payouts were $6.1 million. Per share dividends for the three months ended March 31, 2012 totaled $0.405, which is an increase of 4% over the dividends paid per share of $0.39 in the comparative period in 2011.

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

The Company's payout ratios using Free Cash Flow and Free Cash Flow less maintenance capital expenditures as a portion of the dividends declared by the Company during the periods:

Payout Ratios Three months ended March 31,	2012	Per share basic	Per share fully diluted	2011	Per share basic	Per share fully diluted
Free Cash Flow		*66%*	*75%*		*57%*	*66%*
Free Cash Flow less maintenance capital expenditures		*193%*	*193%*		*156%*	*156%*

The relatively stable Free Cash Flow and Free Cash Flow less maintenance capital expenditures in absolute dollars, impacted by the Company's higher dividends per share and significantly larger amount of Shares outstanding causes the payout ratios for the first quarter of 2012 to increase. On a seasonal basis, the first quarter is the weakest operational results quarter for the Company as the Aviation segment is impacted by winter roads and both segments are impacted by generally poorer weather conditions. The payout ratio is considered to be prudent and is reviewed by the Company's Board of Directors on a quarterly basis.

4. ANALYSIS OF OPERATIONS

The following section analyzes the financial results of the Company's operations for the three months ended March 31, 2012 and the comparative period in 2011.

	Three months ended March 31, 2012				Three months ended March 31, 2011			
	Aviation	Manufacturing	Head-office(2)	Consolidated	Aviation	Manufacturing	Head-office(2)	Consolidated
Revenue	$ 65,754	$ 80,929	$ -	$ 146,683	$ 61,962	$ 16,560	$ -	$ 78,522
Expenses(1)	57,185	73,794	1,643	132,622	51,085	13,552	1,671	66,308
EBITDA	8,569	7,135	(1,643)	14,061	10,877	3,008	(1,671)	12,214
Depreciation and amortization				8,946				5,988
Finance costs - interest				3,441				2,103
Acquisition costs				376				879
Earnings before taxes				1,298				3,244
Current income tax expense				134				(1)
Deferred income tax expense				254				1,205
Net earnings for the period				$ 910				$ 2,040

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

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

On a consolidated basis, total revenue for the Company for the first quarter of 2012 increased by 87% or $68.2 million to $146.7 million when compared to the same period in 2011. The main drivers of the increase in consolidated revenue for 2012 is the 2011 acquisition of WesTower in the Manufacturing segment (April 1, 2011) and of Custom in the Aviation segment (February 1, 2012) which have no comparable in 2011. The revenues for the Aviation segment increased by 6% to $65.8 million and the revenues for the Manufacturing segment increased by 389% to $80.9 million.

On a consolidated basis, EBITDA of the Company for the first quarter of 2012 was $14.1 million, an increase of 15% or $1.8 million when compared to the same period in 2011. The main drivers of the increase in consolidated EBITDA for 2012 were the additions of WesTower and Custom, which was offset by a net decrease in EBITDA generated by the Company's pre-existing operations, in particular the Aviation segment. The EBITDA for the Aviation segment decreased by 21% to $8.6 million and the EBITDA for the Manufacturing segment increased by 137% to $7.1 million. Costs incurred at the head-office of the Company were relatively stable with a 2% decrease to $1.6 million.

AVIATION SEGMENT

Aviation Segment	Three months ended March 31,	2012	2011	Variance	Variance %
Revenue		$ 65,754	$ 61,962	$ 3,792	6%
Expenses		57,185	51,085	6,100	12%
EBITDA		$ 8,569	$ 10,877	$ (2,308)	-21%

Revenue generated by the Aviation segment for the three months ended March 31, 2012 increased by $3.8 million or 6% from $62.0 million in 2011 to $65.8 million in 2012, including $2.5 million generated from Custom Helicopter, which was acquired February 1, 2012. The operational results of the pre-existing Aviation subsidiaries experienced moderate growth in revenues increasing by $1.3 million, or 2%, from $62.0 million in 2011 to $63.3 million in 2012. The increase in revenue is due to increased charter and medevac operations of $1.8 million and $0.7 million respectively. The increase in charter operations was primarily driven by growth in the mining and exploration industry while the increase in medevac operations was driven by a combination of growth in Perimeter's medevac operations as well as increases related to Keewatin Air's Kivalliq medevac contract which became effective December 2011. These increases were partially offset by a $1.2 million decrease in other revenue sources including passenger services, cargo, and ancillary revenue streams. The decrease in revenue generated from passenger services is the result of the removal of Keewatin's scheduled services effective September 1, unprecedented poor weather conditions experienced in the northern regions, and lastly, increased competition by three competitors in the eastern region operated by Bearskin.

Operational expenses for the consolidated Aviation segment increased by $6.1 million, or 12%, from $51.1 million in 2011 to $57.2 million in 2012 including $1.6 million generated from Custom Helicopter. The operational expenses for the pre-existing Aviation subsidiaries increased by $4.5 million, or 9%, from $51.1 million in 2011 to $55.6 million in 2012. The increase is primarily due to three main factors. First, average fuel prices increased by approximately 10% putting significant upward pressure on fuel costs which increased by approximately $1.2 million over the prior year quarter. Second, labour and training costs associated with changes in the scheduled service operations, and infrastructure to support Calm Air's contract with the Government of Nunavut and associated training, generated an additional $1.3 million. Third, in order to service the Government of Nunavut contract, the Company wet leased a jet. A wet lease is an arrangement where the Company pays for more than just the aircraft and includes pilot, maintenance and other operational costs such as insurance. This jet is a requirement under the three year contract which began in September 2011. Calm Air entered into a short term wet lease while focusing on putting the infrastructure associated with this operation in place including procuring a jet as well as acquiring and training staff. Costs associated with wet leasing resulted in approximately $1.0 million of lease expenses in the first quarter of 2012. This arrangement will continue to the end of April 2012. The balance of the increase is related to aircraft movement fees including landing and terminal fees which contributed an additional $0.3 million and is largely the result of increases in terminal rates at the James Armstrong Richardson International Airport in Winnipeg, as well as increased costs associated with parts and infrastructure expenses associated with the medical contracts.

EBITDA margin for the Aviation segment experienced a decline in the first quarter and was 13% in 2012 in comparison to 18% in 2011. Revenues were impacted by poor weather conditions in the northern regions which had a significant impact on passenger movement and flight loads which negatively impacted margins. Second, increased competition reduced both passenger volumes and passenger yields and suppressed margins in the eastern region operated by Bearskin. Cost increases as noted above, also impacted EBITDA margins. The $1.2 million fuel cost increase was not completely offset by fuel surcharge increases. The Company's management monitors this cost closely to ensure that fuel surcharges are added to the cost of the ticket for customers when it is considered necessary and feasible but is cautious to amend fuel surcharges given the relationships built with its customers, in particular the First Nations Communities who use the services of the segment as a necessity. Additionally, increased competition in the eastern region also prevented the implementation of fuel surcharges. Although some minor adjustments were made to the fuel surcharge program, the majority of fuel increases were not offset. The other cost increases noted above, further explain the reduction in EBITDA margin.

MANUFACTURING SEGMENT

Manufacturing Segment	Three months ended March 31,	2012	2011	Variance	Variance %
Revenue		$ 80,929	$ 16,560	$ 64,369	389%
Expenses		73,794	13,552	60,242	445%
EBITDA		$ 7,135	$ 3,008	$ 4,127	137%

The Manufacturing segment earned revenues of $80.9 million and EBITDA of $7.1 million for the three months ended March 31, 2012. This represents a $64.4 million increase in revenue and a $4.1 million increase in EBITDA.

The addition of WesTower on April 1, 2011 is one of the main reasons for the increase. WesTower contributed revenues of $57.1 million with no comparable in the 2011 comparable period. The remaining $7.3 million of the segment's increase in revenues, a 44% increase, came from pre-existing operations of the segment, which saw strong increases across all business lines. The increases in revenues were led by the operations of Stainless, which contributed its best quarter in its history. Revenues increased $4.6 million or 63%, driven by strong field operations, including work for a large winery field project in 2012. The Alberta operations' revenue increased by $2.0 million or 28% in the 2012 period and is a result of the continued improvement in the Alberta market place. All product lines have contributed to the sales increase, including the custom manufacturing side of the business that services heavy industrial operations such as oil and gas and mining, their Hotsy brand of products, and their stainless steel tank business. The precision metal business increased revenues by $0.7 million or 36%, outperforming the first quarter of 2011 which was lower due to a slow start to the 2011 year as customers rationalized their orders in the first quarter of 2011 after large orders at the end of 2010.

The WesTower revenues were bolstered by the start of the AT&T turfing contract, as the US operations generated 58% of the total WesTower revenues for the quarter. The work from the turfing contract continues to increase each month as WesTower transitions into its new territories. Revenues were also strong in Canada as WesTower continues to perform Long-Term Evolution ("LTE") network builds for the majors.

Consistent with the change in revenues, EBITDA increased in 2012 as a result of the addition of WesTower and the continued strength of the pre-existing operations. Overall the segment's EBITDA increased by $4.1 million, an increase of 137%, of which $2.7 million was contributed by the addition of WesTower. The pre-existing operations of the Manufacturing segment increased EBITDA by $1.4 million or 46%, consistent with the increase in revenues, all operations contributed to the increase in performance. The operations of the pre-existing manufacturing companies experienced the largest quarter over quarter growth and contributed the highest EBITDA for any quarter in the company's history. The EBITDA growth was driven by both increased volume and slightly higher EBITDA margins, which were 18.2% for the pre-existing operations compared to 18.0% in the first quarter of 2011.

Manufacturing EBITDA did not increase by the same percentage as sales because WesTower operates in a lower margin business and generates a lower margin than the pre-existing operations of this segment. The actual margin earned in the quarter was 4.8%, which as previously disclosed has been significantly impacted by the startup of the turfing contract which began late in 2011. As a result of these startup and transition costs, the US operations of WesTower realized margins of 1.6% in the quarter. The expected margin for this business is in the high single digits. WesTower is still in the process of the AT&T transition with the expectations that it will be through this transition in the third quarter. The Canadian EBITDA margins were 9.1% which were bolstered by LTE network builds. These margins were higher than expectations, as the WesTower business is seasonal and the first quarter is the seasonally slowest quarter of the year.

The addition of WesTower and the growth of the pre-existing operations of the Manufacturing segment resulted in the Manufacturing segment contributing 55% of the Company's first quarter consolidated revenues in 2012 compared to 21% in 2011. At the EBITDA level the Manufacturing segment contributed 51% of the consolidated EBITDA of the Company's segments in comparison to 25% for the comparative in 2011.

HEAD-OFFICE

Head-office Costs	Three months ended March 31,	2012	2011	Variance	Variance %
Expenses		$ 1,643	$ 1,671	$ (28)	-2%

The head-office costs incurred by the Company during the first quarter of 2012 are relatively consistent with those of the comparative period. There were some movements in head-office personnel between the comparative periods as the corporate office grows with the growth of the consolidated entity, but management compensation costs were offset by a decrease in costs of the Company's employee share purchase plan.

OTHER NON-EBITDA ITEMS

The following analyzes the changes in the other non-EBITDA income statement items that impacted net earnings for the three months ended March 31, 2012 in comparison to 2011 period. Consolidated net earnings for the three months ended March 31, 2012 was $0.9 million, a decrease of $1.1 million over the comparative period in 2011.

	Three months ended March 31,	2012	2011	Variance	Variance %
Depreciation and amortization		$ 8,946	$ 5,988	$ 2,958	49%

The depreciation and amortization for the Company increased by $3.0 million or 49% and is mainly a result of the comparative period in 2011 not including any amounts from either WesTower or Custom, both of which were acquired after the 2011 period. WesTower contributed $1.3 million during the first quarter of 2012 and Custom contributed $0.5 million for the two months of operation during the first quarter of 2012 since being acquired on February 1, 2012. The operations of Calm Air and the purchase of various significant capital expenditures have resulted in an increase of $1.1 million for the Aviation segment's depreciation and amortization in 2012. The significant capital expenditures include both new aircraft and aircraft related components.

	Three months ended March 31,	2012	2011	Variance	Variance %
Finance costs - interest		$ 3,441	$ 2,103	$ 1,338	64%

The Company incurred additional interest costs for the 2012 period of $1.3 million or 64% in comparison to the 2011 period. The increase is mainly a result of the Company incurring more interest with the higher levels of convertible debentures outstanding. A number of factors impacted the interest incurred by the Company on its debentures which increased by $0.9 million in 2012. First, during the beginning of May 2011 the Company issued $57.5 million of Series J convertible debentures that bear interest at 6.25%. During the first three months of 2012 the Company incurred a total of $1.1 million of interest on this series that has no comparative in the same period in 2011. Secondly, due to various conversions of debentures in the series F, G, H and I of the Company that were outstanding during both periods, the interest incurred in 2012 decreased by $0.2 million due to various conversions which has reduced the outstanding principal in those series.

The Company also incurred additional interest costs on its long-term debt and finance leases. The 2011 comparative period doesn't include any finance lease interest because the Company incurs that cost in WesTower, which was not acquired by the Company until after the first quarter of 2011. The finance lease interest is not significant at less than $0.1 million in 2012. The increase in interest costs incurred by the Company on its credit facility was $0.4 million. This increase can be mainly tied to additional standby fees incurred by the Company that are charged on the portion of the Company's credit facility that is not being used, which was increased to a credit facility of $235 million subsequent to the first quarter of 2011. As well, the Company's cash interest on the US portion of its credit facility increased as a result of higher levels of amounts outstanding as funds were used for the cash component of the purchase price of WesTower. Lastly, the Company capitalized more debt interest in the comparative 2011 period for certain internally constructed capital assets when certain buildings were being constructed and aircraft configured during that time.

	Three months ended March 31,	2012	2011	Variance	Variance %
Acquisition costs		$ 376	$ 879	$ (503)	-57%

The Company incurred $0.5 million less acquisition costs during the first quarter of 2012 in comparison to 2011. The Company closed the acquisition of Bearskin during the 2011 period but the majority of those costs were incurred late in fiscal 2010 with the acquisition closing on January 1, 2011. Similarly, the majority of the costs incurred by the Company during the first quarter of 2011 pertain to the acquisition of WesTower that took place immediately after that period and closed on April 1, 2011. During 2012, the Company closed the acquisition of Custom and incurred costs pertaining to that event. The Company incurs acquisition costs on other potential acquisitions that do not close either during the period or at all. As a result, closing acquisitions is the main driver for these acquisition related costs but other factors can have an impact.

Three months ended March 31,	2012	2011	Variance	Variance %
Current income tax expense	$ 134	$ (1)	$ 135	N/A
Deferred income tax expense	254	1,205	(951)	-79%
Net Income Tax Expense	$ 388	$ 1,204	$ (816)	-68%

The Company's income tax expense for the three months ended March 31, 2012 was $0.4 million, a decrease of $0.8 million or 68% over the comparative period in 2011. The primary reason for the decrease in tax expense is due to the $1.9 million or 60% decrease of earnings before tax.

The Company has the ability to offset much of the taxable income it generates with non-capital losses. During the 2012 period the Company used $1.8 million of non-capital losses and it has approximately $147.3 million of non-capital losses available to offset future taxable income.

Current tax expense is the expected tax payable on taxable income for the period of subsidiaries that do not have access to non-capital losses. During the period the income subject to tax of those subsidiaries was $0.5 million and the Company's current taxes were $0.1 million. The taxable income of these entities that do not have access to the non-capital losses was basically nil in 2011.

5. SUMMARY OF QUARTERLY RESULTS

	2012				2011			2010
Quarterly Comparatives	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total revenue	$ 146,683	$ 147,780	$ 145,993	$ 138,008	$ 78,522	$ 65,160	$ 64,471	$ 60,894
EBITDA	14,061	20,734	22,153	19,738	12,214	11,352	12,363	11,905
Net earnings	910	6,914	7,285	4,506	2,040	2,913	4,411	4,179
Basic	*0.05*	*0.40*	*0.42*	*0.27*	*0.13*	*0.20*	*0.33*	*0.33*
Diluted	*0.05*	*0.38*	*0.41*	*0.27*	*0.13*	*0.20*	*0.31*	*0.32*
Free cash flow (FCF)	11,167	17,470	19,234	16,890	10,515	10,251	10,697	10,563
Basic	*0.61*	*1.00*	*1.11*	*1.00*	*0.68*	*0.71*	*0.80*	*0.84*
Diluted	*0.54*	*0.83*	*0.92*	*0.83*	*0.59*	*0.61*	*0.65*	*0.67*
FCF less maintenance capital expenditures	3,866	9,845	12,721	8,059	3,844	6,267	6,766	6,120
Basic	*0.21*	*0.57*	*0.74*	*0.48*	*0.25*	*0.44*	*0.51*	*0.48*
Diluted	*0.21*	*0.50*	*0.63*	*0.43*	*0.25*	*0.39*	*0.43*	*0.41*

6. LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2012, the Company had a net cash position of $5.9 million (December 31, 2011 of $11.5 million) and net working capital of $66.6 million (December 31, 2011 of $67.3 million), which represents a current ratio of 1.72 to 1 (December 31, 2011 of 1.80 to 1).

	March 31, 2012	December 31, 2011	*Change*
Cash and cash equivalents	$ 5,940	$ 11,475	*$ (5,535)*
Accounts receivable	61,711	69,172	*(7,461)*
Costs incurred plus recognized profits in excess of billings	40,505	25,913	*14,592*
Inventory	43,365	39,853	*3,512*
Prepaid expenses	7,923	4,879	*3,044*
Accounts payable and accrued expenses	(69,955)	(57,726)	*(12,229)*
Income taxes payable	(3,083)	(2,654)	*(429)*
Deferred revenue	(9,909)	(8,909)	*(1,000)*
Billings in excess of costs incurred plus recognized profits	(8,822)	(13,489)	*4,667*
Current portion of long-term debt and finance leases	(1,050)	(1,237)	*187*
Net working capital	$ 66,625	$ 67,277	*$ (652)*

The Company's addition of Custom during the first quarter of 2012 added working capital of $3.2 million as at March 31, 2012 which is not part of the comparative. This increase was offset by a net decrease of $3.8 million in working capital over the period for the Company's pre-existing entities which is largely driven by the $2.3 million payable for the infrastructure addition at the Winnipeg airport as discussed in the Growth Capital Expenditures section.

With the acquisition of Custom on February 1, 2012, the Company drew $25.0 million from the Company's credit facility which included $24.6 million of the cash consideration of the purchase price and $0.3 million of closing costs. With the acquisition of Custom the Company also assumed $0.8 million of debt. Available cash within Custom was used to repay the outstanding principal after the closing.

In the second half of the first quarter of 2011 the Company closed a bought deal offering of its Shares totaling gross proceeds of $57.5 million, including $7.5 million of an over-allotment option. A total of 2,324,150 Shares were issued and the Company collected net proceeds of $55.1 million after transaction costs. Upon collecting the net proceeds the Company used $50 million of the proceeds to make a payment against the Company's credit facility, which at the time repaid all the outstanding Canadian portion of the credit facility. Near the end of the first quarter the Company drew $2.0 million from its credit facility for working capital needs to support WesTower's growth.

The Company's credit facility has a total of $235 million of credit available. As at March 31, 2012, the Company had $2.0 million outstanding under its Canadian portion of its credit facility and US $21.45 million outstanding under its US portion, resulting in over $210 million of credit available to the Company. Subsequent to the end of the first quarter but before the release of this report, the Company drew $17.5 million which is being utilized by WesTower's US operations as it ramps up during the second quarter's workload under the turfing contract with AT&T. Additional working capital requirements are expected to be drawn from the Company's credit facility for the WesTower US operations throughout the second and third quarters of 2012 until the working capital requirements begin to peak.

The finance leases of WesTower's operations continue and as a result the Company made principal payments of US $0.2 million and $0.1 million Canadian during the first quarter of 2012. Also during this period, WesTower entered into new finance leases with a capital asset value and principal of less than $0.1 million. The Company's cash flow statement does not show the non-cash transaction when a new finance lease is recognized on the balance sheet. Instead, the principal portion of the lease payments are shown as a cash outflow within financing activities and the interest portion is recorded through net income and operating activities.

The Company's dividend reinvestment plan ("DRIP") continued through the 2012 period and during the first quarter the Company received $1.0 million for 38,944 Shares being issued in accordance with the DRIP.

The Company obtained additional cash through the means described above and also generated $4.3 million from its operations during the first quarter of 2012 (or $11.2 million of Free Cash Flow). The Company used these funds for significant capital expenditures. See Section 3 for more information on the capital expenditures made during the 2012 period.

The Company's dividends are dependent on its ability to generate cash flow from operations and Free Cash Flow. During the first quarter of 2012 the Company declared dividends totaling $7.6 million in comparison to $6.1 million during the comparative period in 2011. This was a result of an increased number of Shares outstanding and an increase in the monthly dividend rate that became effective April 2011.

The following summarizes the changes in the Shares outstanding of the Company during the three months ended March 31, 2012:

	Date issued	Number of shares
Shares outstanding, beginning of period		17,399,182
Issued for Custom vendors	February 1, 2012	170,121
Issued under First Nations community partnership agreements	February 2, 2012	23,500
Prospectus offering	March 6, 2012	2,324,150
Issued upon conversion of convertible debentures	various	260,470
Issued under dividend reinvestment plan (DRIP)	various	38,944
Shares outstanding, end of period		20,216,367

The following summarizes the convertible debentures outstanding as at March 31, 2012 and the changes in the amount of convertible debentures outstanding during the three months ended March 31, 2012:

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

Par value	Balance, beginning of period	Issued	Converted	Matured	Balance, end of period
Series F	$ 1,229	$ -	$ (15)	$ -	$ 1,214
Series G	7,894	-	(1,003)	-	6,891
Series H	27,441	-	(3,766)	-	23,675
Series I	35,000	-	(25)	-	34,975
Series J	57,500	-	(20)	-	57,480
Total	$ 129,064	$ -	$ (4,829)	$ -	$ 124,235

7. RELATED PARTY TRANSACTIONS

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

8. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. There were no changes to the Company's critical accounting estimates from those described in the MD&A of the Company for the year ended December 31, 2011.

9. ACCOUNTING POLICIES

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

FUTURE ACCOUNTING STANDARDS

Accounting standards issued but not yet effective

IFRS 9 – Financial Instruments

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

IFRS 10, Consolidated Financial Statements

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

IFRS 12, Disclosure of Interests in Other Entities

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

IFRS 13, Fair Value Measurement

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

Amendments to IAS 1, Presentation of Financial Statements

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

10. CONTROLS AND PROCEDURES

Internal Controls over Financial Reporting

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

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

Management has evaluated the design and operation of the Company's internal controls over financial reporting as of March 31, 2012, and based on that evaluation has concluded that such internal controls over financial reporting are not effective, due to the following material weaknesses:

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

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

Management has evaluated the design of the controls for WesTower and no material control weaknesses have been noted. As permitted under Section 3.3 of National Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings, management has limited the scope of its evaluation of internal controls over financial reporting to exclude the evaluation of the operating effectiveness of these controls. The effectiveness of these controls will be tested by the end of the fiscal year.

WesTower had revenue of $57.1 million and EBITDA of $2.7 million included in the consolidated results of the Company for the three months ended March 31, 2012. As at March 31, 2012, it also had current assets and current liabilities of $73.0 million and $24.6 million, respectively.

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

Custom had revenue of $2.5 million and EBITDA of $0.9 million included in the consolidated results of the Company for the two month period ended March 31, 2012 since the acquisition closed on February 1, 2012. As at March 31, 2012, it had current assets and current liabilities of $5.9 million and $2.7 million, respectively.

Disclosure Controls and Procedures

Management has established and maintained disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company is made known to management in a timely manner and that information required to be disclosed by the Company is reported within the time periods prescribed by applicable securities legislation. Due to the substantial overlap between internal controls over financial reporting and disclosure controls and procedures, management has concluded that disclosure controls and procedures as at March 31, 2012 were not effective.

11. RISK FACTORS

The Company and its subsidiaries are subject to a number of business risks. These risks relate to the structure of the Company and to the operations at the subsidiary entities. There were no changes to the Company's principal risks and uncertainties from those reported in the Company's MD&A for the year ended December 31, 2011.

12. OUTLOOK

Acquisition strategy

The Company has successfully closed three acquisitions since the beginning of the comparable period in 2011, being the Bearskin, WesTower, and Custom acquisitions, for a combined value of $135.9 million. After funding these significant acquisitions, the Company still maintains approximately $210 million in available capital under its $235 million senior credit facility after the closing of the $57.5 million share offering during the first quarter of 2012. This capacity gives the Company the ability to respond quickly when the right acquisition presents itself.

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

The Company has developed a network of referral sources that regularly present it with potential acquisitions. The Company believes that its disciplined approach to acquisitions is largely responsible for the success that has been experienced to date. While the deal flow brought to the Company is considered strong, there can be no assurance target companies meeting the Company's standards will be found.

Aviation Segment

Through March 31, 2012, the Company operated five aviation companies providing rotor wing and fixed wing scheduled, charter, freight and medevac services within Manitoba, Ontario, Quebec and Nunavut. The combined fleet for the segment as of March 31, 2012 is 102 aircraft.

The Company's subsidiaries act as lifelines in most of the communities served, as it is often the only way to move people, food and supplies in and out of the communities. Most airlines are subject to variances in the economy, and commodity prices, which in turn affects demand for air transportation. However, to differing degrees within each airline, the Company's aviation services are required as a result of the remoteness of the communities served; demand is relatively inelastic, mitigating the impact of changes in the economic climate. High commodity prices due to geopolitical influences outside the Company's control mean fuel prices could impact operations. Most of the Company's Aviation holdings either 'pass through' the cost of fuel to the customer base or have the ability to add a fuel surcharge to equalize the incremental cost of the fuel. This is especially true with the Company's newest acquisition Custom Helicopter, where contracts in remote regions have barrels of fuel flown in by the customer and the helicopter company provides the aircraft and crew, fuel is excluded. While most of the Company's aviation subsidiaries are able to pass along price increases, the Company and its subsidiaries are mindful of the impact price increases have on the communities they serve. The Company's airlines providing services to government agencies have provisions whereby fuel is a flow through cost, mitigating the exposure on government related work.

There is strong demand in Bearskin's western territory, however pricing pressures in its very competitive eastern market continue. The pricing pressure in the eastern markets has been driven by large national and regional airlines competing for market share. The markets served by Bearskin are outside large centres which are highly competitive; Bearskin serves adjacent communities within 2-3 hours driving of the large centres. Significantly lower fares in large centres are causing smaller local market to gravitate to the large centres; people are willing to drive for 2-3 hours to save on airfares. Bearskin acquired a new Metro aircraft in December 2011 and another in January 2012. These aircraft are consistent with the Bearskin fleet, and were acquired outside Canada. Therefore some modifications are required for regulatory compliance. Bearskin also took the opportunity to perform maintenance on the aircraft so that they will be able to be available in operations for an extended period of time after they are inducted into the fleet. The first aircraft will be ready for service in May; the second aircraft will be ready for service in June. These aircraft will provide Bearskin with the ability to capture additional charter and schedule opportunities and expand into new markets within its existing geographic footprint.

Calm Air continues to provide services to the Government of Nunavut for medical travel through a subcontract with Canadian North. As a requirement of this agreement, Calm Air successfully acquired the first of two 32 seat Dornier 328 jets to its fleet. The first aircraft was acquired in December 2011 and Calm Air plans to acquire the second aircraft in 2012. To facilitate the introduction of the aircraft, Calm Air is leasing one aircraft under the terms of an Aircraft, Crew, Maintenance and Insurance (ACMI) agreement to meet the terms of the subcontract. This wet lease will continue through April 2012 causing a drag on financial performance and operating margins. With the introduction of the first owned Dornier 328 jet early in the second quarter, Calm Air should see a recovery in its financial performance. Calm Air continues on its fleet renewal plan, the last Hawker 748 aircraft in the fleet will be replaced with a third ATR 72 aircraft. With aging aircraft issues and old technology, the Hawker 748 is less efficient and more expensive to operate than its replacement the ATR72. The final piece of the fleet renewal program is to replace the SAAB 340 aircraft with ATR 42 equipment, thereby reducing the fleet types to just two, ATR and Dornier. The reduction of fleet types will assist the company in minimizing cost on all aspects of its operations, scheduled passenger, freight and charter services. The code share relationship with Calm Air and Canadian North is growing, delivering revenue for Calm Air through channeling traffic between the two carriers. The code share agreement enhances traveler's options and convenience by providing seamless connections across both the Calm Air and Canadian North networks. By channeling the traffic to code share partners, traffic and revenue that would otherwise disperse indiscriminately across a number of competitors is channeled onto Calm Air or Canadian North. Calm Air's and Canadian North's route structures are complementary so there is no revenue or market cannibalism, rather enhanced profitability through carrying passengers that would not otherwise have been carried. In the first quarter, Calm Air dealt with severe weather in both Manitoba and Nunavut. Severe weather is a normal part of the operating environment in the north, however this year has been worse than what is normal resulting in an increased number of cancelled flights over a significant period of time. In March, a week's worth of flying was lost due to warmer than normal temperatures resulting in freezing rain, ice and poor runway conditions. Many weather days in a short period of time often result in passengers cancelling their trip and not rescheduling.

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

Keewatin continues to operate medevac services for the Government of Nunavut in the Kivalliq and Baffin regions of the Territory as well as scheduled service to and from the Territory's Flaherty Island to the hamlet of Sanikiluaq. Keewatin stopped scheduled service to Churchill, Rankin and points within the western coast of Nunavut on September 1, 2011 to focus on their core competencies of medevac and charter services, the components of their business which provides the highest profitability. Keewatin has streamlined its business with the decision to exit the majority of its scheduled flight operations. Medevac flights from Nunavut were uncharacteristically low for the first quarter, however in the latter half of the quarter showed progressive improvement. Keewatin through its exclusive contract with the Government of Nunavut has 100% of all medevac missions for both the Baffin and Kivalliq regions. Keewatin continues to provide Charter services throughout Manitoba and Nunavut.

Perimeter continues to grow existing markets. The growth will require additional aircraft, therefore Perimeter is evaluating a fourth Dash 8 aircraft to provide capacity for its largest market, as well as to capture charter opportunities. Perimeter's market continues to be stable. This quarter marks the beginning of a change in the way medevac transportation is accomplished within the province of Manitoba, the principal market for Perimeter. The Government of Manitoba has chosen to channel all Medevac transportation through a centralized dispatch. This change in method of dispatching carriers is being watched carefully by the Company to ensure Perimeter continues to receive the same amount of calls for medevac. The airline continues to see profitable, sustainable organic growth in its core markets being driven by the larger than average growth rates in the communities it services. For the quarter, Perimeter saw growth in all segments of its business: scheduled, charter, medevac and freight operations. The airline's focused approach to cost containment provides a market advantage which the company continues to share with the communities it serves.

In February, the Company successfully closed its acquisition of Custom Helicopter (announced on January 12). The management team at Custom is continuing on with the daily operations of the business. Prior to the acquisition, Custom operated a fleet of 24 rotor wing aircraft; 23 owned and 1 leased. Since the acquisition, the Company acquired the one leased helicopter from the lessor. In the two months since acquisition, the aircraft has been deployed into the market with much higher utilization, generating more revenue. Additionally, since the acquisition, Custom announced a partnership agreement with the First Nations group, Manitoba Keewatinowi Okimakanak (MKO), which will see Custom provide exclusive helicopter service to the communities represented by MKO. MKO is a non-profit, political advocacy organization providing a collective voice on issues of inherent, Treaty, Aboriginal and human rights for the citizens of the 30 sovereign First Nations in Manitoba. Custom operates intermediate and medium category helicopters on long and short-term contracts for First Nation groups, government agencies, utilities, mining companies as well as other customers. Custom's operating bases are in Winnipeg, Thompson, Gillam and Garden Hill, Manitoba as well as in Rankin Inlet in Nunavut. The acquisition of Custom was immediately accretive to the Company's earnings per share and Free Cash Flow.

Manufacturing Segment

The economic uncertainty across many of the U.S. markets continues into the first half of 2012 however management remains optimistic about the Manufacturing segment. This is a result of the continued strength of the order books coupled with the ongoing bidding opportunities seen within many of its markets.

The previously announced award to WesTower for a turfing contract with AT&T as the primary or secondary provider of infrastructure services in five of the 11 geographical regions in the United States continued to be rolled out during the first quarter. The contract award is for a three-year infrastructure service contract in these regions which began in selected regions late in the fourth quarter of 2011. Although there is no specific dollar amount that is guaranteed as part of the contract award, the Company believes that this will be by far the largest contract awarded to any one of the Company's subsidiaries. The total dollar amount of the awarded contract will depend on AT&T's infrastructure plan, which may vary significantly year to year, including the type, amount, and location of the work. As a result, it is difficult to quantify the financial impact of this contract. However, based on the history of AT&T's infrastructure work over the past number of years, the Company's management believes that the additional revenue potential from this contract could be in excess of $500 million over the three-year term of the contract. This estimate is subject to a number of variables, including the fluid nature of the telecom environment and the ongoing introduction of new technology, both of which could significantly impact AT&T's infrastructure requirements. Accordingly, there can be no assurances of the revenues that will be generated from the contract.

Although revenues from the new award in select markets began late in the fourth quarter 2011, the ramp up throughout the first quarter of 2012 has been slow because AT&T needs to transition from the incumbent to the new turf contractor in many markets. This transition is at different levels, on different timelines and at different milestones in each market adding complexity to the process. While the revenue start-up period began to gain momentum in the later part of the first quarter it is still anticipated that the transition will continue into the second quarter as the contract revenue gains more traction until peaking in the third quarter. Part of this revenue ramp up is due to the turf contractor transition while part of it is the result of normal seasonality of the telecom wireless market. There have been significant start-up costs as WesTower ramps up to provide the required level of service for the turfing contract and management expects this to continue into the second quarter. Management continues to be confident that over the entire year the AT&T turf contract will add significant EBITDA to the Company's consolidated results and will continue to drive the internal growth expected for the Company in 2012.

In addition to the new AT&T contract, WesTower has been actively increasing its activity level on its core business. WesTower continues to position itself as the provider of choice to the telecommunication providers as the infrastructure requirements continue to evolve to meet the demand of the end user.

Ongoing marketing efforts, high quality and service continue to be a priority of Stainless. This, coupled with the quality of bid opportunities, has resulted in a stronger order book. In the fourth quarter of 2011 Stainless received a large field project and as a result experienced increased field activity throughout the first quarter of 2012. This activity is expected to continue into the second quarter. While bid opportunities for these types of field projects are being pursued, there is no guarantee these projects will continue at this level. Management remains aware that the fragile U.S. economy could dampen future sales however management believes the proper steps are being taken to position the order book to mitigate this risk in the short to medium term.

Order books in the Alberta Operations remain strong, driven by a very active local market resulting in many opportunities to bid for quality projects. As stated in prior reporting periods, one significant headwind that continues to put pressure on the Manufacturing segment's ability to maintain costs and deliver an on-time product is the tight labour market in Alberta. The labour market started to tighten in 2011 and this shortage has been more pronounced in our industry so far in 2012. This continues to be management's main challenge in the short term and may put pressure on margins in the Alberta operations as management seeks solutions to the regional labour shortage. The segment's precision metal business in British Columbia continues to generate reliable results.

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited, in thousands of Canadian dollars)

As at	March 31 2012	December 31 2011
ASSETS		
CURRENT		
Cash and cash equivalents	**$ 5,940**	$ 11,475
Accounts receivable	**61,711**	69,172
Costs incurred plus recognized profits in excess of billings (Note 10)	**40,505**	25,913
Inventory	**43,365**	39,853
Prepaid expenses	**7,923**	4,879
	159,444	151,292
CAPITAL ASSETS	**248,031**	220,190
INTANGIBLE ASSETS	**28,859**	23,252
DEFERRED INCOME TAX ASSETS	**15,838**	15,240
GOODWILL	**73,155**	68,427
	$ 525,327	$ 478,401
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	**$ 69,955**	$ 57,726
Income taxes payable	**3,083**	2,654
Deferred revenue	**9,909**	8,909
Billings in excess of costs incurred plus recognized profits (Note 10)	**8,822**	13,489
Current portion of long-term debt and finance leases (Note 6)	**1,050**	1,237
	92,819	84,015
LONG-TERM DEBT AND FINANCE LEASES (Note 6)	**24,658**	47,997
CONVERTIBLE DEBENTURES (Note 7)	**111,547**	115,394
DEFERRED INCOME TAX LIABILITY	**12,054**	5,358
	241,078	252,764
EQUITY		
SHARE CAPITAL (Note 8)	**260,124**	194,049
CONVERTIBLE DEBENTURES - Equity Component (Note 7)	**6,248**	6,516
CONTRIBUTED SURPLUS - Matured Debentures	**102**	102
DEFERRED SHARE PLAN	**1,534**	1,435
RESERVED SHARES	**1,851**	1,851
RETAINED EARNINGS		
Cumulative Earnings	**104,577**	103,667
Cumulative Dividends (Note 9)	**(90,596)**	(83,043)
	13,981	20,624
ACCUMULATED OTHER COMPREHENSIVE INCOME (Note 14)	**409**	1,060
	284,249	225,637
	$ 525,327	$ 478,401

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

Approved on behalf of the directors by:

Duncan Jessiman, Director — *Signed*

Donald Streuber, Director — *Signed*

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

For the three months ended March 31	2012	2011
REVENUE		
Aviation	$ 65,754	$ 61,962
Manufacturing	80,929	16,560
	146,683	78,522
EXPENSES		
Direct operating - excluding depreciation and amortization	49,201	43,116
Cost of goods sold - excluding depreciation and amortization	66,944	10,338
General and administrative	16,477	12,854
Depreciation and amortization	8,946	5,988
	141,568	72,296
EARNINGS BEFORE THE FOLLOWING	5,115	6,226
Finance costs - interest	3,441	2,103
Acquisition costs	376	879
EARNINGS BEFORE INCOME TAXES	1,298	3,244
INCOME TAX EXPENSE (Note 17)		
Current	134	(1)
Deferred	254	1,205
	388	1,204
NET EARNINGS FOR THE PERIOD attributable to common shareholders	$ 910	$ 2,040
EARNINGS PER SHARE (Note 11)		
Basic	$ 0.05	$ 0.13
Diluted	$ 0.05	$ 0.13

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars)

For the three months ended March 31	2012	2011
Attributable to common shareholders		
NET EARNINGS FOR THE PERIOD	$ 910	$ 2,040
OTHER COMPREHENSIVE LOSS,		
Cumulative translation adjustment, net of tax (Note 14)	(651)	(315)
COMPREHENSIVE INCOME FOR THE PERIOD	$ 259	$ 1,725

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited, in thousands of Canadian dollars)

							Retained Earnings			
	Share Capital	Warrants	Convertible Debentures - Equity Component	Contributed Surplus - Matured Debentures	Deferred Share Plan	Reserved Shares	Cumulative Earnings	Cumulative Dividends	Accumulated Other Comprehensive Income/(Loss)	**Total**
Balance, January 1, 2011	$ 148,046	$ 155	$ 3,036	$ 102	$ -	$ -	$ 82,923	$ (55,943)	$ (688)	**$ 177,631**
Shares issued for Bearskin vendors	5,512	-	-	-	-	-	-	-	-	**5,512**
Warrants exercised into shares	3,236	(119)	-	-	-	-	-	-	-	**3,117**
Convertible debentures										
Converted into shares	9,731	-	(600)	-	-	-	-	-	-	**9,131**
Issued	-	-	1,491	-	-	-	-	-	-	**1,491**
Shares issued under dividend reinvestment plan	721	-	-	-	-	-	-	-	-	**721**
Deferred share plan amendment	-	-	-	-	1,070	-	-	-	-	**1,070**
Deferred share vesting	-	-	-	-	108	-	-	-	-	**108**
Comprehensive income	-	-	-	-	-	-	2,040	-	(315)	**1,725**
Dividends declared (Note 9)	-	-	-	-	-	-	-	(6,119)	-	**(6,119)**
Balance, March 31, 2011	**$ 167,246**	**$ 36**	**$ 3,927**	**$ 102**	**$ 1,178**	**$ -**	**$ 84,963**	**$ (62,062)**	**$ (1,003)**	**$ 194,387**
Balance, January 1, 2012	$ 194,049	$ -	$ 6,516	$ 102	$ 1,435	$ 1,851	$ 103,667	$ (83,043)	$ 1,060	**$ 225,637**
Shares issued for Custom vendors (Note 4)	4,241	-	-	-	-	-	-	-	-	**4,241**
Prospectus offering	55,729	-	-	-	-	-	-	-	-	**55,729**
Convertible debentures (Note 7)										
Converted into shares	4,728	-	(268)	-	-	-	-	-	-	**4,460**
Issued	-	-	-	-	-	-	-	-	-	**-**
Shares issued under dividend reinvestment plan	953	-	-	-	-	-	-	-	-	**953**
Shares issued under First Nations community partnership agreements	424	-	-	-	-	-	-	-	-	**424**
Deferred share vesting	-	-	-	-	99	-	-	-	-	**99**
Comprehensive income	-	-	-	-	-	-	910	-	(651)	**259**
Dividends declared (Note 9)	-	-	-	-	-	-	-	(7,553)	-	**(7,553)**
Balance, March 31, 2012	**$ 260,124**	**$ -**	**$ 6,248**	**$ 102**	**$ 1,534**	**$ 1,851**	**$ 104,577**	**$ (90,596)**	**$ 409**	**$ 284,249**

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of Canadian dollars)

For the three months ended March 31	2012	2011
OPERATING ACTIVITIES		
Net earnings for the year	$ 910	$ 2,040
Items not affecting cash:		
Depreciation and amortization	8,946	5,988
Accretion of interest	595	420
Long-term debt discount (paid) accretion	58	-
Foreign exchange (gain) / loss on debt (unrealized)	(68)	21
Loss / (gain) on sale of disposal of capital assets	(3)	(146)
Deferred income tax	254	1,205
Deferred share program share-based vesting	99	108
	10,791	9,636
Changes in non-cash operating w orking capital items (Note 15)	(3,891)	1,140
	6,900	10,776
FINANCING ACTIVITIES		
Proceeds from (repayment of) long-term debt & finance leases, net of issuance costs	(24,143)	(28,163)
Proceeds from issuance of debentures, net of issuance costs	-	33,129
Proceeds from issuance of shares, net of issuance costs	56,512	3,838
Cash dividends (Note 9)	(7,553)	(6,119)
	24,816	2,685
INVESTING ACTIVITIES		
Purchase of capital assets, net of disposals	(12,996)	(8,776)
Purchase of intangible assets	(2,340)	(20)
Cash outflow for acquisitions (Note 4)	(24,067)	(27,625)
Restricted cash	-	27,625
Cash acquired in acquisitions (Note 4)	2,152	2,604
	(37,251)	(6,192)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,535)	7,269
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	11,475	1,471
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 5,940	$ 8,740
Supplementary cash flow information on operating activities:		
Interest paid	$ 1,301	$ 1,357
Income taxes paid (recovery)	$ 1,213	$ (7)

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

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

1. ORGANIZATION

Exchange Income Corporation ("EIC" or the "Company") is a diversified, acquisition-oriented corporation focused on opportunities in the Manufacturing and Aviation segments. The business plan of the Company is to invest in profitable, well-established companies with strong cash flows operating in niche markets in Canada and/or the United States. The Company is incorporated in Canada and the address of the registered office is 1067 Sherwin Road, Winnipeg, Manitoba, Canada R3H 0T8.

As at March 31, 2012, the principal wholly-owned operating subsidiaries of the Company are Perimeter Aviation LP ("Perimeter"), Keewatin Air LP ("Keewatin"), Calm Air International LP ("Calm Air"), Bearskin Lake Air Service LP ("Bearskin"), Custom Helicopters Ltd. ("Custom"), 4873999 Manitoba Ltd., 7328010 Canada Ltd., Overlanders Manufacturing LP ("Overlanders"), Water Blast Manufacturing LP ("Water Blast"), WesTower Communications Ltd. ("WesTower CDA") and EIIF Management USA Inc. ("EIIF USA"). Stainless Fabrication, Inc. ("Stainless") and WesTower Communications Inc. (the US operations of WesTower – "WesTower US") are wholly owned subsidiaries of EIIF USA. Through the Company's subsidiaries, products and services are provided in two business segments: Aviation and Manufacturing.

2. BASIS OF PREPARATION

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

These interim condensed consolidated financial statements are for the three months ended March 31, 2012, and have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

The policies applied in these interim condensed consolidated financial statements are based on IFRS's issued and outstanding as of the approval date of these financial statements, which were approved by the Board of Directors of the Company for issue on May 8, 2012.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

b) *Intangible Assets*
As a result of the transactions described in Note 5, the Company recognized an intangible asset associated with the new lease agreement for a section of land at the James Armstrong Richardson International Airport in Winnipeg. This is considered an intangible asset with a finite life and will be amortized on a straight-line basis over the 40 year term of the lease.

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

4. ACQUISITIONS

Acquisition of Custom Helicopters

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

The results of operations are included in the Company's consolidated interim statement of operations for the Aviation segment for the period since the date of acquisition. During the first quarter of 2012, Custom contributed third party revenues of $2,485, a loss before income tax of $25 and total assets of $37,963.

The acquisition price of $28,175 was funded through a combination of $23,934 of debt financing from the Company's credit facility and the issuance of the Company's common shares worth $4,241 to the vendors of Custom (170,121 shares). The shares issued were valued in the purchase consideration at the market price of the Company's stock on the closing date.

The agreed working capital is preliminary and the Company plans to finalize it during the third quarter of 2012.

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

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

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

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

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

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

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

5. INTANGIBLE ASSETS & GOODWILL

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

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

6. LONG-TERM DEBT AND FINANCE LEASES

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

	March 31 2012	December 31 2011
Revolving term facility		
Canadian dollar amounts drawn	$ 2,000	$ 25,000
United States dollar amounts drawn (US$21,450 outstanding)	21,430	21,815
Total credit facility debt outstanding, principal value	23,430	46,815
less: unamortized transaction costs	(646)	(707)
less: unamortized discount on outstanding BA's	-	(58)
Net credit facility debt	22,784	46,050
Finance leases	2,924	3,184
Total net credit facility debt and finance leases	25,708	49,234
less: current portion of finance leases	(1,050)	(1,237)
Long-term debt and finance leases balance	$ 24,658	$ 47,997

The Company had US $21,450 drawn from the U.S. dollar portion of its credit facility at March 31, 2012 and December 31, 2011.

Transaction costs of $62 were incurred in the first quarter of 2012 associated with the acquisition of Custom (Note 4) and the amendment to the Company's credit facility to include it as security. Interest expense recorded during the three months ended March 31, 2012 for the long-term debt and finance leases was $983 (2011 – $530).

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

Credit Facility

The following is the continuity of long-term debt for the three months ended March 31 2012:

	Three months ended March 31, 2012				
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar portion	$ 25,000	$ 27,000	$ (50,000)		$ 2,000
United States dollar portion	21,815			(385)	21,430
	46,815	27,000	(50,000)	(385)	23,430
Unamortized transaction costs	(707)				(646)
Unamortized discount on outstanding BA's	(58)				-
	$ 46,050	$ 27,000	$ (50,000)	$ (385)	$ 22,784

The Company withdrew US $17,500 from the credit facility subsequent to the end of the period for use in the operations of WesTower USA.

7. CONVERTIBLE DEBENTURES

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

Summary of the debt component of the convertible debentures:

	2012 Balance, Beginning of Period	Debentures Issued	Accretion Charges	Debentures Converted	Repaid on Maturity	2012 Balance, End of Period	December 31, 2011 Balance
Series F	1,181	-	3	(14)	-	1,170	1,181
Series G	7,520	-	10	(939)	-	6,591	7,520
Series H	25,659	-	39	(3,504)	-	22,194	25,659
Series I	33,161	-	96	(24)	-	33,233	33,161
Series J	53,178	-	102	(19)	-	53,261	53,178
						116,449	120,699
less: unamortized transaction costs						(4,902)	(5,305)
Convertible Debentures - Debt Component, end of period						111,547	115,394
less: current portion						-	-
Convertible Debentures - Debt Component (long-term portion)						$ 111,547	$ 115,394

During the three months ended March 31, 2012 convertible debentures totaling a face value of $4,829 were converted at various times into 260,470 Shares of the Company (2011 – $9,915 face value into 693,383 Shares). Interest expense recorded during the three months ended March 31, 2012 for the convertible debentures was $2,458 (2011 – $1,573).

Convertible Debentures Equity Component

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

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

Summary of the equity component of the convertible debentures:

	March 31 2012	December 31 2011
Series F - 2009	63	63
Series G - 2009	299	355
Series H - 2010	1,260	1,469
Series I - 2011	1,490	1,492
Series J - 2011	3,136	3,137
Convertible Debentures - Equity Component, end of period	$ 6,248	$ 6,516

8. SHARE CAPITAL

Changes in the Shares issued and outstanding during the three months ended March 31, 2012 are as follows:

		2012
	Number of shares	Amount
Share capital, beginning of period	17,399,182	$ 194,049
Issued upon conversion of convertible debentures	260,470	4,728
Issued for Custom vendors (Note 4)	170,121	4,241
Issued under First Nations community partnership agreements	23,500	424
Prospectus offering, March 2012	2,324,150	55,729
Issued under dividend reinvestment plan (DRIP)	38,944	953
Share capital, end of period	20,216,367	$ 260,124

During the three months ended March 31, 2012, the Company closed a bought-deal offering of its common stock on March 6, 2012. The prospectus resulted in the Company issuing 2,324,150 of its Shares and the Company obtained $57,523 of gross proceeds. Costs incurred in association with the offering were $2,435 ($1,794 net of tax).

9. DIVIDENDS DECLARED

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

Cumulative dividends during the three months ended March 31, 2012 and the comparative 2011 period are as follows:

Three months ended March 31	2012	2011
Cumulative dividends, beginning of period	$ 83,043	$ 55,943
Dividends during the period	7,553	6,119
Cumulative dividends, end of period	$ 90,596	$ 62,062

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

The amounts and record dates of the dividends during the three months ended March 31, 2012 and the comparative 2011 period are as follows:

			2012 Dividends			2011 Dividends
Month	Record date	Per Share	Amount	Record date	Per Share	Amount
January	January 31, 2012	$ 0.135	$ 2,390	January 31, 201	$ 0.13	$ 2,006
February	February 29, 2012	0.135	2,423	February 28, 2011	0.13	2,049
March	March 30, 2012	0.135	2,740	March 31, 2011	0.13	2,064
Total		$ 0.405	$ 7,553		$ 0.39	$ 6,119

Subsequent to March 31, 2012 and before these consolidated interim financial statements were authorized, the Company declared a dividend of $0.135 per share for April 2012.

10. SEGMENTED INFORMATION

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

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

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

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

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

				Three months ended March 31, 2012				Three months ended March 31, 2011
	Aviation	Manufacturing	Company	Consolidated	Aviation	Manufacturing	Company	Consolidated
Revenue	$ 65,754	$ 80,929	$ -	$ 146,683	$ 61,962	$ 16,560	$ -	$ 78,522
EBITDA	8,569	7,135	(1,643)	14,061	10,877	3,008	(1,671)	12,214
Depreciation and amortization				8,946				5,988
Finance costs - interest				3,441				2,103
Acquisition costs				376				879
Earnings before tax				$ 1,298				$ 3,244

				March 31, 2012				December 31, 2011
	Aviation	Manufacturing	Company	Consolidated	Aviation	Manufacturing	Company	Consolidated
Total assets	$ 278,663	$ 173,652	$ 73,012	$ 525,327	$ 236,538	$ 171,460	$ 70,403	$ 478,401
Net capital asset additions	11,799	1,078	119	12,996	38,880	3,064	85	42,029
Goodwill	25,996	47,159	-	73,155	20,783	47,644	-	68,427
Total liabilities	49,988	34,783	156,307	241,078	39,108	39,884	173,772	252,764

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

The following is the geographic breakdown of revenues for the three months ended March 31, 2012 and the 2011 comparative period, based on location of the customer, and the capital assets and goodwill as at the balance sheet dates:

Three months ended March 31		2012		2011
Canada	$	101,605	$	71,221
United States		45,078		7,301
Total revenue for period	$	146,683	$	78,522

	As at March 31, 2012				As at December 31, 2011			
	Capital Assets		Goodwill		Capital Assets		Goodwill	
Canada	$	240,934	$	46,013	$	212,917	$	40,800
United States		7,097		27,142		7,273		27,627
	$	248,031	$	73,155	$	220,190	$	68,427

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

Percentage of Completion Revenues

The operations of Stainless and WesTower within the Manufacturing segment have long-term contracts where revenues are recognized on a percentage-of-completion basis. The percentage complete is calculated based upon contract costs incurred to date compared with total estimated contract costs. The percentage complete is then applied to total anticipated contract revenue to determine the period's revenue. A provision for the estimated loss is made when contract costs are expected to exceed estimated contract revenue. During the three months ended March 31, 2012, the Company recognized revenue on these types of long-term contracts totaling $68,880 (2011 – $7,242).

The following summarizes the costs and estimated earnings on uncompleted contracts as of March 31, 2012:

As at March 31		2012
Costs incurred on uncompleted contracts	$	150,130
Estimated earnings		37,943
	$	188,073
less: Billings to date		(156,390)
Total	$	31,683
Costs incurred plus recognized profits in excess of billings	$	40,505
Billings in excess of costs incurred plus recognized profits		(8,822)
Total	$	31,683

11. EARNINGS PER SHARE

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

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

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

The computation for basic and diluted earnings per share for the three months ended March 31, 2012 and comparative period in 2011 are as follows:

Three months ended March 31		2012		2011
Net earnings for the period, available to common shareholders	$	910	$	2,040
Dilutive effect of convertible debentures		1,794		1,163
Add back impact from anti-dilutive factors		(1,794)		(1,156)
Dilutive effect of warrants		-		-
Diluted earnings for the period	$	910	$	2,047
Basic weighted average number of shares		18,451,409		15,492,296
Dilutive effect of convertible debentures		5,100,877		4,190,164
Add back impact from anti-dilutive factors		(5,100,877)		(4,114,569)
Dilutive effect of warrants		-		47,513
Diluted basis average number of shares		18,451,409		15,615,404
Earnings per share:				
Basic	$	0.05	$	0.13
Diluted	$	0.05	$	0.13

12. DEFERRED SHARE PLAN

During the first quarter of 2012 the Company granted deferred shares to certain personnel. The fair value of the deferred shares granted was $472 at the time of the grant and was based on the market price of the Company's shares at that time. During the three months ended March 31, 2012, the Company recorded compensation expense of $99 for the Company's Deferred Share Plan within the general and administrative expenses of head-office (2011 –$108).

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Market Risk

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

Currency Risk

The Company has US $21,450 outstanding on its credit facility (Canadian equivalent of $21,431). The outstanding funds in USD results in currency risk that the future cash flows will fluctuate with the changes in market currency rates. The exposure for the USD portion of its credit facility outstanding is offset by the cash generated through the operations of its Manufacturing segment subsidiaries, in particular, the operations of WesTower US and Stainless throughout the United States. The Company has no outstanding derivative instruments to reduce its exposure to the currency risk.

The Company also recorded a currency translation loss of $651 (2011 – loss of $315) in Other Comprehensive Income as described below in Note 14.

Interest Rates

The Company is subject to the risk that future cash flows associated with the credit facility outstanding (Note 6) 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.

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

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, 2012, $2,000 was outstanding under Canadian Prime and US $21,450 was outstanding under US LIBOR.

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

14. OTHER COMPREHENSIVE INCOME (LOSS)

During the three months ended March 31, 2012 the Company had other comprehensive loss of $651 (net of $52 tax) that relates to foreign currency translation adjustments of the operations of Stainless and the US operations of WesTower from US dollars to the Canadian dollar reporting currency (2011 – loss of $315, net of $29 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.

15. CHANGES IN WORKING CAPITAL ITEMS

The changes in non-cash operating working capital items during the three months ended March 31, 2012 and the comparative period in 2011 are as follows:

Three months ended March 31	2012	2011
Accounts receivable	$ 9,186	$ (4,561)
Costs incurred plus recognized profits in excess of billings	(14,592)	-
Inventory	(2,388)	(3,901)
Prepaid expenses	(2,818)	(405)
Accounts payable and accrued charges	11,792	9,112
Income taxes payable	(1,286)	(5)
Deferred revenue	1,000	990
Billings in excess of costs incurred plus recognized profits	(4,667)	-
Foreign currency adjustments	(118)	(90)
Net change in working capital items	$ (3,891)	$ 1,140

16. CAPITAL MANAGEMENT

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

The Company's objective in managing capital is to:

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

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

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

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

		March 31 2012		December 31 2011
Total senior debt outstanding, principal value	$	23,430	$	46,815
Convertible debentures outstanding, face value		124,235		129,064
Shares		260,124		194,049
Reserved shares		1,851		1,851
Total capital	$	409,640	$	371,779

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

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

Changes in the capital of the Company over the three months ended March 31, 2012 are mainly attributed to the Company's collecting proceeds from its March 2012 Shares offering and using the majority of the net proceeds as a repayment against its outstanding credit facility balance after acquiring Custom.

17. INCOME TAX

Income tax expense is recognized based on management's best estimate of the weighted annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period. The company's consolidated effective tax rate for the three months ended March 31, 2012 was 29.2% (three months ended March 31, 2011: 37.1%). The change in the effective tax rate is detailed in the following table:

Three months ended March 31		2012		2011
Earnings before provision for income taxes	$	1,298	$	3,244
Combined Canadian federal and provincial tax rates		27.0%		28.5%
Income tax expense at statutory rates	$	350	$	925
Increase (decrease) in taxes resulting from:				
Permanent differences		177		266
Change in effective rate		(217)		(69)
Impact of foreign tax rate differences		26		45
Other		52		37
Provision (recovery) for income taxes	$	388	$	1,204