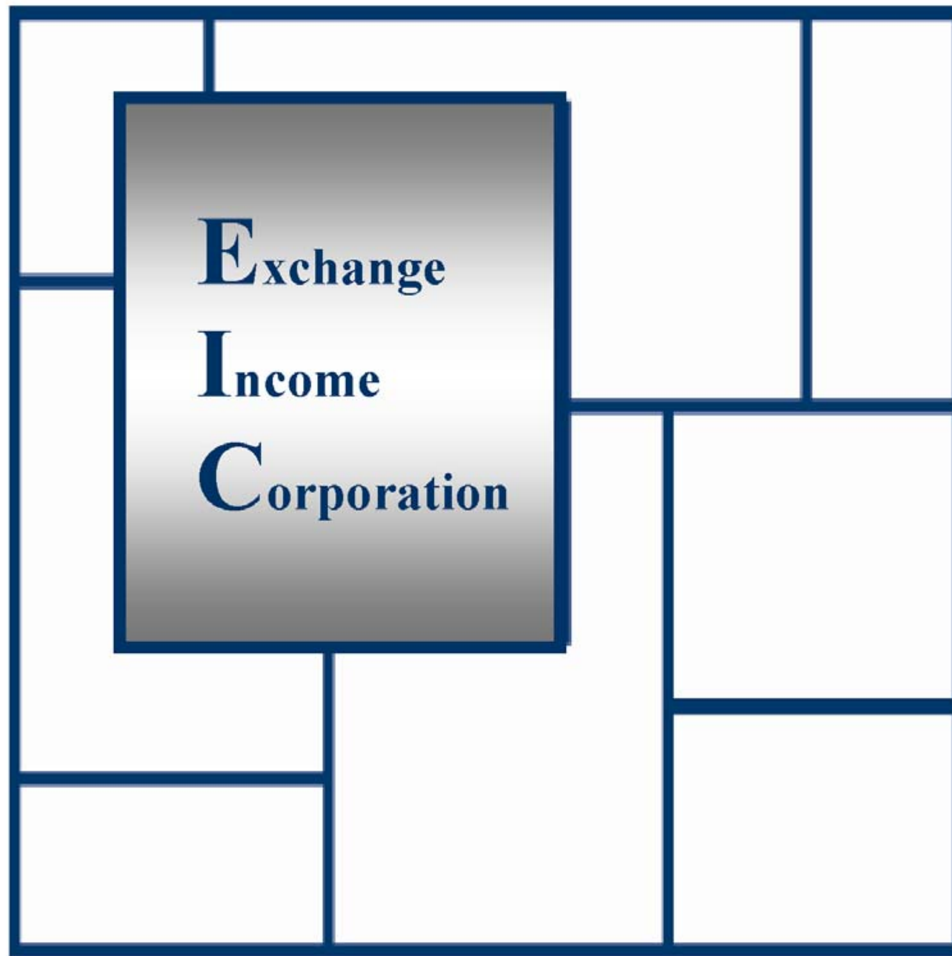


Third Quarter Report

For the three and nine months ended September 30, 2017

CEO's Message

I am very happy to report that our third quarter has again demonstrated that the consistent implementation of our strategy of accretive investment in acquisitions and expanding our operations produces reliable, growing and profitable results. With significant growth in revenue, EBITDA, Earnings and, most importantly, Net Earnings per share, the Company continues along the path of growth that we have demonstrated for over a decade. The plan we undertook to overhaul our aircraft in the slower first and second quarters of the year bore fruit in the third quarter, as our aircraft were exceptionally busy with fire evacuation and related activities and enabled us to meet the needs of our customers in a stressful period. This consistent long-term strategy and decision-making is the hallmark of EIC and we will not sacrifice the long term success of the Company for the sake of short-term results.

Third Quarter Highlights

- Revenue grew by 13% to $253.4 million
- EBITDA increased by 20% to $72.0 million
- Net Earnings rose 16% to $23.9 million, Adjusted Net Earnings rose 11% to $25.7 million
- On a per share basis Net Earnings increased 8% to $0.78, Adjusted Net Earnings increased 4% to $0.84
- Free Cash Flow was $55.8 million, an increase of 22%
- Free Cash Flow less Maintenance Capital Expenditures was $36.0 million, up 36%
- Payout ratio as a percentage of Free Cash Flow less Maintenance Capital Expenditures was 45%, the lowest level since the Corporation converted from an income trust
- Payout ratio as a percentage of Net Earnings was 67%; payout ratio as a percentage of Adjusted Net Earnings was 63%

The year over year increase in Net Earnings reflects the impact of the strategic and tactical decisions the Corporation has made to position itself to capitalize on opportunities when they arise. By performing the majority of our heavy maintenance overhauls in the first half of the year, we were able to have aircraft available when they were required, sometimes with little notice, in our seasonally busiest quarter. Additionally, the investments we have made in our subsidiaries to increase volumes and expand our footprint have driven improved results.

While EBITDA and Net Earnings grew significantly, our payout ratio for the quarter also improved even more dramatically to 45%, the lowest quarterly ratio since we converted to a corporation from an income trust eight years ago. This is an improvement from 54% a year ago and has been driven by enhanced profitability. The payout ratio as a percentage of Net Earnings also declined to 67% for the quarter. This per share improvement comes in spite of a significant increase in the number of shares which resulted from the share offering which closed in January of this year. It is important to note that the trailing twelve month payout ratio of 73% provides further evidence of the strength of our business model.

There is a tendency for people to look at our results and simply see a company that is successfully growing through prudent acquisitions and investments. The strength of diversification is sometimes overlooked, but the success of the third quarter is a testament to its importance, as we were able to achieve these results even though some of our operations were faced with very real challenges. I believe that EIC's success is also due to the resilience of our various operations and their ability to adapt to changing, and sometimes difficult, circumstances. For example, WesTower is adapting to a cyclical reduction in demand for its traditional services by making inroads into the areas where telecommunications companies are spending capital and by developing markets for new products and services to support the existing infrastructure in its traditional markets and product/service offerings.

The hurricanes that hit the United States in August and September caused historic levels of damage in the southern U.S. and EIC was not immune to their impact. Our Regional One operations are located in Miami and Jacksonville, Florida and both were closed for periods of time. In addition, Stainless was working on major projects in Florida and the Carolinas which were also forced to shut down for an extended period due to the hurricanes, causing a delay in operations and incurring additional costs. We did not incur any material damage and, more importantly, we are grateful that all of our employees remained safe throughout the hurricanes.

When looking at the year over year increases in revenue, EBITDA, Earnings and Earnings per share, I think it is important not to lose sight of the fact that these results were achieved even with a strengthening Canadian dollar. The nearly 4% rise in the average exchange rate for the third quarter of 2017 compared to that in 2016 muted the reported Canadian dollar values of our US operations.

One aspect of our business of which I am particularly proud is our willingness, desire and ability to respond when communities that we serve are impacted by forces of nature or other types of disasters. Forest fires in northern Manitoba forced the evacuation of four

First Nation communities and Perimeter, Calm and Bearskin responded by providing aircraft for the evacuations, working alongside the Canadian military and our Custom Helicopter division, transporting equipment and personnel needed to fight the blazes and maintain the existing infrastructure. When the danger had passed, EIC was the primary supplier of aircraft to repatriate these people to their communities, taking them home and providing needed supplies. All of this disrupted our scheduled services and increased costs, however, this is the reality of operating in isolated communities. Our First Nations clients are more than customers; they are our partners and stakeholders so we were pleased to be there to help them when they needed it. As a side note, we would not have been able to carry out these operations had we not undertaken all of our aircraft overhauls in the first half of the year, maximizing our capacity in this very busy time.

In the Caribbean, PAL Aerospace provides aircraft and pilots to the Dutch coast guard and our crews were among the first to witness the devastation caused by the hurricanes in the Caribbean as they flew important reconnaissance missions over Barbuda, St. Barts, Saba, St. Eustatius and St. Maarten. These assets were also used to ferry supplies for the residents of the islands as well as for transporting Dutch marines to the islands to help in the rescue and recovery efforts.

We have just completed the first year of our program where we partnered with the Winnipeg Blue Bombers Football Club and Victoria Inn Hotels to bring approximately 50 First Nations children and chaperones to each Blue Bomber home game. For many of these children it is the first time they have ever left their community. The response has been truly exceptional and we recently announced that we will continue the program in 2018. We also announced the second part of the program, which will occur in the 2017/2018 offseason. We will be bringing members of the Blue Bombers to the communities so those who did not get to travel to a game this year will get to meet their favourite Bomber players. TSN did a feature on this program and the link is set out below. I would encourage you to take a look at it because it provides a great insight into the program and the communities we service.

http://www.tsn.ca/cfl/video/bombers-give-back-to-first-nation-youth~1226576

We are excited as we head into the fourth and final quarter of our year. Operationally, it is always the most challenging for our Legacy Airlines as we deal with the shift from fall to winter in our northern aviation operations. The government owned and operated airports do not have instrument landing equipment and as such we are reliant on visibility to land and take off. Before the many northern lakes freeze, they are prone to fogging as they cool, which can result in flight delays and cancellations. While we cannot control the weather, we have made significant investments in our fleet to tackle these challenges when they occur and to minimize disruptions to our clients.

Two of our growth initiatives go online in the fourth quarter. We begin work under our new medevac contract in the Kitikmeot region of Nunavut. We look forward to delivering the high level of service that Keewatin is known for in the balance of the Territory of Nunavut. Our short term deployment maritime surveillance demonstrator aircraft makes its world debut next week at the Dubai Air Show in the Middle East. We are excited to demonstrate its capabilities and being ready for deployment anywhere in the world on a moment's notice.

Our acquisition pipeline in Canada is strong and we are in negotiation on potential acquisitions. All of the opportunities are based in Canada and would fit in our existing operating segments. While we have not yet reached the stage where we can report anything to you, we are cautiously optimistic we will be successful, perhaps during the fourth quarter.

EIC has a long track record of profitable growth and reliable dividends to our shareholders. We are proud of what has been accomplished and remain committed to our strategy of disciplined growth through accretive acquisitions and investment in our existing operations for one simple reason – it works! Our strategy has been clear and unchanged since our inception. We are committed to remaining true to it in the future.

Over the last several months, there has been volatility in our share price as a result of the short and distort campaign. We have always been of the view that results speak louder than words. The last two quarters have been, by all objective standards, the best in our history. Stocks are ultimately valued based on the earnings they generate and we are just fine with that. I want to thank all of our stakeholders who have remained committed to our company during this time.

Thanks again for your support and I look forward to speaking again early in the new year when we report our 2017 results.

Mike Pyle
Chief Executive Officer

November 8, 2017

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. All statements other than statements of historical fact contained in this Management's Discussion and Analysis ("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 Exchange Income Corporation 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 report. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. Readers of this 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 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 Exchange Income Corporation, 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 report are made as of the date of this report or such other date specified in such statement. Except as required by Canadian Securities Law, the Corporation does not undertake to update any forward-looking statements.

INTRODUCTION

This MD&A supplements the unaudited interim condensed consolidated financial statements and related notes for the three and nine months ended September 30, 2017 ("Consolidated Financial Statements") of Exchange Income Corporation ("EIC" or "the Corporation"). All amounts are stated in thousands of Canadian dollars, except per share information and share data, unless otherwise stated.

This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Corporation for the three and nine months ended September 30, 2017, its annual financial statements for the year ended December 31, 2016 and its annual MD&A for the year ended December 31, 2016. The interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of financial statements.

1. FINANCIAL HIGHLIGHTS

The financial highlights for the Corporation for the periods indicated are as follows:

FINANCIAL PERFORMANCE	2017	per share basic	per share fully diluted	2016	per share basic	per share fully diluted
For the three months ended September 30						
Revenue	$ 253,367			$ 224,620		
EBITDA(1)	71,964			60,012		
Net earnings	23,902	$ 0.78	$ 0.72	20,581	$ 0.72	$ 0.67
Adjusted net earnings(1)	25,716	0.84	0.77	23,127	0.81	0.74
Free Cash Flow(1)	55,849	1.81	1.58	45,873	1.60	1.37
Free Cash Flow less maintenance capital expenditures(1)	35,976	1.17	1.05	26,484	0.93	0.84
Free Cash Flow less maintenance capital expenditures payout ratio(1)		45%	50%		54%	60%
Dividends declared	16,152	0.525		14,366	0.5025	
For the nine months ended September 30						
Revenue	$ 749,040			$ 669,369		
EBITDA(1)	185,383			161,271		
Net earnings	55,240	$ 1.78	$ 1.71	47,668	$ 1.70	$ 1.64
Adjusted net earnings(1)	57,467	1.86	1.77	55,523	1.99	1.87
Free Cash Flow(1)	141,369	4.56	4.01	123,446	4.41	3.83
Free Cash Flow less maintenance capital expenditures(1)	64,198	2.07	1.95	68,761	2.46	2.26
Free Cash Flow less maintenance capital expenditures payout ratio(1)		76%	81%		60%	65%
Dividends declared	48,797	1.575		41,463	1.4775	
FINANCIAL POSITION	September 30, 2017			December 31, 2016		
Working capital	$ 200,431			$ 178,492		
Capital assets	778,253			693,993		
Total assets	1,559,069			1,424,532		
Senior debt and finance leases	498,017			446,329		
Equity	550,794			486,137		
SHARE INFORMATION	September 30, 2017			December 31, 2016		
Common shares outstanding	30,652,543			28,793,354		
	September 30, 2017			September 30, 2016		
Weighted average shares outstanding during the year - basic	30,971,123			27,967,268		

(1) As defined in *Section 13 – Non-IFRS Financial Measures*.

2. OVERVIEW

EXCHANGE INCOME CORPORATION

The Corporation is a diversified, acquisition-oriented corporation focused on opportunities in aerospace and aviation services and equipment, and manufacturing. The business plan of the Corporation is to invest in profitable, well-established companies with strong cash flows operating in niche markets. The objectives of the Corporation are:

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

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

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

Segment Summary

The Corporation's operating segments are strategic business units that offer different products and services. The Corporation has two operating segments: Aerospace & Aviation and Manufacturing.

(a) **Aerospace & Aviation –** includes a variety of operations within the aerospace and aviation industries. It includes providing scheduled airline and charter service and emergency medical services to communities located in Manitoba, Ontario and Nunavut. These services are provided by: **Calm Air**, **Perimeter**, **Keewatin**, **Bearskin**, **Custom Helicopters**, and other aviation supporting businesses ("the **Legacy Airlines**"). **Regional One** is focused on supplying regional airline operators around the world with various after-market aircraft, engines, and component parts. **Provincial** provides scheduled airline and charter service in Newfoundland and Labrador, Quebec, New Brunswick and Nova Scotia and through its aerospace business Provincial designs, modifies, maintains and operates custom sensor equipped aircraft. Provincial has maritime surveillance and support operations in Canada, the Caribbean and the Middle East. Together all of these operations make up the Aerospace & Aviation segment. To assist in further explaining the results of the segment, the Corporation may refer to the Legacy Airlines, Regional One and Provincial.

(b) **Manufacturing –** provides a variety of manufactured goods and related services in a number of industries and geographic markets throughout North America. The operations of **WesTower** are focused on the engineering, design, manufacturing and construction of communication infrastructure and provision of technical services. **Stainless** manufactures specialized stainless steel tanks, vessels and processing equipment. **Ben Machine** is a manufacturer of precision parts and components primarily used in the aerospace and defence sector. The **Alberta Operations** manufactures specialized heavy duty pressure washing and steam systems, commercial water recycling systems and custom tanks for the transportation of various products, primarily oil, gasoline and water. **Overlanders** manufactures precision sheet metal and tubular products.

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

SIGNIFICANT EVENTS

Bought Deal Financing of Common Shares

On January 4, 2017, the Corporation closed the bought deal financing of common shares, resulting in the issuance of 2,303,450 shares of the Corporation at $42.45 per share. This includes the full exercise of an overallotment option to purchase 300,450 shares, representing 15% of the size of the offering. The net proceeds of the offering were $93.0 million and were used to make a repayment against the Corporation's credit facility.

Amended Credit Facility

During the first quarter, the Corporation amended its credit facility to increase its size and extend its term. The amendments included increasing the credit available to $695 million allocated to the Corporation's Canadian head office and US $55 million allocated to EIIF Management USA Inc., which is an aggregate increase of $200 million over the Corporation's previous credit facility. Two banks were added to the syndicate and the maturity was extended to March 2021. The Corporation amends and extends its facility on a regular basis to continuously have a maturity that extends at least three years and to increase the size of its facility to correspond to the increasing size of the Corporation.

Air Borealis

On June 16, 2017 it was announced that Provincial would be expanding its Labrador indigenous partnership to include both the Innu and Inuit under a new brand, Air Borealis. For nearly 20 years Provincial has been partnered with the Innu (Innu Development Limited

Partnership) alone through Innu Mikun while the Inuit (Nunatsiavut Group of Companies) provided competing air service in Labrador through Air Labrador. Prior to this transaction, Air Labrador ceased operations. Air Borealis is equally owned by PAL Airlines, The Innu Development Limited Partnership and the Nunatsiavut Group of Companies and is managed by Provincial. Air Borealis with its fleet of Twin Otter aircraft provides vital air service to all of coastal Labrador communities previously served by Innu Mikun and Air Labrador and will now have seamless through traffic on the PAL Airlines' network. PAL Airlines also provides Air Borealis any needed air service requiring larger gauge aircraft. In conjunction with the transaction PAL Airlines launched service to seven new destinations on the Quebec North Shore.

Normal Course Issuers Bid ("NCIB")

During the year through its NCIB, the Corporation purchased a total of 612,480 shares for cancellation. The Corporation paid $19.4 million for these shares, representing an average purchase price of $31.67 per share. The Corporation believes that the underlying performance of its businesses is not fully reflected in its share price, making the share buyback an accretive use of capital.

Kitikmeot Contract Award

During the first quarter, Keewatin was awarded the five year medevac contract for the Kitikmeot region of Nunavut. As a result of this award, Keewatin now has all three regions of Nunavut under contract, further establishing Keewatin as the preeminent northern medevac provider. Services under the contract will begin in December 2017.

Re-Marketing Agreement with Bombardier

As announced in the Corporation's 2016 annual report, the Corporation entered into an agreement with Bombardier Commercial Aircraft Asset Management for the purchase of 13 previously owned CRJ900 aircraft. During the second quarter, the Corporation took delivery of the last of the CRJ900 aircraft. Regional One, pursuant to the agreement, continues to have the opportunity to acquire additional aircraft. These aircraft were purchased as part of the Corporation's expansion of its leasing business into Ireland.

3. KEY PERFORMANCE INDICATORS

The following section will quantify and analyze the key performance indicators of the Corporation. The Corporation 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 Corporation's performance.

The EBITDA, Free Cash Flow, Free Cash Flow less maintenance capital expenditures, Net Earnings and Adjusted Net Earnings generated from operations are important performance measures that are used by management to evaluate the performance of the Corporation.

EBITDA *(Section 13 – Non-IFRS Financial Measures)*

The following reconciles earnings before income taxes to EBITDA. Further discussion and analysis of EBITDA for the periods can be found in *Section 4 – Analysis of Operations*.

EBITDA	Three Months Ended		Nine Months Ended	
periods ending September 30	**2017**	2016	**2017**	2016
Earnings before income taxes	$ **32,593**	$ 28,730	$ **76,254**	$ 69,086
Depreciation of capital assets	**27,939**	20,823	**81,587**	60,326
Amortization of intangible assets	**2,460**	2,827	**7,990**	8,498
Finance costs - interest	**8,954**	7,132	**24,833**	22,489
Acquisition costs	**18**	500	**304**	872
Gain on disposal of partnership interest in Innu Mikun	**-**	-	**(5,585)**	-
	$ **71,964**	$ 60,012	$ **185,383**	$ 161,271

Three Month EBITDA

The EBITDA generated by the Corporation during the current quarter was $72.0 million, an increase of $12.0 million or 20% over the comparative period. The Aerospace & Aviation segment contributed an additional $14.6 million over the prior period. The Manufacturing segment saw EBITDA decline by $0.8 million from the prior period and head office costs increased by $1.8 million over the prior period.

The increase in EBITDA generated by the Aerospace & Aviation segment is attributable in part to investments previously made by the Corporation across the segment. This is most evident in the performance of Regional One which grew its EBITDA by 35% as a result of increased parts sales and lease revenue. Our Legacy Airlines' operations within Nunavut have experienced growth as a result of

the previous investments in the Kivalliq region. Increased fire suppression drove higher EBITDA in the rotary wing operations. Provincial generated stronger EBITDA as a result of improved yields and increased volumes within its airline operations.

The Manufacturing segment experienced higher contributions from all subsidiaries with the exception of WesTower. WesTower's results continue to be impacted by the sustained cyclical impact of cellular carriers' reduced capital spending in WesTower's traditional services as they prepare for the transition to next generation technologies.

The Corporation's US dollar based operations (Regional One and Stainless) were impacted by changes in the average exchange rate compared to the prior period. The Canadian dollar strengthened by more than 4%, resulting in an EBITDA decrease on the translation of foreign subsidiaries of $1.2 million if exchange rates of the prior period were used to convert current period EBITDA.

Nine Month EBITDA

The EBITDA generated by the Corporation during nine months ended September 30, 2017 was $185.4 million, an increase of $24.1 million or 15% over the comparative period. The Aerospace & Aviation segment contributed an additional $29.7 million over the prior period. The Manufacturing segment saw EBITDA decline by $2.5 million from the prior period and head office costs increased by $3.1 million over the prior period.

Consistent with the three month discussion, the investments previously made by the Corporation throughout the Aerospace & Aviation segment are the primary contributor to the increase in EBITDA generated by the segment, particularly at Regional One which grew its EBITDA by 49% as a result of its larger portfolio of leased assets. In addition to a strong third quarter, the Legacy Airlines' operations in Nunavut have contributed significantly higher EBITDA compared to the first nine months of 2016. The increase in EBITDA generated was muted slightly by the planned increase in third party charter costs early in 2017 as a result of management's decision to internalize previously outsourced large aircraft maintenance work and concentrate that work early in the year during the Corporation's slow season.

Consistent with the three month discussion, the Manufacturing segment had strong performance from all subsidiaries with the exception of WesTower, which is experiencing the cyclical impact of cellular carriers' reduced capital spending in WesTower's traditional services.

NET EARNINGS AND ADJUSTED NET EARNINGS

	Three Months Ended		Nine Months Ended	
periods ending September 30	**2017**	2016	**2017**	2016
Net Earnings	**$ 23,902**	$ 20,581	**$ 55,240**	$ 47,668
Acquisition costs, net of tax	**18**	482	**304**	824
Amortization of intangible assets, net of tax	**1,796**	2,064	**5,833**	6,204
Interest accretion on redeemed debentures, net of tax	**-**	-	**-**	827
Gain on disposal of partnership interest in Innu Mikun, net of tax	**-**	-	**(3,910)**	-
Adjusted Net Earnings	**$ 25,716**	$ 23,127	**$ 57,467**	$ 55,523
Earnings per share				
Basic	**$ 0.78**	$ 0.72	**$ 1.78**	$ 1.70
Diluted	**$ 0.72**	$ 0.67	**$ 1.71**	$ 1.64
Adjusted Net Earnings per share				
Basic	**$ 0.84**	$ 0.81	**$ 1.86**	$ 1.99
Diluted	**$ 0.77**	$ 0.74	**$ 1.77**	$ 1.87

Three Month Net Earnings and Adjusted Net Earnings

The 16% increase in Net Earnings for the three months ended September 30, 2017 was primarily driven by the 20% increase in EBITDA. A lower effective income tax rate also contributed to the improvement in Net Earnings. These increases were partially offset by increased depreciation on capital assets and higher interest costs.

The 8% increase in Basic Net Earnings per share was due to higher Net Earnings, and partially offset by the 8% increase in the weighted average number of shares outstanding compared to the third quarter of 2016. The increase in the weighted average number of shares outstanding is mainly attributable to the Corporation's equity offering which closed at the beginning of 2017. Details around the change in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

The Corporation uses Adjusted Net Earnings, in conjunction with Free Cash Flow less maintenance capital expenditures, to assess the Corporation's ability to pay dividends to shareholders. The Corporation adjusts Net Earnings per the financial statements for acquisition costs, amortization of intangible assets and unusual one-time items, such as the gain on disposal of the Corporation's partnership interest in Innu Mikun. Intangible assets are recorded when the Corporation completes an acquisition as part of the purchase price allocation for accounting purposes and as such there are no future capital expenditures associated with maintaining or replacing these intangible assets. Acquisition costs are external costs incurred by the Corporation depending on acquisition activity and these costs are not required to support the cash flow of the Corporation's current subsidiaries. Adjusted Net Earnings is not impacted by the period to period variability in maintenance capital expenditures and includes depreciation expense on both maintenance and growth capital expenditures.

Adjusted Net Earnings for the three months ended September 30, 2017 increased by 11% to $25.7 million compared to 2016 primarily as a result of higher Net Earnings.

Adjusted Net Earnings per basic share increased by 4% to $0.84 compared to 2016 as a result of increased Net Earnings, partially offset by the 8% increase in the weighted average number of shares outstanding compared to the third quarter of 2016 as discussed above. On a per share basis, this is the highest quarterly Adjusted Net Earnings in the Corporation's history and was realized despite the increase in the average shares outstanding during the period.

Nine Month Net Earnings and Adjusted Net Earnings

The 16% increase in Net Earnings for the nine months ended September 30, 2017 was primarily driven by the 15% increase in EBITDA. Additionally, a gain on the disposal of the Corporation's partnership interest in Innu Mikun contributed to the increase in Net Earnings. These increases were partially offset by increased depreciation relating to investments in EIC's fleet of aircraft and higher interest costs.

The 5% increase in basic Net Earnings per share was due to higher Net Earnings, and was partially offset by the 11% increase in the weighted average number of shares outstanding compared to the nine months ended September 30, 2016. The increase in the weighted average number of shares outstanding is a result of the same factors discussed in the three month section. Details around the change in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

Adjusted Net Earnings for the nine months ended September 30, 2017 increased by 4% to $57.5 million compared to 2016. The 2017 calculation includes the removal of a gain on disposal of the Corporation's partnership interest in Innu Mikun, which reduced Adjusted Net Earnings. The 2016 calculation contains an adjustment for accelerated interest accretion on redeemed convertible debentures.

Adjusted Net Earnings per share decreased by 7% compared to 2016 as a result of the 11% increase in the weighted average number of shares outstanding, partially offset by higher Adjusted Net Earnings.

FREE CASH FLOW *(Section 13 – Non-IFRS Financial Measures)*

FREE CASH FLOW	Three Months Ended		Nine Months Ended	
periods ending September 30	**2017**	2016	**2017**	2016
Cash flows from operations (1)	**$ 53,853**	$ 35,345	**$ 97,647**	$ 97,392
Change in non-cash working capital items (1)	**1,978**	10,028	**43,418**	25,182
Acquisition costs (1)	**18**	500	**304**	872
	$ 55,849	$ 45,873	**$ 141,369**	$ 123,446
per share - Basic	**$ 1.81**	$ 1.60	**$ 4.56**	$ 4.41
per share - Fully Diluted	**$ 1.58**	$ 1.37	**$ 4.01**	$ 3.83

(1) *Per financial statements.*

Three Month Free Cash Flow

The Free Cash Flow generated by the Corporation for the third quarter of 2017 was $55.8 million, an increase of $10.0 million or 22% over the comparative period. The increase in Free Cash Flow is primarily due to the increase in EBITDA generated during the period, partially offset by higher cash interest and current taxes.

On a basic per share basis, the increase in absolute Free Cash Flow contributed to the increase in per share amounts and was partially offset by the 8% increase in the weighted average number of shares outstanding in the current quarter. The combined impact resulted in Free Cash Flow of $1.81 per share or a 13% increase over the comparative period (fully diluted $1.58 or an increase of 15%). Details around the change in shares outstanding can be found in Section 6 – *Liquidity and Capital Resources*.

Nine Month Free Cash Flow

The Free Cash Flow generated by the Corporation for the nine months ended September 30, 2017 was $141.4 million, an increase of $18.0 million or 15% over the comparative period. The reasons for the increase are consistent with the three month discussion above.

On a basic per share basis, the increase in absolute Free Cash Flow was partially offset by the 11% increase in the weighted average shares outstanding during the period. The combined impact resulted in Free Cash Flow of $4.56 per share, an increase of 3% over the comparative period (fully diluted $4.01, an increase of 5%). Details around the increase in shares outstanding can be found in Section 6 – *Liquidity and Capital Resources*.

CAPITAL EXPENDITURES

CAPITAL EXPENDITURES	Three Months Ended		Nine Months Ended	
periods ending September 30	**2017**	2016	**2017**	2016
Cash maintenance capital expenditures	**$ 19,677**	$ 19,109	**$ 76,566**	$ 54,037
add: finance lease principal payments	**196**	280	**605**	648
Maintenance capital expenditures	**19,873**	19,389	**77,171**	54,685
Growth capital expenditures	**20,771**	53,268	**112,609**	114,623
Capital expenditures	**$ 40,644**	$ 72,657	**$ 189,780**	$ 169,308
Maintenance capital expenditures per share - Basic	**$ 0.65**	$ 0.68	**$ 2.49**	$ 1.96
Growth capital expenditures per share - Basic	**0.67**	1.86	**3.64**	4.10
Total capital expenditures per share - Basic	**$ 1.32**	$ 2.54	**$ 6.13**	$ 6.06

Purchases of capital assets are classified as either maintenance capital expenditures or growth capital expenditures. This classification is based on the nature of the asset purchased and the cash flows that the asset will generate. If the new asset will generate new cash flows, the expenditure is classified as a growth capital expenditure. If the new asset serves to maintain existing cash flow streams, such as in the case of the replacement of an existing asset, it is classified as a maintenance capital expenditure. When calculating the payout ratio, maintenance capital expenditures are taken into account to ensure that our payout ratio reflects the necessary replacement of capital assets to maintain our revenue streams. Growth capital expenditures are investments which, similar to acquisitions, will generate future returns for the Corporation and are therefore not reflected in the payout ratio. The process for Regional One is conceptually similar but mechanically different and therefore is discussed further below.

Regional One's purchases of operating aircraft within its lease portfolio are capital expenditures. Aircraft that are leased to third parties are being consumed over time, therefore reinvestment is necessary in order to maintain the ability to generate future cash flows at existing levels. This depletion of the remaining green time of these aircraft is represented by depreciation. The assets in the lease portfolio are depreciated as single units and are included within aircraft frames and aircraft engines in our disclosures. Net capital expenditures are split between maintenance and growth based on depreciation. An amount equal to Regional One's depreciation is included in the Corporation's consolidated maintenance capital expenditures. Only net capital expenditures in excess of depreciation are classified as growth capital expenditures. If there were no purchases of capital assets during the period by Regional One, maintenance capital expenditures would still be equal to depreciation recorded on its leased assets and growth capital expenditures would be negative, representing the depletion of future earning potential. The aggregate of maintenance and growth capital expenditures always equals the actual cash spent on capital assets during the period. This ensures that our payout ratio reflects the necessary replacement of Regional One's leased assets.

Purchases of inventory are not reflected in either growth or maintenance capital expenditures. Aircraft purchased for part out or re-sale are recorded as inventory and are not capital expenditures. If a decision is made to take an aircraft out of the lease portfolio and either sell it or part it out, the net book value is transferred from capital assets to inventory. For Regional One, capital assets on the balance sheet include operating aircraft and engines that are either on lease or are available for lease. Individual parts are recorded

within inventory and capital assets that become scheduled for part out have been transferred to inventory as at the balance sheet date.

Maintenance Capital Expenditures *(Section 13 – Non-IFRS Financial Measures)*

Maintenance Capital Expenditures by Segment	Three Months Ended		Nine Months Ended	
periods ending September 30	**2017**	2016	**2017**	2016
Aerospace & Aviation Segment	$ **19,066**	$ 18,154	$ **74,792**	$ 51,220
Manufacturing Segment	**576**	1,279	**1,714**	3,009
Head Office	**231**	(44)	**665**	456
	$ **19,873**	$ 19,389	$ **77,171**	$ 54,685

Three Month Maintenance Capital Expenditures

Maintenance capital expenditures for the quarter were $19.9 million, an increase of $0.5 million over the prior period. This increase is entirely attributable to the Aerospace & Aviation segment.

Regional One's maintenance capital expenditures during the quarter were $7.5 million compared to $4.8 million in 2016. The $2.7 million increase in maintenance capital expenditures at Regional One as a result of increased depreciation accounted for more than the entire increase within the segment and was partially offset by decreased maintenance capital expenditures within the Legacy Airlines and Provincial during the quarter. The determination of maintenance capital expenditures is discussed in detail previously within the capital expenditures section.

Maintenance capital expenditures incurred by the remainder of our aviation businesses were $11.6 million in the third quarter of 2017 compared to $13.4 million in 2016. The decrease is directly attributable to the strategic decision to accelerate large aircraft overhaul maintenance into the first half of 2017 in order to ensure that we have aircraft availability during the summer and fall. These reductions were partially offset by higher expenditures resulting from increased fleet size and greater utilization of the fleet compared to the prior year. See *Section 12 – Outlook* for additional discussion of our expectations for maintenance capital expenditures for the remainder of the year.

Maintenance capital expenditures made by our Manufacturing segment entities for the quarter have decreased by $0.7 million from the comparative period. These expenditures primarily relate to replacement of production equipment or components of that equipment.

Nine Month Maintenance Capital Expenditures

Consistent with the three month discussion above, the increase in maintenance capital expenditures of $22.5 million for the nine months ended September 30, 2017 is entirely attributable to the Aerospace & Aviation segment.

Regional One's maintenance capital expenditures during the first nine months of 2017 were $24.2 million compared to $14.0 million in 2016, accounting for 45% of the increase in total maintenance capital expenditures. The increase in maintenance capital expenditures at Regional One is as a result of the increased depreciation on its expanded fleet of leased aircraft and engines.

For the first nine months of 2017, maintenance capital expenditures incurred by the remainder of our aviation businesses were $50.6 million compared to $37.2 million in 2016. The increase is driven primarily by the higher number of large aircraft overhauls in 2017 compared to 2016, as was discussed in previous quarterly reports.

Maintenance capital expenditures made by our Manufacturing segment entities for the nine months ended September 30, 2017 have decreased by $1.3 million from the comparative period. These expenditures primarily relate to replacement of production equipment or components of that equipment.

Growth Capital Expenditures *(Section 13 – Non-IFRS Financial Measures)*

Growth Capital Expenditures by Segment	Three Months Ended		Nine Months Ended	
periods ending September 30	**2017**	2016	**2017**	2016
Aerospace & Aviation Segment	$ **20,416**	$ 53,268	$ **111,568**	$ 114,623
Manufacturing Segment	**355**	-	**1,041**	-
	$ **20,771**	$ 53,268	$ **112,609**	$ 114,623

Growth capital expenditures for the quarter were $20.8 million, a decrease of $32.5 million from the prior period. This decrease is attributable to the Aerospace & Aviation segment, slightly offset by increase in the Manufacturing segment.

Growth capital expenditures of $16.6 million for the third quarter (and $36.9 million for the nine month period) have been invested at Provincial. The majority of this spending is related to the ongoing development of Provincial's demonstrator surveillance aircraft which, when completed will enable Provincial to expand its service offering. In addition, Provincial acquired the second of two Beech 1900 aircraft in the third quarter to service increased volumes and new routes, including the new Northern Quebec operations, as described in the second quarter report.

Growth capital expenditures for the Legacy Airlines for the third quarter were $4.4 million (and $25.4 million for the nine month period). The majority of the spending for the third quarter, or 57%, related to the acquisition of two aircraft and ground infrastructure for the Kitikmeot commencing in the fourth quarter of 2017. As part of the Corporation's expansion into Northwestern Ontario, the Legacy Airlines purchased two Dash 8-300 aircraft during the first half of the year. These purchases, along with other upgrades to the fleet are being made to provide the Corporation with the ability to expand its geographical footprint into areas of Northwestern Ontario ("NWO") previously not serviced by the Corporation's Legacy Airlines. The Legacy Airlines are also expanding and upgrading infrastructure, including the enhancement of fuel storage capacity, to prepare to provide medevac service to the Kitikmeot region of Nunavut, to support growing demand in the North, and to mitigate any potential impacts of the closure of the rail line to Churchill.

The fleet of aircraft and engines in Regional One's leasing portfolio is impacted by the purchase of assets which are added to the fleet offset by the transfer of assets into inventory for part out or sale. There were no growth capital expenditures at Regional One for the third quarter of 2017 as total capital expenditures were slightly less than depreciation during the period, resulting in a nominal negative growth capital expenditure of $0.6 million. Further discussion of Regional One's leased assets can be found in Section 4 – *Analysis of Operations*. Regional One had growth capital expenditures of $49.2 million for the nine month period. On a year to date basis, Regional One has added net four aircraft to its fleet, including the five CRJ-900 aircraft purchased per the Bombardier agreement. Since its acquisition by EIC, Regional One has consistently delivered returns that exceed our target return on capital. When capital expenditures are made by Regional One, these aircraft often take approximately six months before Regional One starts experiencing returns on these investments.

FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENDITURES *(Section 13 – Non-IFRS Financial Measures)*

FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENDITURES	Three Months Ended		Nine Months Ended	
periods ending September 30	2017	2016	2017	2016
Free Cash Flow	$ 55,849	$ 45,873	$ 141,369	$ 123,446
Maintenance Capital Expenditures	19,873	19,389	77,171	54,685
	$ 35,976	$ 26,484	$ 64,198	$ 68,761
per share – Basic	$ 1.17	$ 0.93	$ 2.07	$ 2.46
per share - Fully Diluted	$ 1.05	$ 0.84	$ 1.95	$ 2.26

Three Month Free Cash Flow Less Maintenance Capital Expenditures

The Free Cash Flow less maintenance capital expenditures generated by the Corporation for the current quarter was $36.0 million, an increase of $9.5 million or 36% over the comparative period. This is due to higher Free Cash Flow as described above and offset slightly by a $0.5 million increase to maintenance capital expenditures from the prior period despite a significant increase in maintenance capital expenditures on the larger asset base at Regional One, which is described in detail in the Capital Expenditures section.

Maintenance capital expenditures fluctuate from period to period. As a result of the variability in timing of maintenance capital expenditures, Free Cash Flow is a more stable metric than Free Cash Flow less maintenance capital expenditures as a measure of ongoing operating performance. Maintenance capital expenditures are variable because overhaul maintenance for aircraft engines and airframe heavy checks are 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 quarterly and annual variability as a result of the uneven timing of maintenance events and therefore needs to be evaluated over longer operating periods.

The increase in absolute Free Cash Flow less maintenance capital expenditures was partially offset by the 8% increase in the weighted average number of share outstanding during the quarter. As a result, the Corporation generated Free Cash Flow less maintenance capital expenditures of $1.17 per share for the current quarter, an increase of $0.24 per share or 26% from the comparative period (fully diluted $1.05, increase of $0.21 or 25%). Details around the change in shares outstanding can be found in Section 6 – *Liquidity and Capital Resources*.

Nine Month Free Cash Flow Less Maintenance Capital Expenditures

The Free Cash Flow less maintenance capital expenditures generated by the Corporation for the nine month period was $64.2 million, a decrease of $4.6 million or 7% compared to the comparative period. This is due to increased maintenance capital expenditures during the period as a result of the higher number of scheduled maintenance events in 2017.

The 11% increase in the weighted average number of shares outstanding during the period and the decrease in absolute Free Cash Flow less maintenance capital expenditures contributed to the decrease in basic per share amounts. The combined impact resulted in Free Cash Flow less maintenance capital expenditures of $2.07 per share for the nine months ended September 30, 2017, a decrease of $0.39 per share or 16% from the comparative period (fully diluted $1.95, decrease of $0.31 or 14%). Details around the change in shares outstanding can be found in Section 6 – *Liquidity and Capital Resources*.

DIVIDENDS & PAYOUT RATIO

One of the cornerstones of the Corporation has been the sustainability and growth of our dividend. This has been achieved through our diversified portfolio of niche businesses which consistently generate net earnings and cash flow to cover our dividend.

The amounts and record dates of the dividends declared during the nine months ended September 30, 2017 and the comparative period in 2016 were as follows:

			2017 Dividends			2016 Dividends
Month	Record date	Per Share	Amount	Record date	Per Share	Amount
January	January 31, 2017	$ 0.175	$ 5,438	January 29, 2016	$ 0.16	$ 4,424
February	February 28, 2017	0.175	5,447	February 29, 2016	0.16	4,416
March	March 31, 2017	0.175	5,450	March 31, 2016	0.16	4,418
April	April 28, 2017	0.175	5,455	April 29, 2016	0.16	4,423
May	May 31, 2017	0.175	5,444	May 31, 2016	0.1675	4,633
June	June 30, 2017	0.175	5,411	June 30, 2016	0.1675	4,783
July	July 31, 2017	0.175	5,402	July 29, 2016	0.1675	4,786
August	August 31, 2017	0.175	5,383	August 31, 2016	0.1675	4,789
September	September 29, 2017	0.175	5,367	September 30, 2016	0.1675	4,791
Total		$ 1.575	$ 48,797		$ 1.4775	$ 41,463

Dividends declared for the current period increased over the comparative period. This was the result of the increase in the dividend rate per month in the current period and the higher number of shares outstanding in 2017. The Corporation increased the monthly dividend rate per share by $0.0075 in the second quarter of 2016 (5% increase) and $0.0075 in the fourth quarter of 2016 (4% increase). This resulted in the dividends declared for the nine months ended September 30, 2017 totaling $1.575 per share compared to $1.4775 per share in the comparative period, an increase of 7%. Dividends declared during the period totaled $48.8 million. Impacting the dividends declared in 2017 most significantly was the Corporation's issuance of shares through its equity offering that closed on January 4, 2017, resulting in the issuance of 2,303,450 shares and the convertible debenture conversions throughout 2016, resulting in the issuance of 928,156 shares.

The Corporation compares the dividends declared in the period to the amount of cash flows generated by the Corporation in that period to determine a payout ratio. The dividends declared by the Corporation are presented as financing activities within the Corporation's statement of cash flows whereas Free Cash Flow, Free Cash Flow less maintenance capital expenditures, and Adjusted Net Earnings, as defined, are driven from the Corporation's operating activities and exclude dividends. The payout ratio provides an indication of the Corporation's ability to generate sufficient funds from its operations to pay its dividends to shareholders.

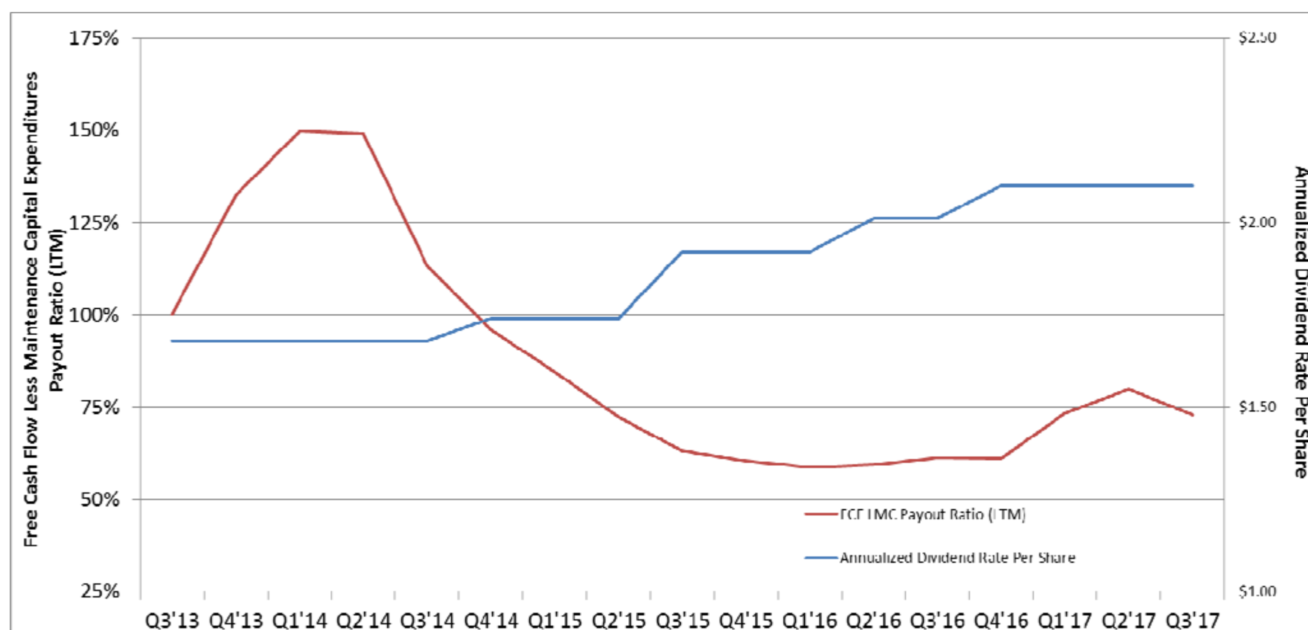
The following compares the Corporation's dividends declared on a per share basis as a percentage of the Corporation's Free Cash Flow, Free Cash Flow less maintenance capital expenditures, Net Earnings and Adjusted Net Earnings on a per share basis during the current period and the comparative period.

Payout Ratios	2017	Per share basic	Per share fully diluted	2016	Per share basic	Per share fully diluted
For the three months ended September 30						
Free Cash Flow		*29%*	*33%*		*31%*	*37%*
Free Cash Flow less maintenance capital expenditures		*45%*	*50%*		*54%*	*60%*
Net Earnings		*67%*	*73%*		*70%*	*75%*
Adjusted Net Earnings		*63%*	*68%*		*62%*	*68%*
For the nine months ended September 30						
Free Cash Flow		*35%*	*39%*		*34%*	*39%*
Free Cash Flow less maintenance capital expenditures		*76%*	*81%*		*60%*	*65%*
Net Earnings		*88%*	*92%*		*87%*	*90%*
Adjusted Net Earnings		*85%*	*89%*		*74%*	*79%*

The Corporation's Free Cash Flow and Adjusted Net Earnings payout ratios improved for the three months ended September 30, 2017 primarily as a result of increased EBITDA and improved despite an 8% increase in the weighted average number of shares outstanding during the period as previously discussed. The Corporation's nine month Free Cash Flow less maintenance capital expenditures payout ratio was negatively impacted by the higher number of scheduled maintenance events in 2017. The Corporation expects the payout ratio for the twelve months ended December 31, 2017 to continue to improve as the heavy overhaul maintenance work has been substantially complete for 2017. The Corporation's Free Cash Flow less maintenance capital expenditures payout ratio of 45% is the lowest in a quarter in the since the Corporation's conversion from an income trust and has contributed to a lower LTM payout ratio, as seen in the chart below. Management monitors the payout ratio over longer periods than a single quarter when assessing dividend sustainability.

The first quarter of the fiscal year is always the most seasonally challenging for the Corporation. Winter roads into northern communities lessen the demand for the Corporation's air services. Due to this seasonality, payout ratios should be assessed over longer periods of time as the payout ratio in a single quarter can be impacted by seasonal variations that do not impact the Corporation's ability to pay dividends over a longer period of time. The Corporation analyzes the trailing twelve months payout ratio when assessing its ability to pay and increase dividends, which is illustrated in the following graph.

The graph shows the Corporation's historical Free Cash Flow less maintenance capital expenditures trailing twelve months payout ratio on the left axis. On the right axis, the annualized dividend rate per share is shown. As can be seen in the graph, the current trailing twelve months payout ratio of 73% has been impacted by the increased maintenance capital expenditures in the first half of 2017 and is expected to continue to improve in the fourth quarter of 2017.



The Corporation firmly believes the Free Cash Flow less maintenance capital expenditures payout ratio is the most pertinent metric to guide our dividend decisions, however the Corporation also monitors dividends declared as a percentage of Adjusted Net Earnings. Adjusted Net Earnings does not include the after tax impact of intangible asset amortization, acquisitions costs, and non-recurring items. A calculation of Adjusted Net Earnings is included earlier in this section.

The Adjusted Net Earnings payout ratio was 63% for the third quarter of 2017 compared to 62% for the third quarter of 2016, while the September 30, 2017 trailing twelve month Adjusted Net Earnings payout ratio was 86% compared to 80% at September 30, 2016. This metric provides further evidence that the operating results of the Corporation are more than sufficient to support the dividend. The Company will continue to use the Free Cash Flow less maintenance capital expenditures payout ratio as its primary payout metric because it is the best indication of cash flow generated from operations after sustaining capital expenditures, however the Adjusted Net Earnings payout ratio is also considered.

4. ANALYSIS OF OPERATIONS

Three Month Results

The following section analyzes the financial results of the Corporation's operations for the three months ended September 30, 2017 and the comparative 2016 period.

	Three Months Ended September 30, 2017			
	Aerospace & Aviation	Manufacturing	Head Office[2]	Consolidated
Revenue	$ 204,004	$ 49,363	$ -	$ 253,367
Expenses[1]	131,817	43,773	5,813	181,403
EBITDA	72,187	5,590	(5,813)	71,964
Depreciation of capital assets				27,939
Amortization of intangible assets				2,460
Finance costs - interest				8,954
Acquisition costs				18
Gain on disposal of partnership interest				-
Earnings before tax				32,593
Current income tax expense				8,955
Deferred income tax recovery				(264)
Net earnings				$ 23,902

	Three Months Ended September 30, 2016			
	Aerospace & Aviation	Manufacturing	Head Office[2]	Consolidated
Revenue	$ 178,764	$ 45,856	$ -	$ 224,620
Expenses[1]	121,206	39,436	3,966	164,608
EBITDA	57,558	6,420	(3,966)	60,012
Depreciation of capital assets				20,823
Amortization of intangible assets				2,827
Finance costs - interest				7,132
Acquisition costs				500
Earnings before tax				28,730
Current income tax expense				8,245
Deferred income tax recovery				(96)
Net earnings				$ 20,581

Note 1): Expenses include aerospace & aviation expenses (excluding depreciation and amortization), manufacturing expenses (excluding depreciation and amortization), and general and administrative expenses.

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

AEROSPACE & AVIATION SEGMENT

Aerospace & Aviation Segment	Three Months Ended September 30,		2017		2016		Variance	Variance %
Revenue		$	**204,004**	$	178,764	$	25,240	14%
Expenses			**131,817**		121,206		10,611	9%
EBITDA		$	**72,187**	$	57,558	$	14,629	25%

The Aerospace & Aviation segment's revenue for the quarter increased $25.2 million or 14% over the third quarter of 2016. EBITDA generated by the Aerospace & Aviation segment for the current quarter increased $14.6 million or 25% over the third quarter of 2016. EBITDA margins were 35.4% in the current quarter versus 32.2% in the comparative period.

Revenue for the Legacy Airlines increased by $8.9 million or 11% over the comparative period in 2016 and is the primary contributor to the $5.9 million or 26% increase in EBITDA. Increased volumes in the Kivalliq market, across all revenue streams, and targeted growth in Northwestern Ontario are the main reasons for the higher revenue. Higher activity levels for both our rotary and fixed wing aircraft related to fire suppression, evacuation and related services also contributed to the increase in revenue and margins. The improvement in EBITDA was slightly impacted by higher pilot training costs as a result of turnover experienced throughout the industry.

Provincial's EBITDA increased by 12% as a result of higher contributions from its airline operations. Overall revenues and EBITDA margins increased with the airlines operations margins improving as a result of improved yields and increased volumes.

The average currency exchange rates used in translation of Regional One's results to Canadian dollars reflects a stronger Canadian dollar in 2017. This decreased the converted value of US denominated revenue and EBITDA compared to the third quarter of 2016.

The following table breaks down the Regional One revenues for the three months ended September 30, 2017 and the comparative 2016 period:

Regional One Revenues	Three Months Ended September 30,		2017		2016		Variance	Variance %
Sales and service revenue		$	**32,641**	$	23,938	$	8,703	36%
Lease revenue			**22,262**		15,246		7,016	46%
		$	**54,903**	$	39,184	$	15,719	40%

Revenue generated by Regional One increased by 40% over the comparable period in 2016, driven by previous investments in inventory and growth capital expenditures, exceeding our expectations. The revenue generated by Regional One is comprised of two main streams – sales and service revenue and lease revenue. Sales and service revenue is derived from the sales of aircraft parts, aircraft engines and whole aircraft as well as from the provision of services such as asset management. Lease income is generated through the leasing of aircraft engines or whole aircraft. As a result of the quarter to quarter variability that can exist in the sale of whole aircraft and engines, the third quarter of 2017 had fewer sales than the second quarter and, when combined with the strengthening Canadian dollar, third quarter revenues were less than the second quarter.

Within the sales and service revenue stream, the parts revenue is the most predictable and stable from both sales and margin perspectives. The sale of parts generally comprises the biggest portion of this revenue stream and margins on parts sales are relatively consistent. Sales of aircraft engines and entire aircraft vary on a quarter to quarter basis, both in volume and in price, but are generally higher dollar transactions. Margins on these transactions vary by the type of aircraft or engine, its amount of available green time and overall market demand and are typically lower than margins on part sales. Regional One also provides asset management services to clients who own aircraft and who require asset management expertise such as managing return conditions and remarketing. This line of business levers the core competencies of the company and is relatively new, therefore revenues are still comparatively minor but margins are very high because there are few direct costs associated with the sales.

The sales and service revenue increased by 36% compared to the same period in 2016. The sales of parts are the largest component of sales and service revenue and these grew by 62% in the third quarter of 2017 compared to the third quarter of 2016, which includes the impact of the acquisition of Team J.A.S. in the fourth quarter of 2016. The revenue increase is a result of several factors, including the purchase of additional inventory, an increasing customer base, and the part out of additional aircraft. The 37% gross margin generated by the sales and service revenue stream in the third quarter of 2017 is consistent with the prior period.

The Regional One lease portfolio is comprised of several different types of aircraft and engines, but the predominant platforms are the Bombardier CRJ aircraft and the GE CF34 engines that are used on those aircraft. Other platforms included in the portfolio are the Bombardier Dash 8, Embraer 145 and ATR aircraft. Regional One is different from traditional leasing companies. It does not acquire

assets with the intention of owning them for a long duration and deriving earnings solely from the financing spread. Regional One typically acquires assets with the intent of leasing them for a shorter duration, consuming available green time and producing cash flows, and then generating further profits once the aircraft have been retired from the active fleet and parted out. The size and composition of the lease portfolio is impacted by investments made in new assets and the transfer of assets into inventory for part-out or disposal. It is important to note that not all of the aircraft and engines in the portfolio will be on lease at any given time, as newly-acquired assets generally take approximately six months to prepare and lease.

Regional One Lease Portfolio	September 30, 2017		September 30, 2016	
	Aircraft	Engines	Aircraft	Engines
Lease portfolio	41	46	37	37

Lease revenue increased by 46% compared to the same period in 2016. This increase is directly attributable to investment in the lease portfolio as reflected in the table above. Compared to the lease portfolio at September 30, 2016, Regional One's portfolio of aircraft available for lease has increased by 11% and the number of engines available for lease has increased by 24%. While the growth in number of leased aircraft has increased 11%, the net book value of the lease portfolio has risen significantly more with the investment in Regional One's fleet of CRJ900 aircraft available for lease, which attracts higher lease rates than lower value aircraft. EBITDA margins associated with the lease income are high as there is no cost of sale and depreciation and financing costs are both accounted for outside of EBITDA. The growth in the lease portfolio is also a primary driver of higher depreciation costs and therefore, maintenance capital expenditures.

Regional One contributed EBITDA of $26.9 million, which is an increase of 35% over the same period in 2016. The increased revenues drove the higher EBITDA. In comparison to the second quarter of 2017, the EBITDA of Regional One for the current quarter did not benefit from a weaker Canadian dollar and the large concentration of whole aircraft and engine sales as in the second quarter, and was offset partially by a higher margin product mix. The change in currency conversion in the current quarter from the second quarter of 2017 negatively impacted EBITDA by $2.1 million.

MANUFACTURING SEGMENT

Manufacturing Segment	Three Months Ended September 30,	2017	2016	Variance	Variance %
Revenue		$ 49,363	$ 45,856	$ 3,507	8%
Expenses		43,773	39,436	4,337	11%
EBITDA		$ 5,590	$ 6,420	$ (830)	-13%

The Manufacturing segment's third quarter revenue increased by $3.5 million or 8% compared to that in the same period of the prior year. EBITDA for the segment decreased $0.8 million or 13% from to the prior year. Entities within the segment with the exception of WesTower experienced strong revenue and EBITDA growth, but WesTower's relative size to other entities in the segment dragged down overall performance.

WesTower's results continue to be negatively impacted by reduced capital spending by cellular carriers in WesTower's traditional services as they prepare for the transition to the next generation of technology. This has resulted in a downturn of services historically provided by WesTower that has been steeper and more prolonged than we have experienced in the past. Previously when there has been a delay between the implementation of old and new technologies, cellular carriers have generally implemented some capital spending programs to enhance existing cellular infrastructure or decommission infrastructure that is no longer required. Currently, the vast majority of cellular carriers' capital spending has been associated with fibre-optic infrastructure, a market in which WesTower has recently entered and is looking to expand its market share.

Stainless, Alberta Operations, Ben Machine and Overlanders all posted strong results compared to 2016, with combined revenue and EBITDA increases of 39% and 65%, respectively, over the prior period. Stainless experienced strong demand in both its shop and field operations, with the largest growth coming in their field operations which typically yields stronger margins. During the quarter, Stainless' field operations were impacted as a result of the hurricane temporarily delaying projects in Florida and the Carolinas. Alberta Operations continued its resurgence from the economic downturn that impacted its results over the past couple of years. Ben Machine has benefitted from increased worldwide defence spending, experiencing stronger margins on its orders compared to the prior period. Overlanders, as a result of prior investment in production capacity and operational efficiencies, set all time quarterly highs in both revenue and EBITDA.

HEAD-OFFICE

Head-office Costs	Three Months Ended September 30,	2017	2016	Variance	Variance %
Expenses		$ 5,813	$ 3,966	$ 1,847	47%

The head-office costs of the Corporation increased by $1.8 million over the comparative period. This was a result of higher headcount at head-office, an increase in professional costs and increased costs associated with information technology. Head count has increased along with the size of the Corporation's portfolio of subsidiaries. Approximately $0.2 million of the increase relates to the Corporation's deferred share plan, which is a non-cash expense for the Corporation.

OTHER NON-EBITDA ITEMS

	Three Months Ended September 30,	2017	2016	Variance	Variance %
Depreciation of capital assets		$ 27,939	$ 20,823	$ 7,116	34%

Depreciation on the Corporation's capital assets for the three months ended September 30, 2017 was $27.9 million, an increase of 34% over the comparative period. The increase in depreciation is in direct correlation with the growth in Regional One's portfolio of leased assets. Depreciation on Regional One's leased asset portfolio was $7.5 million for the current three month period, an increase of $2.7 million over the comparative period. In addition, depreciation on the larger fleet of aircraft within the Legacy Airlines and Provincial increased depreciation during the quarter.

	Three Months Ended September 30,	2017	2016	Variance	Variance %
Amortization of intangible assets		$ 2,460	$ 2,827	$ (367)	-13%

Amortization on the Corporation's intangible assets was $2.5 million for the three months ended September 30, 2017, a decrease of 13% from the comparative period. Intangible asset amortization recorded as a result of the CarteNav acquisition was more than offset by reductions in amortization recorded on the Corporation's other intangible assets.

	Three Months Ended September 30,	2017	2016	Variance	Variance %
Finance costs - interest		$ 8,954	$ 7,132	$ 1,822	26%

The Corporation's interest incurred for the three months ended September 30, 2017 was $1.8 million higher than the comparative period in 2016. Interest incurred on the credit facility increased by $1.6 million as a result of higher debt levels outstanding as capital asset additions at Regional One and Provincial were funded through the credit facility. In addition, prime borrowing rates increased during the quarter, resulting in higher interest expense. Finally, the Corporation drew on its credit facility to repurchase shares under its NCIB for cancellation. The impact of the higher debt levels was somewhat offset by the benefit of borrowing in US dollars at lower interest rates as described further in Section 6 – *Liquidity and Capital Resources.*

Interest incurred on the convertible debentures was relatively flat to the prior period. The Corporation did not experience any significant conversions during 2017 and therefore a marginal increase to debenture interest is as a result of increased non-cash interest accretion.

The overall effective interest rate on the Corporation's credit facility for the current quarter was 4.03% (2016 – 3.62%), which includes standby charges on the unused portion of the credit facility. The Corporation experienced a higher average borrowing rate during the quarter as a result of increases in prime lending rates. The Corporation strategically chooses to have significant available credit, enabling the Corporation to act quickly when the right opportunity presents itself. This results in higher standby charges.

	Three Months Ended September 30,	2017	2016	Variance	Variance %
Acquisition Costs		$ 18	$ 500	$ (482)	-96%

Acquisition costs for the current quarter were minimal and decreased by $0.5 million from the prior year. The Corporation completed the acquisition of CarteNav in the third quarter of 2016. Acquisition costs vary from period to period depending on the acquisition activity of the Corporation.

Three Months Ended September 30,	2017	2016	Variance	Variance %
Current income tax expense	$ 8,955	$ 8,245	$ 710	9%
Deferred income tax expense (recovery)	(264)	(96)	(168)	175%
Income tax expense	$ 8,691	$ 8,149	$ 542	7%

The current tax expense was higher in the third quarter of 2017 than it was in the third quarter of 2016 because of higher taxable earnings generated in 2017. The effective tax rate in the current quarter decreased to 26.7% from 28.4% in the third quarter of 2016. A comparatively larger proportion of the Corporation's consolidated earnings were generated in jurisdictions such as Ireland, which are subject to a lower tax rate than Canada and the United States. The decrease in the effective rate was partially offset by the current taxes resulting from intercompany sales of aircraft to our Irish subsidiary that occurred in third quarter of 2017. The aircraft are sold from one entity to the other at market value and this results in an intercompany gain that is taxable. The intercompany gain is eliminated from earnings and assets remain at original book value upon consolidation, however, the tax expense is not eliminated and this results in an increase in the effective rate in the period of the intercompany sale.

Nine Month Results

The following section analyzes the financial results of the Corporation for the nine months ended September 30, 2017 and the comparative 2016 period.

	Nine Months Ended September 30, 2017			
	Aerospace & Aviation	Manufacturing	Head Office[2]	Consolidated
Revenue	$ 608,023	$ 141,017	$ -	$ 749,040
Expenses[1]	422,693	125,947	15,017	563,657
EBITDA	185,330	15,070	(15,017)	185,383
Depreciation of capital assets				81,587
Amortization of intangible assets				7,990
Finance costs - interest				24,833
Acquisition costs				304
Gain on disposal of partnership interest				(5,585)
Earnings before income tax				76,254
Current income tax expense				24,235
Deferred income tax recovery				(3,221)
Net earnings				$ 55,240

	Nine Months Ended September 30, 2016			
	Aerospace & Aviation	Manufacturing	Head Office[2]	Consolidated
Revenue	$ 529,382	$ 139,987	$ -	$ 669,369
Expenses[1]	373,793	122,364	11,941	508,098
EBITDA	155,589	17,623	(11,941)	161,271
Depreciation of capital assets				60,326
Amortization of intangible assets				8,498
Finance costs - interest				22,489
Acquisition costs				872
Earnings before income tax				69,086
Current income tax expense				21,230
Deferred income tax expense				188
Net earnings				$ 47,668

Note 1): Expenses include aerospace & aviation expenses (excluding depreciation and amortization), manufacturing expenses (excluding depreciation and amortization) and general and administrative expenses.

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

AEROSPACE & AVIATION SEGMENT

Aerospace & Aviation Segment	Nine Months Ended September 30,	2017	2016	Variance	Variance %
Revenue		$ 608,023	$ 529,382	$ 78,641	15%
Expenses		422,693	373,793	48,900	13%
EBITDA		$ 185,330	$ 155,589	$ 29,741	19%

The Aerospace & Aviation segment's revenue for the nine months ended September 30, 2017 increased $78.6 million or 15% over the prior period. EBITDA generated by the Aerospace & Aviation segment increased $29.7 million or 19% over the prior period. EBITDA margins were 30.5% in the current period versus 29.4% in the comparative period.

Consistent with the three month discussion, Provincial's results include higher contributions from its airline operations and the acquisition of CarteNav in August of 2016. Overall revenues and EBITDA margins increased with the airline operations' margins improving as a result of softening competitive pressures in the region and higher volumes.

Revenue for the Legacy Airlines increased $17.1 million or 7% compared to the first nine months of 2016 and is the primary contributor to the EBITDA increase for the Legacy Airlines. This is mainly the result of growth in the Kivalliq market across all revenue streams, including the impact of two new stores with a major retail cargo customer, expansion into Northwestern Ontario and increased fire suppression, evacuation and related services in the third quarter. During the nine months ended September 30, 2017, Legacy Airlines EBITDA and EBITDA margins were impacted by third party costs, consistent with disclosure in the Corporation's first quarter report. Consistent with the three month discussion, higher pilot training costs decreased EBITDA and EBITDA margins.

The operations of both Provincial's airline and the Legacy Airlines were impacted by increased fuel prices compared to the prior year; however the impact lessened with each consecutive quarter. A portion of revenue that is contracted contains automatic fuel price adjustments. When fuel prices increase, the airlines will look to implement price increases on their non-contracted revenue where appropriate.

The average currency exchange rates used in translation of Regional One's results to Canadian dollars reflects a stronger Canadian dollar in 2017. This decreased the converted value of US denominated revenue and EBITDA compared to the nine months ended September 30, 2016.

Revenue generated by Regional One increased by 58%, driven by previous investments in inventory and growth capital expenditures.

Regional One Revenue	Nine Months Ended September 30,	2017	2016	Variance	Variance %
Sales and service revenue		$ 121,571	$ 76,603	$ 44,968	59%
Lease revenue		64,599	41,557	23,042	55%
		$ 186,170	$ 118,160	$ 68,010	58%

The sales and service revenue stream increased by 59% compared to the same period in 2016. All components of this revenue stream are higher than last year. The sale of parts comprised the biggest portion of sales and service revenue but aircraft and engine sales increased the most over the prior period. The revenue increase is a result of several factors, including the purchase of additional inventory, an increasing customer base and territory, and the part out of more aircraft coming off lease. The sales and service revenue stream generated margins of 35% in the first nine months of 2017 and is marginally lower than the comparative period.

Lease revenue increased by 55% compared to the same period in 2016. The increase is directly attributable to the increased investment in the lease portfolio made over the previous 24 months. EBITDA margins associated with the lease income are exceptionally high as the primary costs associated with the lease portfolio are depreciation and financing costs, both of which are accounted for outside of EBITDA. The growth in the lease portfolio is also a primary driver of higher depreciation costs and, by extension, maintenance capital expenditures. Regional One is different from traditional leasing companies. It does not acquire assets with the intention of owning them for a long duration and deriving earnings solely from the financing spread. Regional One typically acquires assets with the intent of leasing them for a shorter duration, consuming available green time and producing cash flows, and then generating further profits once the aircraft have been retired from the active fleet and parted out.

Regional One contributed EBITDA of $81.7 million, which is an increase of 49% over the same period in 2016. Regional One's increase in EBITDA is as a result of growth in all revenue streams but was impacted most significantly from higher margin lease revenues increasing over the prior period.

MANUFACTURING SEGMENT

Manufacturing Segment	Nine Months Ended September 30,		2017		2016		Variance	Variance %
Revenue		$	141,017	$	139,987	$	1,030	1%
Expenses			125,947		122,364		3,583	3%
EBITDA		$	15,070	$	17,623	$	(2,553)	-14%

The Manufacturing segment's revenue for the nine month period ended September 30, 2017 increased $1.0 million or 1% compared to that in the same period of the prior year. EBITDA was down by $2.6 million or 14% compared to the prior year. Revenue and EBITDA for all entities within the segment increased compared to the prior period with the exception of WesTower. Due to WesTower's size relative to the other entities in the segment, its year over year reduction in revenue and EBITDA more than offset the exceptional results generated by the other entities.

The factors driving the nine month results are consistent with those in the three month discussion. WesTower's results continue to be negatively affected by reduced capital spending by cellular carriers in WesTower's traditional services as they prepare for the transition to the next generation of technology.

Stainless, Alberta Operations, Ben Machine and Overlanders posted strong results for the first nine months of 2017 compared to the first nine months of 2016. Alberta Operations continued its recovery from the economic downturn that impacted results in the past couple of years. Increased worldwide defence industry spending has bolstered Ben Machine's performance. An increase in revenue and EBITDA at Stainless is attributable to strong demand in both its shop and field operations compared to the prior period. Targeted capital investments and improved efficiency over the past two years at Overlanders have positioned the company to be able to meet the increasing demands of its largest customer while also attracting new customers.

HEAD OFFICE

Head Office Costs	Nine Months Ended September 30,		2017		2016		Variance	Variance %
Expenses		$	15,017	$	11,941	$	3,076	26%

The head office costs of the Corporation increased in the current period by $3.1 million or 26% over the comparative period. The increase in head office costs is driven by a foreign exchange gain in the prior period which did not recur in 2017, higher professional costs, increased costs associated with information technology and a higher headcount. This foreign exchange gain resulted in lower head office costs of $1.1 million in the first quarter of 2016. Head count has increased along with the size of the Corporation's portfolio of subsidiaries. In addition, approximately $0.5 million of the increase relates to the Corporation's deferred share plan, which is a non-cash expense for the Corporation.

OTHER NON-EBITDA ITEMS

	Nine Months Ended September 30,		2017		2016		Variance	Variance %
Depreciation of capital assets		$	81,587	$	60,326	$	21,261	35%

Depreciation on the Corporation's capital assets for the nine months ended September 30, 2017 was $81.6 million, an increase of 35% over the comparative period. Growth in Regional One's portfolio of leased assets is the driver behind the increase in depreciation expense. Depreciation on Regional One's leased asset portfolio was $24.2 million for the nine months ended September 30, 2017, an increase of $10.2 million over the comparative period. In addition, depreciation on the larger fleet of aircraft within the Legacy Airlines and Provincial increased depreciation during the period.

	Nine Months Ended September 30,		2017		2016		Variance	Variance %
Amortization of intangible assets		$	7,990	$	8,498	$	(508)	-6%

Amortization on the Corporation's intangible assets was $8.0 million for the nine months ended September 30, 2017, a decrease of 6% from the comparative period. Intangible asset amortization recorded as a result of the CarteNav acquisition was more than offset by reductions in amortization recorded on the Corporation's other intangible assets.

Nine Months Ended September 30,	2017	2016	Variance	Variance %
Finance costs – interest	$ **24,833**	$ 22,489	$ 2,344	10%

The Corporation's interest incurred for the first nine months of 2017 was $2.3 million higher than the comparative period in 2016. Interest incurred on the credit facility increased by $3.3 million as a result of higher debt levels outstanding as capital asset additions at Regional One and Provincial were funded through the credit facility. In addition, increases to prime borrowing rates in both Canada and the U.S. resulted in increased interest expense. Finally, the Corporation drew on its credit facility during the period to repurchase shares under its NCIB for cancellation. The impact of the higher debt levels was partially offset by the benefit of borrowing in US dollars at lower interest rates as described further in *Section 6 – Liquidity and Capital Resources*.

Interest incurred on the convertible debentures decreased by $1.0 million from the comparative period. This decrease was caused by the redemption of the Series J convertible debentures in June of 2016, offset partially from interest incurred on the June 2016 Unsecured convertible debentures.

The overall effective interest rate on the Corporation's credit facility for the first nine months of 2017 was 3.70% (2016 – 3.76%), which includes standby charges on the unused portion of the credit facility. The Corporation strategically chooses to have significant available credit, enabling the Corporation to act quickly when the right opportunity presents itself. This results in higher standby charges.

Nine Months Ended September 30,	2017	2016	Variance	Variance %
Acquisition Costs	$ **304**	$ 872	$ (568)	-65%

Acquisition costs for the first nine months of 2017 decreased $0.6 million compared to the prior year. In the third quarter of 2016, the Corporation completed the acquisition of CarteNav. Acquisition costs can vary from period to period depending on the acquisition activity of the Corporation.

Nine Months Ended September 30,	2017	2016	Variance	Variance %
Gain on disposal of partnership interest in Innu Mikun	$ (5,585)	$ -	$ (5,585)	-

On June 18, 2017, PAL Airlines expanded its Labrador indigenous partnership to include both the Innu Development Limited Partnership ("IDLP") and Nunatsiavut Group of Companies ("NGC"). The new partnership provides air services, primarily in the Labrador region, under the brand Air Borealis. The three partners have equal ownership interests and equal board representation. The air services provided by Air Borealis were previously provided by Innu Mikun and Air Labrador. PAL Airlines disposed of its existing interest in Innu Mikun by contributing it to the new partnership in return for a one-third interest in the new partnership. Likewise, IDLP contributed its existing interest in Innu Mikun and NGC contributed cash as well as its existing interest in Air Labrador. The Corporation recorded a non-cash gain on the disposal of its interest in Innu Mikun. The gain of $5,585 ($3,910 after tax) was determined under IFRS by comparing the carrying value of its previous investment to its percentage of the fair value of the net assets contributed by the other partners. Its interest in Innu Mikun has therefore been de-recognized and its new interest has been recorded in Other Assets at an amount equal to the original book value of the partnership plus the gain. The costs associated with this transaction have been expensed and netted with the non-cash gain on the income statement. The equity method of accounting will be used to recognize the Corporation's share of the future earnings of Air Borealis.

Nine Months Ended September 30,	2017	2016	Variance	Variance %
Current income tax expense	$ **24,235**	$ 21,230	$ 3,005	14%
Deferred income tax expense (recovery)	**(3,221)**	188	(3,409)	-1813%
Income tax expense	$ **21,014**	$ 21,418	$ (404)	-2%

The current tax expense was higher in the first nine months of 2017 than it was in 2016 because of higher taxable earnings generated in 2017. The effective tax rate in the first nine months of 2017 decreased to 27.6% from 31.0% in the first nine months of 2016. The effective tax rate in 2017 declined as a result of a comparatively larger proportion of the Corporation's consolidated earnings being generated in jurisdictions such as Ireland, which are subject to a lower tax rate than in Canada and the United States. The decrease in the effective rate was partially offset by the current taxes resulting from intercompany sales of aircraft to our Irish subsidiary that occurred in the second and third quarters of 2017. The aircraft are sold from one entity to the other at market value and this results in an intercompany gain that is taxable. The intercompany gain is eliminated from earnings upon consolidation and assets remain at

original book value, however, the tax expense is not eliminated and this results in an increase in the effective rate in the period of the intercompany sale. The effective tax rate in 2016 also reflects $1.0 million charge to deferred income tax expense which arose from a change in the statutory tax rate in one of the jurisdictions in which the Corporation operates.

5. SUMMARY OF QUARTERLY RESULTS

			2017				2016		2015
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total revenue	$ 253,367	$ 273,145	$ 222,528	$ 221,657	$ 224,620	$ 226,851	$ 217,898	$ 224,504	$ 212,750
EBITDA	**71,964**	**70,071**	**43,348**	51,304	60,012	56,928	44,331	46,055	54,052
Net earnings	**23,902**	**25,779**	**5,559**	13,822	20,581	17,214	9,873	9,923	15,983
Basic	**0.78**	**0.83**	**0.18**	0.48	0.72	0.62	0.36	0.36	0.64
Diluted	**0.72**	**0.77**	**0.18**	0.47	0.67	0.59	0.35	0.35	0.60
Adjusted net earnings	**25,716**	**23,943**	**7,808**	16,571	23,127	20,388	12,008	12,636	18,811
Basic	**0.84**	**0.77**	**0.25**	0.58	0.81	0.74	0.43	0.46	0.76
Diluted	**0.77**	**0.72**	**0.25**	0.56	0.74	0.69	0.43	0.45	0.69
Free Cash Flow ("FCF")	**55,849**	**51,731**	**33,789**	40,765	45,873	42,683	34,890	36,025	42,195
Basic	**1.81**	**1.66**	**1.09**	1.42	1.60	1.54	1.26	1.31	1.70
Diluted	**1.58**	**1.46**	**0.98**	1.25	1.37	1.34	1.10	1.14	1.43
FCF less maintenance capital expenditures	**35,976**	**21,842**	**6,380**	22,823	26,484	25,476	16,801	20,460	24,966
Basic	**1.17**	**0.70**	**0.21**	0.80	0.93	0.92	0.61	0.74	1.01
Diluted	**1.05**	**0.66**	**0.20**	0.74	0.84	0.84	0.58	0.69	0.89
Maintenance capital expenditures	**19,873**	**29,889**	**27,409**	17,942	19,389	17,207	18,089	15,565	17,229
Growth capital expenditures	**20,771**	**33,048**	**58,790**	44,760	53,268	33,489	27,866	(517)	18,718

6. LIQUIDITY AND CAPITAL RESOURCES

During the first nine months of 2017 our financial position has continued to strengthen. During the nine month period, we completed an equity offering and used the proceeds to pay down our credit facility. The Corporation also amended and increased its capacity under the credit facility to reflect the size of its operations. The Corporation's working capital, Free Cash Flow and capital resources are strong and we have no long-term debt or debentures maturing before 2019. We have sufficient liquidity and access to capital to make further acquisitions, invest in our operating subsidiaries and meet our obligations.

As at September 30, 2017, the Corporation had a cash position of $18.8 million (December 31, 2016 of $26.5 million) and net working capital of $200.4 million (December 31, 2016 of $178.5 million), which represents a current ratio of 2.04 to 1 (December 31, 2016 of 2.05 to 1).

	September 30, 2017	December 31, 2016	Change
Cash and cash equivalents	$ **18,760**	$ 26,494	$ (7,734)
Accounts receivable	**188,745**	150,338	38,407
Costs incurred plus recognized profits in excess of billings	**11,865**	7,567	4,298
Inventory	**145,278**	129,854	15,424
Prepaid expenses and deposits	**27,821**	34,295	(6,474)
Accounts payable and accrued expenses	**(153,413)**	(127,423)	(25,990)
Income taxes payable	**(1,609)**	(3,570)	1,961
Deferred revenue	**(23,944)**	(27,222)	3,278
Billings in excess of costs incurred plus recognized profits	**(12,051)**	(10,772)	(1,279)
Current portion of long-term debt and finance leases	**(1,021)**	(1,069)	48
Net working capital	$ **200,431**	$ 178,492	$ 21,939

Working capital has increased by $21.9 million since December 31, 2016. During the period, the Corporation made significant investments in Regional One's inventory of parts for resale. In addition, an increase in revenue consistent with the seasonally busier

summer months for the Legacy Airlines resulted in increased working capital. In particular, the Corporation experienced a significant increase in accounts receivable near the end of the third quarter as a result of fire suppression and evacuation work. These receivables are due from governments across Canada and collection is expected in the fourth quarter. Finally, the sale of an operating aircraft at the end of the second quarter with deferred payment terms resulted in an increase in accounts receivable. The Corporation has an irrevocable letter of credit that ensures collection during the fourth quarter. The Corporation's working capital position can vary from period to period primarily due to variations in the timing of receipts and payment associated with larger customer contracts and fluctuations in foreign currency translation.

The Corporation aims to maintain leverage at consistent levels over time. There are points where leverage temporarily rises as a result of a significant acquisition where the associated EBITDA has not yet been realized. Our target leverage range, based on senior debt to EBITDA, is between 1.5 and 2.5. Our leverage covenant with our lenders allows for a leverage ratio maximum of 3.0. The Corporation's leverage ratio at September 30, 2017 as calculated under our credit facility was 2.09. Our leverage ratios are, and have been, within our target range and well beneath the maximum allowed under our credit facility. The Corporation has maintained relatively consistent leverage ratios since its inception in 2004 and has paid out in excess of $330 million in dividends to shareholders during that time while also growing Net Earnings per share.

Overview of Capital Structure

The Corporation's capital structure is summarized below.

	September 30 2017	December 31 2016
Total senior debt outstanding (principal value)	$ 497,943	$ 445,425
Convertible debentures outstanding (par value)	229,934	230,082
Common shares	552,471	463,603
Total capital	$ 1,280,348	$ 1,139,110

Credit facility

The size of the Corporation's credit facility is $750 million, with $695 million allocated to the Corporation's Canadian head office and US $55 million allocated to EIIF Management USA Inc. The facility allows for borrowings to be denominated in either Canadian or US funds. At September 30, 2017, the Corporation had drawn $41.3 million and US $365.9 million (December 31, 2016 - $217.3 million and US $169.9 million).

During the year, the Corporation used the net proceeds of $93.0 million from its equity offering to make a repayment of the credit facility. The Corporation made draws on its facility during the first nine months of 2017 to fund growth capital expenditures, most significantly at Regional One and the construction of a company owned maritime surveillance aircraft at Provincial. In addition, the Corporation made several draws on its facility throughout the period to fund purchases of shares for cancellation under its NCIB.

During the year, the Corporation continued to use derivatives through several cross currency basis swaps ("swap") with a member of the Corporation's lending syndicate. The swap requires that funds are exchanged back in 30 days at the same term unless both parties agree to extend the swap for a further 30 days. By borrowing in US dollars, the Corporation is able to take advantage of lower interest rates on US dollar LIBOR denominated borrowings. The swap mitigates the risk of changes in the value of the US dollar borrowings as they will be exchanged for the same Canadian equivalent in 30 days. At September 30, 2017, US $204.5 million (December 31, 2016 – US $37.8 million) of the Corporation's US denominated borrowings are hedged with these swaps.

Convertible Debentures

The following summarizes the convertible debentures outstanding as at September 30, 2017 and the changes in the amount of convertible debentures outstanding during the nine months ended September 30, 2017:

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Unsecured Debentures - 2012	EIF.DB.E	September 30, 2019	5.5%	$36.80
Unsecured Debentures - 2013	EIF.DB.F	March 31, 2020	5.35%	$41.60
Unsecured Debentures - 2014	EIF.DB.G	March 31, 2021	6.0%	$31.70
Unsecured Debentures - 2016	EIF.DB.H	June 30, 2023	5.25%	$44.75

Par value	Balance, beginning of period	Issued	Converted	Redeemed / Matured	Balance, end of period
Unsecured Debentures - September 2012	$ 56,940	$ -	$ (32)	$ -	$ 56,908
Unsecured Debentures - March 2013	65,000	-	(20)	-	64,980
Unsecured Debentures - March 2014	39,142	-	(71)	-	39,071
Unsecured Debentures - June 2016	69,000	-	(25)	-	68,975
Total	$ 230,082	$ -	$ (148)	$ -	$ 229,934

Share Capital

The following summarizes the changes in the shares outstanding of the Corporation during the nine months ended September 30, 2017:

	Date issued (redeemed)	Number of shares
Shares outstanding, beginning of period		28,793,354
Issued upon conversion of convertible debentures	various	4,144
Issued under dividend reinvestment plan (DRIP)	various	148,270
Issued under deferred share plan	various	7,727
Shares repurchased under NCIB	various	(612,480)
Prospectus offering, January 2017	January 4, 2017	2,303,450
Issued under First Nations community partnership agreements	various	8,078
Shares outstanding, end of period		30,652,543

The Corporation raised gross proceeds of $97.8 million through a bought deal equity offering on January 4, 2017, resulting in 2,303,450 shares issued at that time. This increase at the beginning of 2017 is impacting all per share calculations for 2017 with no corresponding impact on 2016 per share amounts.

The Corporation's dividend reinvestment plan ("DRIP") continued during the first nine months of 2017 and the Corporation received $5.0 million throughout the period for an aggregate 148,270 shares being issued in accordance with the DRIP.

During the second and third quarters, the Corporation repurchased shares for cancellation under its NCIB, which is detailed further below.

The weighted average shares outstanding for the three and nine months ended September 30, 2017 increased by 8% and 11%, respectively, over the comparative period. This increase is mainly as a result of the equity offering completed by the Corporation on January 4, 2017 and the shares issued as a result of the convertible debenture conversions throughout 2016.

Normal Course Issuers Bid

On January 12, 2017, the Corporation received approval from the TSX for the renewal of its NCIB to purchase up to an aggregate of 1,554,884 shares, representing 5% of the issued and outstanding Shares as at January 9, 2017. Purchases of shares pursuant to the renewed NCIB may be made through the facilities of the TSX commencing on January 23, 2017 and ending on January 22, 2018, or an earlier date in the event that the Corporation purchases the maximum number of the shares available under the NCIB. The maximum number of shares that may be purchased by the Corporation on a daily basis is 30,390 shares, other than block purchase exemptions. As of the date of this report, there are 942,404 Shares available for purchase under the NCIB ending January 22, 2018.

During the first nine months of 2017, the Corporation purchased a total of 612,480 shares through its NCIB. The Corporation paid $19.4 million to purchase these shares, with an average purchase price of $31.67. All shares purchased under the current NCIB are cancelled.

7. RELATED PARTY TRANSACTIONS

The related party transactions that the Corporation entered into during the nine months ended September 30, 2017 are consistent with those described in the Corporation's MD&A for the year ended December 31, 2016, except as noted below.

Regional One regularly enters into agreements with external entities to co-invest in certain assets. The aircraft asset or assets are often held in separate holding companies or partnerships. As the underlying assets generate cash flows, cash profits are distributed to the investors. These investments are accounted for in accordance with IFRS based on the specifics of each investment.

As described in the second quarter of 2017, the Corporation entered into an agreement with CRJ Capital Corp., a corporation owned by the CEO of Regional One. Under this agreement CRJ Capital Corp. can, subject to the approval of the Corporation, co-invest on a non-controlling basis in certain aircraft assets being purchased by Regional One. As a co-investor in these isolated aircraft assets, CRJ Capital Corp. receives profits as money is collected on the sale of the aircraft assets. In return, the CEO of Regional One has extended his non-compete agreement with the Corporation. The assets are managed by Regional One and Regional One charges a management fee to CRJ Capital Corp. for services rendered. Cash flow returns are paid out when collected from the customer.

During the current period CRJ Capital Corp. invested US$0.5 million (nine month period – US$7.8 million) with the Corporation, generating returns paid or payable to CRJ Capital Corp. of US$0.3 million (nine month period – US$2.7 million). As a result of the sale of certain of these assets and the return of the initial investment to CRJ Capital Corp., its remaining investment at September 30, 2017 was US$4.9 million.

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 Corporation's critical accounting estimates and judgments from those described in the MD&A of the Corporation for the year ended December 31, 2016.

9. ACCOUNTING POLICIES

The accounting policies of the Corporation used in the determination of the results for these interim condensed consolidated financial statements for the nine months ended September 30, 2017 that are discussed and analyzed in this report are described in detail in Note 3 of the Corporation's 2016 annual consolidated financial statements and Note 3 of the Corporation's interim condensed consolidated financial statements for the nine months ended September 30, 2017.

The significant accounting policies and methods of computation used in the preparation of these interim condensed consolidated financial statements are the same as those described in Note 3 – Significant Accounting Policies of the Corporation's 2016 annual consolidated financial statements.

Accounting standards issued but not yet effective

IFRS 15 – Revenue

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring them to provide more informative, relevant disclosures. IFRS 15 supersedes IAS 11, Customer Contracts, and IAS 18, Revenue, as well as various IFRIC and SIC interpretations regarding revenue. Adoption of IFRS 15 will be effective for the Corporation beginning on January 1, 2018, with earlier adoption permitted. The Corporation has made qualitative assessments of the impact of adopting this standard by reviewing the characteristics of all significant revenue streams and customer contracts. Quantitative impacts will be finalized prior to publishing the interim financial statements for the quarter ending March 31, 2018.

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 IFRS, as defined under National Instrument 52-109 issued by the Canadian Securities Administrators. Consistent with the concept of reasonable assurance, the Corporation recognizes that all systems of internal controls, no matter how well designed, have inherent limitations. As such, the Corporation's internal controls over financial reporting can only provide reasonable, and not absolute, assurance that the objectives of such controls are met.

An assessment of internal controls over financial reporting was conducted by the Corporation's management, under supervision by the Chief Executive Officer and Chief Financial Officer. Management has used the 2013 Internal Control – Integrated Framework to evaluate the Corporation's internal controls over financial reporting, which is recognized as a suitable framework developed by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Management has evaluated the design of the Corporation's internal controls over financial reporting as at September 30, 2017, and has concluded that the design of internal controls over financial reporting is effective.

There have been no material changes to the Corporation's internal controls during the 2017 period that would have materially affected or are likely to materially affect the internal controls over financial reporting.

Disclosure Controls and Procedures

Management has established and maintained disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Corporation is made known to management in a timely manner and that information required to be disclosed by the Corporation is reported within the time periods prescribed by applicable securities legislation. Management has concluded that disclosure controls and procedures were designed effectively as at September 30, 2017.

11. RISK FACTORS

The Corporation and its subsidiaries are subject to a number of business risks. These risks relate to the structure of the Corporation and to the operations at the subsidiary entities. There were no changes to the Corporation's principal risks and uncertainties from those reported in the Corporation's MD&A for the year ended December 31, 2016.

12. OUTLOOK

Acquisition strategy

EIC is committed to being active in the acquisition market, in addition to its internal growth opportunities. The Corporation continues to uncover acquisition opportunities in the market in both of its segments and is actively pursuing opportunities. The Corporation is well positioned to take advantage of potential opportunities with approximately $250 million of undrawn credit facility available to fund acquisitions or internal investment opportunities.

The Corporation's acquisition pipeline is strong, particularly in Canada where multiples are not as elevated as in the United States. The Corporation is currently in negotiation on potential acquisitions and is cautiously optimistic.

Aerospace & Aviation Segment

Long-term decision making and past investments at our regional airlines continue to generate returns. This long term focus and investment also provided our airlines the opportunity to further expand beyond their traditional territories. Keewatin is on schedule to start providing medevac services in the Kitikmeot region of Nunavut starting in December under their newly awarded five year contract for this region. Keewatin will now provide sole source service to all regions in Nunavut. Calm Air added two additional communities in Nunavut as part of the previously announced new long-term contract with a major northern retail cargo customer. These new locations are in the Kitikmeot region of Nunavut which is outside of Calm Air's traditional Kivalliq region. Perimeter added two new Community Partnership Agreements ("CPA") in NWO bringing its total to 3 in this region as it continues to execute on its expansion into this region.

As we expand our services in NWO, Perimeter and Bearskin have harmonized their services providing better connectivity to their passengers and efficiency for their operations. As we move into the new year Perimeter and Bearskin will continue to become more integrated, combining back office functions and streamlining their maintenance and flight operations.

The regional airlines continue to work with our partners throughout our service area to deliver service and benefits to their communities. The new partnership, Air Borealis, formed in June 2017 with the Innu and the Inuit in Labrador is fully operational and is performing as expected. As mentioned, Perimeter added two new CPA's in NWO. In addition, Custom has been working with multiple CPA communities in Northern Manitoba to provide a critical new service to medevac patients in these northern communities whereby Custom will be able to transfer patients at night. Custom is able to deliver this service because of the addition of the Eurocopter 135 in 2016, which enabled them to obtain their Instrument Flight Rules ("IFR") certification in August of 2017 including the capability for night vision.

In 2016 and the first half of 2017 Regional One made significant investments in its regional aircraft portfolio of assets, including parts, engines and operating aircraft. This resulted in clear growth in EBITDA that continued in the third quarter of 2017, contributing to the 49% increase in EBITDA for the nine months ended September 30, 2017 compared to the same period in 2016. As discussed in the 2017 second quarter reporting, the level of growth investment in Regional One has slowed in the third quarter and this lower level of spending is expected to continue in the future. In the third quarter Regional One invested $7.5 million in maintenance capital expenditures and had no growth capital investments. Regional One will continue to invest in maintenance capital expenditures at the current level based on its current portfolio to sustain its level of operations and EBITDA. However, Regional One and EIC will continue to be opportunistic in their approach to purchasing and if the right opportunity is uncovered, Regional One will capitalize on these opportunities.

Provincial continues to work with Airbus Defence and Space on the Fixed Wing Search and Rescue contract. This program has been progressing as planned and Provincial continues to meet all its milestones as outlined in the contract. Also within our aerospace companies, CarteNav successfully added both a naval and a land contract for their surveillance software. This is significant as it expands our surveillance opportunities beyond our traditional capabilities within fixed wing surveillance. Additionally, Provincial's previously announced demonstrator surveillance aircraft will be unveiled at the Dubai Airshow next week. This will enable PAL to

showcase its capabilities to prospective customers around the world with the expectation of revenue opportunities for this aircraft occurring in 2018. This new platform gives Provincial the ability to offer tailored surveillance services to governments around the world allowing them to take full advantage of its vast capabilities without a larger capital investment. PAL believes partnering with Thales and CarteNav gives them a world class offering which has garnered a lot of interest both at home in Canada and around the world.

Manufacturing Segment

The same factors that are fueling the improvement in all businesses within our manufacturing segment except for WesTower are expected to remain in place throughout the rest of the year. For WesTower, we do not foresee any significant change in the operating environment and expect the difficult conditions to persist at least through the remainder of 2017.

Consistent with the experience of the past four quarters, bookings and enquiries for Stainless have remained high. With this increased activity, the backlog of work stretches well into the second quarter of 2018 and we are experiencing a higher proportion of bookings and quotations for field work, which will continue to drive solid margins.

The industries serviced by the Alberta Operations have experienced a slow but steady economic recovery throughout 2017. Based on inquiries and booking levels, we have every reason to believe that this recovery will continue. Activity levels, including quotations, orders and deliveries, are increasing for a number of the products and services the company provides.

Worldwide increases in defence spending are driving increased volumes at Ben Machine. The increase in demand is coming from current customers, from customers that have not had work requirements for the past few years and from new customers. The company is also seeing a diversification of its business as new orders and inquiries are coming from outside the aerospace sector. Ben Machine continues to enhance efficiencies, adjust equipment and has added key personnel to free up capacity so it can absorb the increased demand. We expect these activity levels to continue throughout the remainder of the year.

The steps taken throughout the year to increase production capacity and improve efficiencies have positioned Overlanders to capitalize on increased customer demand. Overlanders' primary customer is growing and Overlanders is working collaberatively with this customer to help achieve this growth, further cementing the relationship between the companies. At the same time, it is broadening its customer base and utilizing all available capacity.

As previously discussed, WesTower continues to be negatively impacted by reduced capital spending by cellular carriers in WesTower's traditional services as they prepare for the transition to the next generation of technology. While we are confident that the traditional services offered by WesTower are critical and the demand will return, it is very difficult to predict when we will begin to see this return to more historical levels. It is partnering with other companies to combine its crews, technology and equipment with their expertise to expand its offerings into wireline services and in-building systems. WesTower is also developing new service offerings such as corrosion testing for cellular carriers' existing tower infrastructure. Additionally, WesTower is utilizing its metal fabrication facilities and expertise to branch out into other, non-tower, product offerings. The remainder of 2017 will be challenging for the company and we do not anticipate it to fully rebound until the rollout of the of the wireless network upgrades begins to takes place.

Maintenance Capital Expenditures

As discussed in *Section 3 – Key Performance Indicators*, the vast majority of the Corporation's maintenance capital expenditures are driven by the Aerospace & Aviation Segment. The expenditures for the operating airlines can vary significantly from period to period depending on the number of maintenance events that fall into a given period. Within Regional One, the maintenance capital expenditures are largely driven by its leasing fleet. The depreciation on these leased aircraft has and will be charged as maintenance capital expenditures to account for the portion of the aircraft that is consumed as it is leased. As a consequence, Regional One will experience higher maintenance capital expenditures as its leasing portfolio expands.

As we have consistently communicated throughout the year, 2017 will be a year of high maintenance capital expenditures for the airlines compared to other recent periods because of the timing of major aircraft maintenance events in addition to regular ongoing line maintenance. The operating airlines will experience a higher amount of scheduled large aircraft overhauls in 2017 as a result of the variability in timing of these events over the fleet of aircraft. There are 15 large aircraft overhauls scheduled for fiscal 2017 compared to 9 in 2016. This compares to a historical average of 11 aircraft overhauls per year experienced by the operating airlines. Our year to date maintenance capital spending is in line with our plan and we anticipate that we will see maintenance capital expenditures for the fourth quarter that are consistent with our third quarter spend.

13. NON-IFRS FINANCIAL MEASURES

EBITDA, Adjusted Net Earnings, Free Cash Flow and Maintenance and Growth Capital Expenditures are not recognized measures under IFRS and are, therefore, defined below.

EBITDA: is defined as earnings before interest, income taxes, depreciation, amortization, other non-cash items such as gains or losses recognized on the fair value of contingent consideration items, asset impairment and restructuring costs, and any unusual non-operating one-time items such as acquisition costs. It is used by management to assess its consolidated results and the results of its operating segments. EBITDA is a performance measure utilized by many investors to analyze the cash available for distribution from operations before allowance for debt service, capital expenditures and income taxes.

Adjusted Net Earnings: is defined as net earnings adjusted for acquisition costs expensed, amortization of intangible assets that are purchased at the time of acquisition and non-recurring items. Adjusted Net Earnings is a performance measure, along with Free Cash Flow less maintenance capital expenditures, which the Corporation uses to assess cash flow available for distribution to shareholders.

Free Cash Flow: for the year is equal to cash flow from operating activities as defined by IFRS, adjusted for changes in non-cash working capital and long-term deferred revenue, acquisition costs and any unusual non-operating one-time items. Free Cash Flow is a performance measure used by management and investors to analyze the cash generated from operations before the seasonal impact of changes in working capital items or other unusual items.

Maintenance and Growth Capital Expenditures: are the capital expenditures made by the Corporation to maintain the operations of the Corporation at its current level and includes the principal payments made by the Corporation on its finance leases and depreciation recorded on assets in the Corporation's leasing pool. Other capital expenditures are classified as growth capital expenditures as they will generate new cash flows and are not considered by management in determining the cash flows required to sustain the current operations of the Corporation.

The Corporation's maintenance capital expenditures include aircraft engine overhauls and airframe heavy checks that are recognized when these events occur and can be significant. Each aircraft type has different requirements for its major components according to manufacturer standards and the timing of the event can be dependent on the extent that the aircraft is utilized. As a result the extent and timing of these maintenance capital expenditure events can vary significantly from period to period, both within the year and when analyzing to the comparative period in the prior year.

Investors are cautioned that EBITDA, Adjusted Net Earnings, Free Cash Flow and Maintenance Capital Expenditures and Growth Capital Expenditures should not be viewed as an alternative to measures that are recognized under IFRS such as net earnings or cash from operating activities. The Corporation's method of calculating EBITDA, Adjusted Net Earnings, Free Cash Flow and Maintenance Capital Expenditures and Growth Capital Expenditures 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 Corporation is on SEDAR at www.sedar.com.

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited, in thousands of Canadian dollars)

As at	September 30 2017	December 31 2016
ASSETS		
CURRENT		
Cash and cash equivalents	$ 18,760	$ 26,494
Accounts receivable	188,745	150,338
Costs incurred plus recognized profits in excess of billings	11,865	7,567
Inventory	145,278	129,854
Prepaid expenses and deposits	27,821	34,295
	392,469	348,548
OTHER ASSETS (Note 6)	32,519	14,589
CAPITAL ASSETS	778,253	693,993
INTANGIBLE ASSETS	99,785	107,277
DEFERRED INCOME TAX ASSETS	245	238
GOODWILL	255,798	259,887
	$ 1,559,069	$ 1,424,532
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ 153,413	$ 127,423
Income taxes payable	1,609	3,570
Deferred revenue	23,944	27,222
Billings in excess of costs incurred plus recognized profits	12,051	10,772
Current portion of long-term debt and finance leases (Note 7)	1,021	1,069
	192,038	170,056
LONG-TERM DEBT AND FINANCE LEASES (Note 7)	496,996	445,260
OTHER LONG-TERM LIABILITIES	18,853	18,399
DEFERRED REVENUE	7,890	11,293
CONVERTIBLE DEBENTURES (Note 8)	215,075	212,344
DEFERRED INCOME TAX LIABILITY	77,423	81,043
	1,008,275	938,395
EQUITY		
SHARE CAPITAL (Note 9)	552,471	463,603
CONVERTIBLE DEBENTURES - Equity Component (Note 8)	11,235	11,245
CONTRIBUTED SURPLUS	3,478	3,478
DEFERRED SHARE PLAN	9,129	7,207
RETAINED EARNINGS		
Cumulative Earnings	303,221	247,981
Cumulative Dividends	(339,428)	(290,631)
Cumulative impact of share cancellation under the NCIB (Note 9)	(8,770)	(395)
	(44,977)	(43,045)
ACCUMULATED OTHER COMPREHENSIVE INCOME	19,458	43,649
	550,794	486,137
	$ 1,559,069	$ 1,424,532

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

Approved on behalf of the directors by:

Duncan Jessiman, Director — *Signed*

Donald Streuber, Director — *Signed*

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

For the periods ended September 30	Three Months Ended 2017	Three Months Ended 2016	Nine Months Ended 2017	Nine Months Ended 2016
REVENUE				
Aerospace & Aviation	$ 204,004	$ 178,764	$ 608,023	$ 529,382
Manufacturing	49,363	45,856	141,017	139,987
	253,367	224,620	749,040	669,369
EXPENSES				
Aerospace & Aviation expenses - excluding depreciation and amortization	108,769	99,318	347,936	310,857
Manufacturing expenses - excluding depreciation and amortization	38,318	33,805	108,317	105,073
General and administrative	34,316	31,485	107,404	92,168
	181,403	164,608	563,657	508,098
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER (Note 4)	71,964	60,012	185,383	161,271
Depreciation of capital assets	27,939	20,823	81,587	60,326
Amortization of intangible assets	2,460	2,827	7,990	8,498
Finance costs - interest	8,954	7,132	24,833	22,489
Acquisition costs	18	500	304	872
Gain on disposal on partnership interest, net of transaction costs (Note 6)	-	-	(5,585)	-
EARNINGS BEFORE INCOME TAXES	32,593	28,730	76,254	69,086
INCOME TAX EXPENSE (RECOVERY)				
Current	8,955	8,245	24,235	21,230
Deferred	(264)	(96)	(3,221)	188
	8,691	8,149	21,014	21,418
NET EARNINGS	$ 23,902	$ 20,581	$ 55,240	$ 47,668
EARNINGS PER SHARE (Note 12)				
Basic	$ 0.78	$ 0.72	$ 1.78	$ 1.70
Diluted	$ 0.72	$ 0.67	$ 1.71	$ 1.64

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands of Canadian dollars)

Attributable to common shareholders	Three Months Ended		Nine Months Ended	
For the periods ended September 30	**2017**	2016	**2017**	2016
NET EARNINGS	$ **23,902**	$ 20,581	$ **55,240**	$ 47,668
OTHER COMPREHENSIVE INCOME (LOSS),				
Items that are or may be reclassified to the Statement of Income				
Cumulative translation adjustment, net of tax expense (recovery)for the three months ended September 30 of $(13) and $4, respectively and net of tax recovery for the nine months ended September 30 of $(34) and $(80), respectively	**(21,016)**	2,839	**(37,881)**	(16,326)
Net gain (loss) on hedge of net investment in foreign operation, net of tax expense for the three months ended September 30 of $877 and $81, respectively and net of tax expense for the nine months ended September 30 of $1,459 and $595, respectively	**8,146**	(589)	**13,690**	2,573
	(12,870)	2,250	**(24,191)**	(13,753)
COMPREHENSIVE INCOME FOR THE PERIOD	$ **11,032**	$ 22,831	$ **31,049**	$ 33,915

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited, in thousands of Canadian dollars)

	Share Capital	Convertible Debentures - Equity Component	Contributed Surplus - Matured Debentures	Deferred Share Plan	Retained Earnings: Cumulative Earnings	Retained Earnings: Cumulative Dividends	Retained Earnings: Cumulative impact of share repurchase under NCIB	Accumulated Other Comprehensive Income (Loss)	**Total**
Balance, January 1, 2016	$ 425,561	$ 11,200	$ 1,788	$ 5,123	$ 186,491	$ (234,300)	$ -	$ 50,755	$ **446,618**
Convertible debentures									
Converted into shares (Note 9)	27,899	(1,446)	-	-	-	-	-	-	**26,453**
Issued	-	3,262	-	-	-	-	-	-	**3,262**
Matured	-	(1,690)	1,690	-	-	-	-	-	**-**
Shares issued under dividend reinvestment plan (Note 9)	3,887	-	-	-	-	-	-	-	**3,887**
Deferred share plan vesting	-	-	-	1,612	-	-	-	-	**1,612**
Deferred share plan issuance	60	-	-	(60)	-	-	-	-	**-**
Shares cancelled under NCIB (Note 9)	(889)	-	-	-	-	-	(395)	-	**(1,284)**
Comprehensive income	-	-	-	-	47,668	-	-	(13,753)	**33,915**
Dividends declared (Note 10)	-	-	-	-	-	(41,463)	-	-	**(41,463)**
Balance, September 30, 2016	**$ 456,518**	**$ 11,326**	**$ 3,478**	**$ 6,675**	**$ 234,159**	**$ (275,763)**	**$ (395)**	**$ 37,002**	**$ 473,000**
Balance, January 1, 2017	$ 463,603	$ 11,245	$ 3,478	$ 7,207	$ 247,981	$ (290,631)	(395)	$ 43,649	$ **486,137**
Prospectus offering, January 2017 (Note 9)	94,288	-	-	-	-	-	-	-	**94,288**
Convertible debentures									
Converted into shares (Note 9)	154	(10)	-	-	-	-	-	-	**144**
Shares issued under dividend reinvestment plan (Note 9)	5,001	-	-	-	-	-	-	-	**5,001**
Shares issued under First Nations community partnership agreements (Note 9)	245	-	-	-	-	-	-	-	**245**
Deferred share plan vesting	-	-	-	1,922	-	-	-	-	**1,922**
Deferred share plan issuance (Note 9)	199	-	-	-	-	-	-	-	**199**
Shares cancelled under NCIB (Note 9)	(11,019)	-	-	-	-	-	(8,375)	-	**(19,394)**
Comprehensive income	-	-	-	-	55,240	-	-	(24,191)	**31,049**
Dividends declared (Note 10)	-	-	-	-	-	(48,797)	-	-	**(48,797)**
Balance, September 30, 2017	**$ 552,471**	**$ 11,235**	**$ 3,478**	**$ 9,129**	**$ 303,221**	**$ (339,428)**	**$ (8,770)**	**$ 19,458**	**$ 550,794**

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

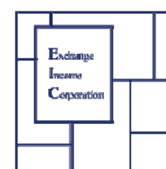
Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of Canadian dollars)

For the periods ended September 30	Three Months Ended 2017	Three Months Ended 2016	Nine Months Ended 2017	Nine Months Ended 2016
OPERATING ACTIVITIES				
Net earnings for the period	$ 23,902	$ 20,581	$ 55,240	$ 47,668
Items not affecting cash:				
Depreciation of capital assets	27,939	20,823	81,587	60,326
Amortization of intangible assets	2,460	2,827	7,990	8,498
Accretion of interest	1,272	1,035	3,668	4,427
Long-term debt discount (paid) accretion	(68)	19	84	208
(Gain)/loss on sale of disposal of capital assets	(147)	(387)	(419)	(353)
Deferred income tax	(264)	(96)	(3,221)	188
Deferred share program share-based vesting	737	571	2,121	1,612
Gain on disposal of partnership interest	-	-	(5,985)	-
	55,831	45,373	141,065	122,574
Changes in non-cash operating working capital items and long-term deferred revenue (Note 16)	(1,978)	(10,028)	(43,418)	(25,182)
	53,853	35,345	97,647	97,392
FINANCING ACTIVITIES				
Proceeds from long-term debt & finance leases, net of issuance costs	19,928	58,360	59,875	82,010
Proceeds from issuance of debentures, net of issuance costs	-	-	-	65,623
Redemption of convertible debentures (Note 8)	-	-	-	(30,357)
Issuance of shares, net of issuance costs	1,690	1,342	97,995	3,887
Payment for repurchase of Shares under NCIB (Note 9)	(9,490)	-	(19,394)	(1,284)
Cash dividends (Note 10)	(16,152)	(14,366)	(48,797)	(41,463)
	(4,024)	45,336	89,679	78,416
INVESTING ACTIVITIES				
Purchase of capital assets	(55,170)	(79,754)	(222,183)	(190,784)
Proceeds from disposal of capital assets	15,303	7,972	34,835	23,195
Purchase of intangible assets	(581)	(595)	(1,827)	(1,071)
Cash outflow for prior acquisition working capital settlement (Note 15)	(14)	(8,158)	(158)	(8,158)
Investment in other assets	(1,497)	(512)	(5,002)	(266)
Finance lease receivable payments, net of reserves	(3,223)	828	(725)	1,754
	(45,182)	(80,219)	(195,060)	(175,330)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,647	462	(7,734)	478
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	14,113	15,513	26,494	15,497
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 18,760	$ 15,975	$ 18,760	$ 15,975
Supplementary cash flow information				
Interest paid	$ 4,757	$ 7,942	$ 17,412	$ 17,944
Income taxes paid	$ 6,947	$ 2,499	$ 25,718	$ 5,144

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



(unaudited, in thousands of Canadian dollars unless otherwise noted, except per share information and share data)

1. ORGANIZATION

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

As at September 30, 2017, the principal operating subsidiaries of the Corporation are Perimeter Aviation LP, Keewatin Air LP, Calm Air International LP, Bearskin Lake Air Service LP, Custom Helicopters Ltd., Overlanders Manufacturing LP, Water Blast Manufacturing LP, WesTower Communications Ltd., R1 Canada LP, Provincial Aerospace Ltd., Ben Machine Products Company Inc., EIC Aircraft Leasing Ltd., and EIIF Management USA Inc.. Stainless Fabrication, Inc., Dallas Sailer Enterprises, Inc., and Regional One Inc. are wholly owned subsidiaries of EIIF USA. Through the Corporation's subsidiaries, products and services are provided in two business segments: Aerospace & Aviation and Manufacturing.

The Corporation's interim results are impacted by seasonality factors. The Aerospace & Aviation segment has historically had the strongest revenues in the second and third quarters when demand tends to be highest, relatively modest in the fourth quarter and the lowest in the first quarter as communities serviced by the airlines are less isolated with the use of winter roads for transportation during the winter. With the diversity of the Manufacturing segment, the seasonality of the segment is relatively flat throughout the fiscal period.

2. BASIS OF PREPARATION

The Corporation prepares its interim condensed consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") – Part I as set out in the CPA Canada Handbook – Accounting ("CPA Handbook"). Part I of the CPA Handbook incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to interim financial statements, including IAS 34, Interim Financial Reporting. These interim condensed consolidated financial statements are presented in thousands of Canadian dollars, except per share information and share data.

In accordance with IFRS, these financial statements do not include all of the financial statement disclosures required for annual financial statements and should be read in conjunction with the Corporation's annual consolidated financial statements for the year ended December 31, 2016. In management's opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim period presented.

During the year, the Corporation reclassified certain of the December 31, 2016 comparative figures to correspond with current period reporting classification. The reclassifications included $11,293 of current deferred revenue to long-term deferred revenue and $3,441 from other long-term liabilities to accounts payable and accrued expenses.

During the year, the Corporation separated its depreciation and amortization into separate line items on the statement of income. Previously, depreciation of capital asset and amortization of intangible assets were included within one line. The prior year comparative figures have been adjusted to conform with current year presentation.

During the year, the Corporation separated the impact of cumulative purchases under its normal course issuer bid within retained earnings. As part of the repurchase and cancellation, the Corporation must allocate a portion of the purchase price to retained earnings and a portion to share capital based on the average book value of the shares at the time of repurchase (calculated as share capital divided by the number of shares outstanding). The portion that exceeds the average book value is recorded as a reduction to cumulative retained earnings. The prior year comparative figures have been reclassified to conform to current period presentation.

These interim condensed consolidated financial statements were approved by the Board of Directors of the Corporation for issue on November 8, 2017.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and methods of computation used in the preparation of these interim condensed consolidated financial statements are the same as those followed in the most recent annual financial statements. Note 3 of the Corporation's 2016 audited financial statements includes a comprehensive listing of the Corporation's significant accounting policies.

Accounting standards issued but not yet effective

IFRS 15 – Revenue

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring them to provide more informative, relevant disclosures. IFRS 15 supersedes IAS 11, Customer Contracts, and IAS 18, Revenue, as well as various IFRIC and SIC interpretations regarding revenue. Adoption of IFRS 15 will be effective for the Corporation beginning on January 1, 2018, with earlier adoption permitted. The Corporation has made qualitative assessments of the impact of adopting this standard by reviewing the characteristics of all significant revenue streams and customer contracts. Quantitative impacts will be finalized prior to publishing the interim financial statements for the quarter ending March 31, 2018.

4. OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER

The Corporation presents, as an additional IFRS measure, operating profit before depreciation, amortization, finance costs and other in the consolidated statement of income to assist users in assessing financial performance. The Corporation's management and the Board use this measure to evaluate consolidated operating results and assess the ability of the Corporation to incur and service debt. In addition, this measure is used to make operating decisions as it is an indicator of performance and how much cash is being generated by the Corporation and assists in determining the need for additional cost reductions, evaluation of personnel and resource allocation decisions. Operating profit before depreciation, amortization, finance costs and other is referred to as an additional IFRS measure and may not be comparable to similar measures presented by other companies.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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 Corporation's critical accounting estimates and judgments from those described in the most recent annual financial statements.

6. OTHER ASSETS

Changes to other assets of the Corporation from those disclosed at December 31, 2016 consist of the following:

Air Borealis

On June 18, 2017, PAL Airlines expanded its Labrador indigenous partnership to include both the Innu Development Limited Partnership ("IDLP") and Nunatsiavut Group of Companies ("NGC"). The new partnership provides air services, primarily in the Labrador region, under the brand Air Borealis. The three partners have equal ownership interests and equal board representation. The air services provided by Air Borealis were previously provided by Innu Mikun and Air Labrador. PAL Airlines disposed of its existing interest in Innu Mikun by contributing it to the new partnership in return for a one-third interest in the new partnership. Likewise, IDLP contributed its existing interest in Innu Mikun and NGC contributed cash as well as its existing interest in Air Labrador. The Corporation recorded a non-cash gain of $5,585 on the disposal of its interest in Innu Mikun. The gain was determined under IFRS by comparing the carrying value of its previous investment to its percentage of the fair value of the net assets contributed by the other partners. Its interest in Innu Mikun has therefore been de-recognized and its new interest has been recorded in Other Assets at an amount equal to the original book value of the partnership plus the gain. The costs associated with this transaction have been expensed and netted with the non-cash gain on the income statement. The equity method of accounting will be used to recognize the Corporation's share of the future earnings of Air Borealis. In connection with this transaction, the Corporation loaned $5,100 to NGC. The loan is interest bearing and repayable over the next five years and is also recognized in Other Assets.

7. LONG-TERM DEBT AND FINANCE LEASES

The following summarizes the Corporation's long-term debt and finance leases as at September 30, 2017 and December 31, 2016:

	September 30 2017	December 31 2016
Revolving term facility:		
Canadian dollar amounts drawn	$ 41,300	$ 217,300
United States dollar amounts drawn (US$365,900 and US$169,900 respectively)	456,643	228,125
Total credit facility debt outstanding, principal value	497,943	445,425
less: unamortized transaction costs	(1,915)	(1,087)
less: unamortized discount on outstanding Banker's Acceptances	(78)	(163)
Net credit facility debt	495,950	444,175
Finance leases	2,067	2,154
Total net credit facility debt and finance leases	498,017	446,329
less: current portion of finance leases	(1,021)	(1,069)
Long-term debt and finance leases	$ 496,996	$ 445,260

The Corporation's credit facility is secured by a general security agreement over the assets of the Corporation, subject to customary terms, conditions, covenants and other provisions, and includes both financial and negative covenants. The Corporation is in compliance with all financial and negative covenants as at September 30, 2017.

The Corporation reached an agreement to amend the terms of its credit facility during the nine month period ended September 30, 2017. The amendments included increasing the credit facility from $550,000 to $750,000 and the maturity was extended to March 2021. The credit facility consists of $695,000 allocated to the Corporation's Canadian head office and US $55,000 allocated to EIIF Management USA Inc. The facility allows for borrowings to be denominated in either Canadian or US funds.

Interest expense recorded by the Corporation during the three and nine months ended September 30, 2017 for the long-term debt and finance leases was $4,816 and $12,469, respectively (2016 – $3,203 and $9,122, respectively).

Credit Facility

The following is the continuity of long-term debt for the nine months ended September 30, 2017:

	Nine Months Ended September 30, 2017				
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar portion	$ 217,300	$ 121,800	$ (297,800)	$ -	$ 41,300
United States dollar portion	228,125	478,301	(220,357)	(29,426)	456,643
	$ 445,425				$ 497,943

8. CONVERTIBLE DEBENTURES

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Unsecured Debentures - 2012	EIF.DB.E	September 30, 2019	5.5%	$ 36.80
Unsecured Debentures - 2013	EIF.DB.F	March 31, 2020	5.35%	$ 41.60
Unsecured Debentures - 2014	EIF.DB.G	March 31, 2021	6.0%	$ 31.70
Unsecured Debentures - 2016	EIF.DB.H	June 30, 2023	5.25%	$ 44.75

Summary of the debt component of the convertible debentures:

	2017 Balance, Beginning of Period	Debentures Issued	Accretion Charges	Debentures Converted	Redeemed / Matured	2017 Balance, End of Period
Unsecured - 2012	$ 54,838	$ -	$ 533	$ (31)	$ -	$ 55,340
Unsecured - 2013	62,662	-	497	(22)	-	63,137
Unsecured - 2014	37,366	-	276	(69)	-	37,573
Unsecured - 2016	64,486	-	451	(25)	-	64,912
						220,962
less: unamortized transaction costs						(5,887)
Convertible Debentures - Debt Component, end of period						$ 215,075

During the nine months ended September 30, 2017, convertible debentures totaling a face value of $148 were converted by the holders at various times into 4,144 shares of the Corporation (2016 – $27,120 face value into 886,264 shares).

Interest expense recorded during the three and nine months ended September 30, 2017 for the convertible debentures was $4,138 and $12,364 respectively (2016 – $3,929 and $13,367, respectively).

Convertible Debentures Equity Component

Since all of the outstanding convertible debentures contain a conversion feature available to the debenture-holder to convert debenture principal into shares of the Corporation, 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 debentures at the time the convertible debentures were issued. The difference between the principal amount of the convertible debentures and the present value of interest and principal payments over the life of the convertible debentures is accreted over the term of the convertible debentures through periodic charges to the debt component, such that, on maturity, the debt component equals the principal amount of the convertible debentures outstanding.

Summary of the equity component of the convertible debentures:

	September 30 2017	December 31 2016
Unsecured Debentures - 2012	$ 3,164	$ 3,166
Unsecured Debentures - 2013	3,061	3,063
Unsecured Debentures - 2014	1,751	1,754
Unsecured Debentures - 2016	3,259	3,262
Convertible Debentures - Equity Component, end of period	$ 11,235	$ 11,245

All convertible debentures outstanding at September 30, 2017 represent direct unsecured debt obligations of the Corporation.

9. SHARE CAPITAL

Changes in the shares issued and outstanding during the nine months ended September 30, 2017 are as follows:

	Number of Shares		2017 Amount
Share capital, beginning of period	28,793,354	$	463,603
Issued upon conversion of convertible debentures	4,144		154
Issued under dividend reinvestment plan	148,270		5,001
Shares repurchased under NCIB	(612,480)		(11,019)
Issued under deferred share plan	7,727		199
Prospectus offering, January, 2017	2,303,450		94,288
Issued under First Nations community partnership agreements	8,078		245
Share capital, end of period	30,652,543	$	552,471

On January 4, 2017, the Corporation issued 2,003,000 shares at $42.45 per share out of treasury as part of the equity offering announced in the fourth quarter of 2016. The underwriters were granted an overallotment option of 300,450 additional shares, which was fully exercised, resulting in a total of 2,303,450 shares issued for aggregate consideration of $97,781.

On January 12, 2017, the Corporation received approval from the TSX for the renewal of its NCIB and during the nine months ended September 30, 2017 purchased a total of 612,480 shares. The Corporation purchased the shares at an average cost of $31.67 per share for aggregate consideration of $19,394. All of the shares repurchased under NCIB were cancelled. The excess of the cost over the average book value of $8,375 was charged to retained earnings.

10. DIVIDENDS DECLARED

The Corporation pays cash dividends on or about the 15th of each month to shareholders of record on the last business day of the previous month. The Corporation's Board of Directors regularly examines the dividends paid to shareholders.

The amounts and record dates of the dividends during the nine months ended September 30, 2017 and the comparative 2016 period are as follows:

Month	Record date		Per Share		2017 Dividends Amount	Record date		Per Share		2016 Dividends Amount
January	January 31, 2017	$	0.175	$	5,438	January 29, 2016	$	0.16	$	4,424
February	February 28, 2017		0.175		5,447	February 29, 2016		0.16		4,416
March	March 31, 2017		0.175		5,450	March 31, 2016		0.16		4,418
April	April 28, 2017		0.175		5,455	April 29, 2016		0.16		4,423
May	May 31, 2017		0.175		5,444	May 31, 2016		0.1675		4,633
June	June 30, 2017		0.175		5,411	June 30, 2016		0.1675		4,783
July	July 31, 2017		0.175		5,402	July 29, 2016		0.1675		4,786
August	August 31, 2017		0.175		5,383	August 31, 2016		0.1675		4,789
September	September 29, 2017		0.175		5,367	September 30, 2016		0.1675		4,791
Total		$	1.575	$	48,797		$	1.4775	$	41,463

Subsequent to September 30, 2017 and before these interim condensed consolidated financial statements were authorized, the Corporation declared a monthly dividend of $0.175 per share for October 2017.

11. SEGMENTED AND SUPPLEMENTAL INFORMATION

Operating segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

The Corporation's operating business segments include strategic business units that offer different products and services. The Corporation has two operating business segments: Aerospace & Aviation and Manufacturing. The Aerospace & Aviation segment provides airline services to communities in Manitoba, Ontario, Nunavut and eastern Canada and also provides aircraft and engine aftermarket parts to regional airline operators around the world. In addition, Provincial's aerospace business designs, modifies, maintains and operates custom sensor equipped aircraft. The Manufacturing segment consists of niche specialty metal manufacturers in markets throughout Canada and the United States.

The Corporation evaluates each segment's performance based on EBITDA. The Corporation's method of calculating EBITDA may differ from that of other corporations and therefore may not be comparable to measures utilized by them. The Corporation's method of calculating EBITDA is consistent with the Corporation's Operating Profit before Depreciation, Amortization, Finance Costs and Other presented in the consolidated statement of income. All inter-segment and intra-segment revenues are eliminated, and all segment revenues presented in the tables below are from external customers.

"Head Office" used in the following segment tables is not a separate segment and is only presented to reconcile to enterprise EBITDA, certain statement of financial position amounts and capital asset additions. It includes expenses incurred at head office of the Corporation.

	Three Months Ended September 30, 2017			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 204,004	$ 49,363	$ -	$ 253,367
Expenses	131,817	43,773	5,813	181,403
EBITDA	72,187	5,590	(5,813)	71,964
Depreciation of capital assets				27,939
Amortization of intangible assets				2,460
Finance costs - interest				8,954
Acquisition costs				18
Earnings before income tax				32,593
Current income tax expense				8,955
Deferred income tax recovery				(264)
Net earnings				$ 23,902

	Three Months Ended September 30, 2016			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 178,764	$ 45,856	$ -	$ 224,620
Expenses	121,206	39,436	3,966	164,608
EBITDA	57,558	6,420	(3,966)	60,012
Depreciation of capital assets				20,823
Amortization of intangible assets				2,827
Finance costs - interest				7,132
Acquisition costs				500
Earnings before income tax				28,730
Current income tax expense				8,245
Deferred income tax recovery				(96)
Net earnings				$ 20,581

	Nine Months Ended September 30, 2017			
	Aerospace & Aviation	**Manufacturing**	**Head Office**	**Consolidated**
Revenue	**$ 608,023**	**$ 141,017**	**$ -**	**$ 749,040**
Expenses	**422,693**	**125,947**	**15,017**	**563,657**
EBITDA	**185,330**	**15,070**	**(15,017)**	**185,383**
Depreciation of capital assets				**81,587**
Amortization of intangible assets				**7,990**
Finance costs - interest				**24,833**
Acquisition costs				**304**
Gain on disposal of partnership interest				**(5,585)**
Earnings before income tax				**76,254**
Current income tax expense				**24,235**
Deferred income tax recovery				**(3,221)**
Net earnings				**$ 55,240**

	Nine Months Ended September 30, 2016			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 529,382	$ 139,987	$ -	$ 669,369
Expenses	373,793	122,364	11,941	508,098
EBITDA	155,589	17,623	(11,941)	161,271
Depreciation of capital assets				60,326
Amortization of intangible assets				8,498
Finance costs - interest				22,489
Acquisition costs				872
Earnings before income tax				69,086
Current income tax expense				21,230
Deferred income tax expense				188
Net earnings				$ 47,668

	September 30, 2017			
	Aerospace & Aviation	**Manufacturing**	**Head Office[1]**	**Consolidated**
Total assets	**$ 1,348,469**	**$ 202,929**	**$ 7,671**	**$ 1,559,069**
Net capital asset additions, excluding finance leases	**184,534**	**2,149**	**665**	**187,348**

	December 31, 2016			
	Aerospace & Aviation	Manufacturing	Head Office[1]	Consolidated
Total assets	$ 1,283,173	$ 205,921	$ (64,562)	$ 1,424,532
Net capital asset additions, excluding finance leases	226,186	2,985	456	229,627

Note 1): Includes corporate assets not directly attributable to operating segments. Such unallocated assets include corporate cash that is part of the Corporation's mirror banking arrangements.

12. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net earnings by the weighted average number of shares outstanding during the period.

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 Corporation has two categories of dilutive potential common shares: deferred shares under the Corporation's Deferred Share Plan and convertible debentures. For the convertible debentures, the convertible debt is assumed to have been converted into common shares and net earnings is adjusted to eliminate the interest expense from the convertible debt less the tax effect.

The computation for basic and diluted earnings per share for the Corporation for the three and nine months ended September 30, 2017 and comparative periods in 2016 are as follows:

	Three Months Ended		Nine Months Ended	
Periods Ended September 30	**2017**	2016	**2017**	2016
Net earnings for the period, available to common shareholders	**$ 23,902**	$ 20,581	**$ 55,240**	$ 47,668
Effect of dilutive securities				
Convertible debentures	**3,020**	2,868	**9,026**	7,240
Diluted earnings for the period	**$ 26,922**	$ 23,449	**$ 64,266**	$ 54,908
Basic weighted average number of Shares	**30,787,935**	28,581,999	**30,971,123**	27,967,268
Effect of dilutive securities				
Vested deferred shares	**631,718**	534,598	**631,718**	534,598
Convertible debentures	**5,882,443**	5,928,351	**5,883,371**	5,039,226
Diluted basis weighted average number of Shares	**37,302,096**	35,044,948	**37,486,212**	33,541,092
Earnings per share:				
Basic	**$ 0.78**	$ 0.72	**$ 1.78**	$ 1.70
Diluted	**$ 0.72**	$ 0.67	**$ 1.71**	$ 1.64

13. DEFERRED SHARE PLAN

During the nine months ended September 30, 2017, the Corporation granted deferred shares to certain personnel. The fair value of the deferred shares granted was $3,313 (2016 - $3,173) at the time of the grant and was based on the market price of the Corporation's shares at that time. During the three and nine months ended September 30, 2017, the Corporation recorded compensation expense of $737 and $2,121 respectively, for the Corporation's Deferred Share Plan within the general and administrative expenses of head office (2016 - $571 and $1,612, respectively).

14. RELATED PARTY TRANSACTIONS

The related party transactions that the Corporation entered into during the nine months ended September 30, 2017 are consistent with those described in the Corporation's financial statements for the year ended December 31, 2016, except as noted below.

Regional One regularly enters into agreements with external entities to co-invest in certain assets. The aircraft asset or assets are often held in separate holding companies or partnerships. As the underlying assets generate cash flows, cash profits are distributed to the investors. These investments are accounted for in accordance with IFRS based on the specifics of each investment.

The Corporation entered into an agreement during 2017 with CRJ Capital Corp., a corporation owned by the CEO of Regional One. Under this agreement CRJ Capital Corp. can, subject to the approval of the Corporation, co-invest on a non-controlling basis in certain aircraft assets being purchased by Regional One. As a co-investor in these isolated aircraft assets, CRJ Capital Corp. receives profits as money is collected on the sale of the aircraft assets. In return, the CEO of Regional One has extended the non-

compete with the Corporation. The assets are managed by Regional One and Regional One charges a management fee to CRJ Capital Corp. for services rendered. Cash flow returns are paid out when collected from the customer.

During the current period CRJ Capital Corp. invested US$7,772 with the Corporation, generating returns paid or payable to CRJ Capital Corp. of US$2,680. As a result of the sale of certain underlying assets and the return of the initial investment to CRJ Capital Corp., its remaining investment at September 30, 2017 was US$4,927.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation's activities expose it to a variety of financial risks: market risk (primarily 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. The following describes the risk management areas that have significantly changed from those described in the audited December 31, 2016 consolidated financial statements.

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 Corporation has US $365,900 or $456,643 (December 31, 2016 - US $169,900 or $228,125) outstanding on its credit facility. 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 US based subsidiaries. Of the total US credit facility drawn, nil is drawn by EIIF USA, an entity that uses US dollars as its functional currency.

The Corporation`s investment in those subsidiaries with USD functional currencies are hedged partially by US $161,400 (December 31, 2016 - US $89,000) of credit facility draws, which mitigates the foreign currency translation risk arising from the subsidiary`s net assets. The loan is designated as a net investment hedge and no ineffectiveness was recognized from the net investment hedge.

During the quarter, the Corporation continued the use of derivatives through several cross currency basis swaps ("swap") with a member of the Corporation's lending syndicate. The swap requires that funds are exchanged back in 30 days at the same terms unless both parties agree to extend the swap for a further 30 days. By borrowing in US dollars, the Corporation is able to take advantage of lower interest rates on US dollar LIBOR denominated borrowings. The swap mitigates the risk of changes in the value of the Corporation's US dollar LIBOR borrowings as they will be exchanged for the same Canadian equivalent in 30 days. The swap is designated as a hedge of the underlying debt instrument and no ineffectiveness was recognized. The fair value of the swaps at September 30, 2017 was a gain of $5,216 (December 31, 2016 - loss of $246). At September 30, 2017, the notional value of the swaps outstanding is US $204,500 (December 31, 2016 - US $37,800).

Interest Rates

The Corporation is subject to the risk that future cash flows associated with the credit facility outstanding (Note 7) will fluctuate due to fluctuations in interest rates. The Corporation manages this risk and seeks financing terms in individual arrangements that are most advantageous.

The terms of the credit facility allow for the Corporation to choose the base interest rate between Prime, Bankers Acceptances or the London Inter Bank Offer Rate ("LIBOR"). At September 30, 2017:

- US $365,900 (2016 – US $139,000) was outstanding under US LIBOR,
- nil (2016 – US $30,900) was outstanding under USD Prime,
- $41,300 (2016 – $217,300) was outstanding under Banker's Acceptances.

The interest rates of the convertible debentures (Note 8) have fixed interest rates.

Fair Value of Financial Instruments

The following table provides fair value information about financial assets and liabilities in the consolidated balance sheet and categorized by level according to the significance of the inputs used in making the measurements and their related classifications:

Recurring fair value measurements	Carrying Value September 30, 2017	Fair Value: Quoted prices in an active market Level 1	Fair Value: Significant other observable inputs Level 2	Fair Value: Significant unobservable inputs Level 3
Financial Assets				
Other long term assets (liabilities) - Cross currency basis swap - Financial asset at fair value through profit and loss	$ 5,216	$ -	$ 5,216	$ -
Financial Liabilities				
Consideration liabilities - Financial liability at fair value through profit and loss	(3,490)	-	-	(3,490)
Fair Value Disclosures				
Other assets - Amortized cost	11,568	-	11,568	-
Other assets - Fair value through OCI	2,501	-	-	2,501
Long term debt - Amortized cost	(495,950)	-	-	(497,943)
Convertible debt - Amortized cost	(215,075)	(237,719)	-	-

Recurring fair value measurements	Carrying Value December 31, 2016	Fair Value: Quoted prices in an active market Level 1	Fair Value: Significant other observable inputs Level 2	Fair Value: Significant unobservable inputs Level 3
Financial Liabilities				
Consideration liabilities - Financial liability at fair value through profit and loss	$ (3,765)	$ -	$ -	$ (3,765)
Cross currency basis swap - Financial liability at fair value through profit and loss	(246)	-	(246)	-
Fair Value Disclosures				
Other assets - Amortized cost	3,762	-	3,762	-
Other assets - Fair value through OCI	4,478	-	-	4,478
Long term debt - Amortized cost	(444,175)	-	-	(445,425)
Convertible debt - Amortized cost	(212,344)	(261,062)	-	-

The Corporation valued the level 3 consideration liabilities based on the present value of estimated cash outflows using probability weighted calculations, discount rates and the observable fair market value of its equity, as applicable.

The following table summarizes the changes in the consideration liabilities recorded on the acquisition of Regional One, the acquisition of CarteNav, and the acquisition of Team J.A.S., including any changes for settlements, changes in fair value and changes due to foreign currency fluctuations:

Consideration Liability Summary		**September 30**		December 31
For the periods ended		**2017**		2016
Opening	$	**3,765**	$	484
Accretion		**192**		140
Settled during the period		**(618)**		(260)
Acquisition of CarteNav		**14**		3,414
Acquisition of Team J.A.S.		**141**		9
Translation (gain)/loss		**(4)**		(22)
Ending	$	**3,490**	$	3,765

During the period the Corporation finalized the working capital settlement for the acquisition of Team J.A.S. As part of the settlement the Corporation paid US $112 ($153) to the vendors.

During the third quarter the Corporation finalized the working capital portion of the CarteNav purchase price. The Corporation paid $351 to the vendors of CarteNav. The original working capital settlement estimate set up at the time of closing was $337 and was previously accrued in accounts payable and accrued liabilities.

The earn out liability recorded as part of the acquisition of CarteNav is included in Other Long-Term Liabilities in the Statement of Financial Position. The remaining consideration liabilities, primarily consisting of estimated working capital settlements, are recorded within Accounts Payable and Accrued Expenses in the Statement of Financial Position.

There were 438,209 shares of the Corporation that were originally issued into escrow at the time of acquisition of Regional One and relate to the retention of the vendor as CEO. There are 87,642 shares remaining in escrow at September 30, 2017, which will be released on the fifth anniversary of the acquisition of Regional One in April of 2018.

Financial Instrument Fair Value Disclosures

The fair values of cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued expenses which are classified as amortized cost or other financial liabilities, as applicable, approximate their carrying values due to their short term nature.

As at September 30, 2017, management had determined that the fair value of its long term debt approximates its carrying value. The fair value of long-term debt has been calculated by discounting the expected future cash flows using a discount rate of 3.45%. The discount rate is determined by using a risk free benchmark bond yield for instruments of similar maturity adjusted for the Corporation's specific credit risk. In determining the adjustment for credit risk, the Corporation considers market conditions, the underlying value of assets secured by the associated instrument and other indicators of the Corporation's credit worthiness.

As at September 30, 2017, management estimated the fair value of the convertible debentures based on trading values. The estimated fair value of its convertible debentures is $237,719 (December 31, 2016 - $261,062) with a carrying value of $215,075 (December 31, 2016 - $212,344).

The Corporation's policy is to recognize transfers in and out of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfer. There were no such transfers during the current period.

16. CHANGES IN WORKING CAPITAL ITEMS

The changes in non-cash operating working capital items during the three and nine months ended September 30, 2017 and the comparative period in 2016 are as follows:

	Three Months Ended		Nine Months Ended	
Periods Ended September 30	**2017**	2016	**2017**	2016
Accounts receivable	**$ (22,751)**	$ (3,862)	**$ (38,407)**	$ (21,048)
Costs incurred plus recognized profits in excess of billings	**(2,356)**	1,256	**(4,298)**	(2,110)
Inventory	**5,267**	(2,780)	**(15,424)**	4,187
Prepaid expenses	**2,539**	371	**6,474**	7,785
Accounts payable and accrued charges	**23,609**	(6,306)	**25,990**	(1,747)
Income taxes receivable (payable)	**1,853**	5,673	**(1,961)**	15,663
Deferred revenue	**(615)**	(4,651)	**(3,278)**	(11,282)
Billings in excess of costs incurred plus recognized profits	**(191)**	(1,517)	**1,279**	(13,209)
Foreign currency adjustments	**(8,146)**	1,788	**(10,390)**	(3,421)
Net change in working capital items	**$ (791)**	$ (10,028)	**$ (40,015)**	$ (25,182)

For the three and nine months ended September 30, 2017, long-term deferred revenue decreased by $1,187 and $3,403, respectively (three and nine months ended September 30, 2016 – nil and nil, respectively), which has been combined with the change in working capital from the table above on the statement of cash flows.