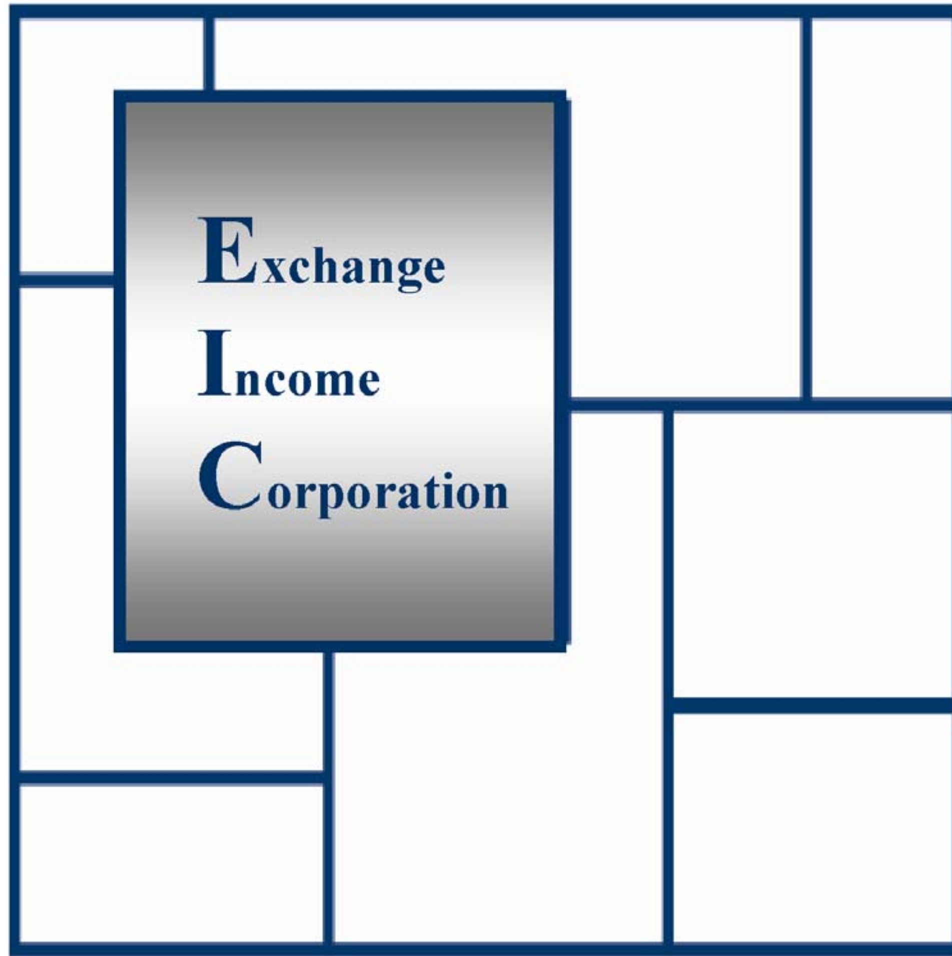


First Quarter Report

For the three months ended

March 31, 2018

CEO's Message

The first quarter was another very successful period for EIC, not simply because of the strength of our financial results which saw EBITDA grow by 25% and EPS grow by 50%, but because of the execution of our business model. The first four months have been very busy as we announced and closed two aviation transactions and announced a second facility for our Quest subsidiary, doubling its production capacity to facilitate its ongoing remarkable growth. We also amended our syndicated credit facility, extending its term, increasing its size by $250 million to $1 billion and improving pricing. In line with the strategy established in 2017, we also completed a significant portion of the 2018 Maintenance Capital investment in the airlines during our slower winter season which will facilitate aircraft availability in the busy summer months. In short, we not only delivered strong quarterly performance, but laid the ground work for continued growth in the balance of 2018 and beyond.

First Quarter Financial Highlights

- Revenue grew by 20% to $266.0 million
- EBITDA increased by 25% to $54.0 million.
- Net earnings rose 55% to $8.6 million
- Net earnings per share increased by 50% to $0.27
- Adjusted Net Earnings per share grew 64% to $0.41
- Trailing Twelve Month payout ratio calculated as a percentage of free cash flow less maintenance capital expenditures strengthened to 69% from 71%
- Trailing Twelve month payout ratio calculated as a percentage of adjusted net earnings improved to 77% from 82%

The improvement in performance was not driven by any single subsidiary. The Legacy Airlines, Provincial and our existing manufacturing sector all experienced growth in both sales and EBITDA while Regional One, exclusive of changes in exchange rates, was essentially flat to last year. The largest driver of the increase in EBITDA was Quest which exceeded our internal expectations and contributed in excess of $7.3 million in EBITDA. The net result of these changes was an improvement in the diversity of our earnings. The Aerospace & Aviation to Manufacturing split is now 75/25 versus 90/10 last year.

When we announced the acquisition of Quest, one of the strengths of the opportunity was the size of the order book which at the time was over $200 million. In less than six months under EIC ownership we have seen that order backlog grow to $300 million. Our facility in Toronto is virtually sold out for the next two years and in order to take advantage of the considerable opportunities that the company has uncovered we have recently signed the lease on a 300,000 sq. ft. facility in the Dallas, Texas area. Our investment of approximately $20 million to bring the plant into operation will more than double our capacity. This facility will start operation next year with progressive increases in production throughout the year.

Late in 2017 we began servicing the medevac requirements for the Kitikmeot Region of Nunavut. This marked the first time in Keewatin's history that they held the medevac contract for all three of the regions in Nunavut. The contracts for the Baffin Region and the Kivalliq region expired and both were put out to RFP. I am pleased to let you know that we were awarded a long term contract for the Baffin Region which includes an increase in the services provided and the number of bases where we will station staff. The Nunavut Government is in the final stages of the award of the Kivalliq contract and it expected to be announced in the next 90 days. We have held this contract for approximately 30 years and are optimistic about entering into a new long term arrangement which would see us as the sole provider of service to Nunavut for at least the next five years.

The international pilot shortage has had significant coverage in the media. It is not a short term problem and is expected to continue for the foreseeable future. Coupled with this, the Government of Canada has made it known that it intends to shorten the pilot work day to reduce pilot fatigue and thereby enhance safety, which will serve to exacerbate the shortage of pilots. With this as the backdrop we were ecstatic to acquire the Moncton Flight College ("MFC") in the first quarter. MFC is one of North America's top flight schools, training pilots from around the globe. It is a profitable niche business that meets all of our criteria for a stand-alone investment, but more importantly it provides the opportunity for us to provide a vertically integrated solution to our airlines' pilot needs. This business, even without the EIC demand, is expanding rapidly and, should certain growth targets be met, provides for the vendor to increase the purchase price from the initial closing price of $35 million to $55 million.

During the first quarter we announced that we would be making an investment in Wasaya Airlines, a First Nations owned airline in Northwest Ontario. In April, we announced that the investment totaling $25 million had closed and included the purchase of our stake for $12 million, fully funded in shares of EIC which will be held by the First Nations that make up Wasaya, and a $13 million loan to

recapitalize its balance sheet. We are excited to work with our Wasaya First Nation partners to improve the service in this region by integrating operations with existing EIC airlines to improve efficiencies and enhance the connectivity of the schedules of the airlines.

Subsequent to quarter end we completed the negotiations on the extension of our credit facility which is provided by a syndicate of Canadian financial institutions. I am very pleased to inform you that a new agreement has been completed which has the following attributes:

- A four year term
- An increase to the size of the facility to approximately $1 billion
- Improved more flexible covenant structure
- Reduced pricing

We are very pleased that the success of our business model has received the third party validation of our lenders who have not only increased the size of the facility by one third while extending the term and improving the covenant structure, they have reduced the interest rate that we pay on our financing. The syndicate has been increased by one to 11 institutions. The increase in the size of this facility will not increase our appetite for leverage, which has remained constant since our beginnings in 2002. Rather it provides flexibility to move quickly when the opportunities are uncovered. Our access to capital is as good as it has ever been as demonstrated by the strong demand for the convertible debenture offering that we completed in late 2017, and the enhanced syndicated facility described above.

We expect growth investment at this time to be modest for the balance of 2018, but we will still move forward when the right opportunities are uncovered. As of the end of the first quarter the only major investments scheduled for the balance of 2018 are the new plant in Texas for Quest and aircraft and ground facilities for Keewatin to service the larger medevac contract in the Baffin Region of Nunavut.

Our acquisition pipeline in Canada remains robust, while opportunities in the USA are limited because market prices exceed our opinion of fair value. We have, however, closed three significant transactions in the last six months which has required the attention of our acquisition team. As such, most of the pipeline is in the early stages of discussion and no transactions are expected to close in the short term while we perform our diligence on the potential transactions that have been identified.

One of the great challenges of being a public company is the tendency of the market to focus on short term results and what has occurred in the most recent reporting period. At EIC, we pride ourselves on taking a much longer term focus on generating value for our shareholders. The first quarter demonstrates the benefit of this focus. Investments made in prior periods drove our results and resulted in a 50% improvement in our EPS. Acquisitions made in the quarter will drive not only future growth but enhanced profitability as integration opportunities and synergies are realized. Our debt syndicate has recognized and endorsed this performance with the improved debt facility that has been arranged. Our model has been consistent since our inception, accretive investment in acquisitions and growing our diverse group of subsidiaries which will drive reliable profit growth, while we maintain low leverage and a liquid balance sheet. This model and the diversity of our holdings has enabled us to pay a reliable and growing dividend to our shareholders in good economies and in challenging times through the last 14 years. In the first quarter we increased our dividend yet again and lowered our payout ratio. I want to thank all of our stakeholders for their ongoing support. We are pleased with the start to 2018 and look forward to reporting our second quarter to you in August.

Mike Pyle
Chief Executive Officer

May 8, 2018

TABLE OF CONTENTS

1) FINANCIAL HIGHLIGHTS AND SIGNIFICANT EVENTS 6

2) RESULTS OF OPERATIONS 8

3) INVESTING ACTIVITIES 12

4) DIVIDENDS AND PAYOUT RATIOS 15

5) OUTLOOK 16

6) LIQUIDITY AND CAPITAL RESOURCES 18

7) RELATED PARTY TRANSACTIONS 20

8) CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS 20

9) ACCOUNTING POLICIES 21

10) CONTROLS AND PROCEDURES 21

11) RISK FACTORS 22

12) NON-IFRS FINANCIAL MEASURES AND GLOSSARY 22

13) QUARTERLY INFORMATION 23

PREFACE

This Management's Discussion and Analysis ("MD&A") supplements the unaudited interim condensed consolidated financial statements and related notes for the three months ended March 31, 2018 ("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 months ended March 31, 2018, its annual financial statements for the year ended December 31, 2017 and its annual MD&A for the year ended December 31, 2017. The interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. All statements other than statements of historical fact contained in this MD&A are forward-looking statements, including, without limitation, statements regarding the future financial position, business strategy, proposed acquisitions, budgets, litigation, projected costs and plans and objectives of or involving 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 in our annual MD&A 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.

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** (as a division of Perimeter), **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** (comprised of PAL Airlines, PAL Aerospace and Moncton Flight College) 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. Through Moncton Flight College, Provincial offers a full range of pilot flight training services, from private pilot licensing to commercial pilot programs. 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. **Quest** is a manufacturer of an advanced unitized window wall system used primarily in high-rise multi-family residential projects in Canada and the United States. **WesTower** is 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. 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. **Ben Machine** is a manufacturer of precision parts and components primarily used in the aerospace and defence sector. **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.

1. FINANCIAL HIGHLIGHTS AND SIGNIFICANT EVENTS

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

FINANCIAL PERFORMANCE	2018	per share basic	per share fully diluted	2017	per share basic	per share fully diluted
For the three months ended March 31						
Revenue	$ 266,027			$ 222,528		
EBITDA(1)	54,013			43,348		
Net earnings	8,614	$ 0.27	$ 0.27	5,559	$ 0.18	$ 0.18
Adjusted net earnings(1)	12,932	0.41	0.40	7,808	0.25	0.25
Adjusted net earnings payout ratio(1)		130%	133%		210%	210%
Free Cash Flow(1)	40,596	1.29	1.15	33,789	1.09	0.98
Free Cash Flow less Maintenance Capital Expenditures(1)	9,842	0.31	0.31	6,380	0.21	0.20
Free Cash Flow less Maintenance Capital Expenditures payout ratio(1)		172%	172%		250%	263%
Dividends declared	16,733	0.5325		16,335	0.525	
FINANCIAL POSITION	**March 31, 2018**			December 31, 2017		
Working capital	$ 260,585			$ 240,018		
Capital assets	818,904			796,576		
Total assets	1,779,222			1,749,197		
Senior debt and finance leases	625,417			550,621		
Equity	582,987			577,508		
SHARE INFORMATION	**March 31, 2018**			December 31, 2017		
Common shares outstanding	31,407,929			31,317,890		
	March 31, 2018			March 31, 2017		
Weighted average shares outstanding during the period - basic	31,382,120			31,042,564		

(1) As defined in *Section 12 – Non-IFRS Financial Measures and Glossary.*

SIGNIFICANT EVENTS

Early Redemption of Convertible Debentures

On January 11, 2018, the Corporation exercised its right to call its 7 year 5.50% convertible debentures which were due on September 30, 2019. The redemption of the debentures was completed with cash on hand from the Corporation's issuance of its December 2017 5.25% convertible debenture offering. Prior to the redemption date, $0.7 million principal amount of debentures were

converted into 20,291 common shares at a price of $36.80 per share. On January 11, 2018 the remaining outstanding debentures in the principal amount of $56.8 million were redeemed by the Corporation.

Normal Course Issuers Bid ("NCIB")

On January 31, 2018, the Corporation renewed its NCIB. Purchases under the NCIB commenced on February 5, 2018 and end on February 4, 2019. Under the NCIB, the Corporation can purchase a maximum of 1,566,827 shares and daily purchases will be limited to 36,859 shares, other than block purchase exemptions. The Corporation sought approval of the NCIB because it believes that, from time to time, the market price of the common shares may not fully reflect the value of the common shares. The Corporation believes that, in such circumstances, the purchase of common shares represents an attractive investment.

Purchase of CANLink Global Inc.

On February 28, 2018 the Corporation acquired all of the shares of CANLink Global Inc. ("Moncton Flight College") for up to $55 million. Moncton Flight College is the largest flight training college in Canada and offers domestic Canadian pilot training as well as a foreign pilot program. The total purchase price before normal post-closing adjustments includes $29 million paid in cash at closing, shares of the Corporation issued at closing with a value of $6 million and up to an additional $20 million if post-closing targets are met.

Subsequent Event – Partnership with Wasaya Group

On April 19, 2018, the Corporation closed the previously-announced partnership transaction with Wasaya Group. The partnership is expected to enhance the level of air service in Northwestern Ontario and result in operational efficiencies. The Corporation invested $25 million in Wasaya, of which $13 million is a loan to Wasaya and $12 million is an equity investment, which has been funded through the issuance of shares of the Corporation to the vendors of Wasaya. During the first quarter, the Corporation funded an initial investment of $2 million of the $13 million loan and subsequently funded the remaining $11 million on close.

Subsequent Event - Amended Credit Facility

On May 7, 2018, the Corporation amended its credit facility to increase its size and extend its term. The amendments included increasing the available credit to $1 billion, of which $945 million is allocated to the Corporation's head office and US $55 million is allocated to EIIF Management US, Inc. This is an increase of $250 million over the Corporation's previous credit facility. In addition to increasing the credit facility available, the revised credit facility includes improved pricing on both amounts borrowed under the facility and standby charges paid for the unutilized portion of the facility. One financial institution was added to the syndicate, increasing the number of syndicate members to 11, and the maturity has been extended to May 7, 2022.

2. RESULTS OF OPERATIONS

The following section analyzes the financial results of the Corporation for the three months ended March 31, 2018 and the comparative 2017 year.

	Three Months Ended March 31, 2018			
	Aerospace & Aviation	Manufacturing	Head Office[2]	Consolidated
Revenue	$ 189,823	$ 76,204	$ -	$ 266,027
Expenses[1]	143,105	63,706	5,203	212,014
EBITDA	46,718	12,498	(5,203)	54,013
Depreciation of capital assets				28,462
Amortization of intangible assets				4,754
Finance costs - interest				11,046
Acquisition costs				515
Other				(1,471)
Earnings before income tax				10,707
Current income tax expense				4,475
Deferred income tax recovery				(2,382)
Net earnings				$ 8,614
Net earnings per share				$ 0.27
Adjusted net earnings				$ 12,932
Adjusted net earnings per share				$ 0.41

	Three Months Ended March 31, 2017			
	Aerospace & Aviation	Manufacturing	Head Office[2]	Consolidated
Revenue	$ 177,035	$ 45,493	$ -	$ 222,528
Expenses[1]	134,186	40,800	4,194	179,180
EBITDA	42,849	4,693	(4,194)	43,348
Depreciation of capital assets				24,743
Amortization of intangible assets				2,755
Finance costs - interest				7,705
Acquisition costs				238
Earnings before income tax				7,907
Current income tax expense				3,664
Deferred income tax recovery				(1,316)
Net earnings				$ 5,559
Net earnings per share				$ 0.18
Adjusted net earnings				$ 7,808
Adjusted net earnings per share				$ 0.25

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.

REVENUE AND EBITDA

On a consolidated basis, the Corporation generated revenue of $266.0 million, an increase of $43.5 million or 20% over the comparative period. Of the increase, $12.8 million was derived from the Aerospace & Aviation segment and $30.7 million came from the Manufacturing segment. The majority of the increase in the manufacturing segment relates to the acquisition of Quest.

EBITDA of $54.0 million was generated by the Corporation during the quarter, an increase of $10.7 million or 25% over the comparative period. This performance was due to significant increases in both the Aerospace & Aviation segment and the Manufacturing segment, as a result of both acquisitions and organic growth.

During the three months ended March 31, 2018, the Corporation's head office costs increased by $1.0 million over the comparative period. This was a result of an increase in professional costs and higher salary and deferred share plan costs due, in part, to increased headcount.

Aerospace & Aviation Segment

Revenue generated by the Aerospace & Aviation increased by $12.8 million or 7% to $189.8 million.

Revenue in the Legacy Airlines and Provincial increased by $12.3 million or 10%. Higher passenger volumes were experienced during the quarter in the Manitoba and Kivalliq markets, leading to higher passenger revenue. In addition, the Legacy Airlines utilized available assets at Provincial to increase its charter capacity, increasing charter volumes in the Saskatchewan market and improving revenues in the quarter. Results benefited from the provision of medevac services relating to the Kitikmeot contract, which came into effect in the fourth quarter of 2017. The acquisition of Moncton Flight College part way through the quarter, the impact of its partnership with Air Borealis and higher aerospace revenue from its modification programs were keys to the increased revenues at Provincial.

Regional One's US denominated revenues for the current period were up by 6%. As noted in the following table, Regional One's CAD denominated revenue increased by $0.5 million or 1% over the comparative period, which incorporates the dilutive impact of the stronger Canadian dollar in the first quarter of 2018. Had the average exchange rates prevailing in the first quarter of 2017 persisted into 2018, Regional One's revenues would have been approximately $2.4 million higher. The increase in Regional One's revenue was driven by growth in the sales and service revenue, mostly offset by a decline in lease revenue as summarized in the following table.

Regional One Revenue	Three Months Ended March 31,		**2018**		2017		Variance	Variance %
Sales and service revenue		$	**37,118**	$	33,517	$	3,601	11%
Lease revenue			**15,530**		18,599		(3,069)	-17%
		$	**52,648**	$	52,116	$	532	1%

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.

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 period to period 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 third party asset management revenues are still comparatively minor but growing. Margins are high because there are few direct costs associated with the sales.

Sales and service revenue increased by 11% in the first quarter of 2018 compared to the same period in 2017 and featured period over period increases in parts sales and sales of whole aircraft and engines. Aircraft and engine sales during the first quarter of 2018 included the sale of a CRJ700 aircraft, which is a larger sized asset.

Lease revenue decreased by 17% in the first quarter of 2018 compared to the same period in 2017. The change in the strength of the Canadian dollar in the current period negatively impacted lease revenues by $0.7 million. In addition, the comparative period included a $1.6 million lease return settlement, which doesn't occur regularly for Regional One. The remainder of the decrease in lease revenues in the current period is associated with having some of the recently purchased CRJ900 aircraft in between leases as they are being marketed for secondary leases by Regional One. The Corporation's investment in Regional One's inventory and lease portfolio is discussed further in *Section 3 - Investing Activities*.

In the Aerospace & Aviation segment EBITDA increased by $3.9 million or 9% to $46.7 million.

EBITDA contributed by the Legacy Airlines and Provincial increased by $5.9 million or 29%. The increase is driven by the increased revenue, including the synergies obtained through capacity sharing, the benefit of investment in aircraft partway through 2017 resulting in reduced third party charter cost and additional revenue opportunities, as well as operational efficiencies realized across the subsidiaries.

Regional One's operations generated USD EBITDA of $16.8 million, which was flat to the same period in 2017. After incorporating the impact of the stronger Canadian dollar and costs incurred in its Canadian operations set up to service EIC's airlines, the resultant Canadian dominated EBITDA was $20.6 million, which is a decrease of $2.0 million compared to the same period in 2017. The USD EBITDA was flat despite the increase in sales as the lease revenue generates higher margins than sales and service revenue. EBITDA margins associated with Regional One's lease revenue are high as there is no cost of sale and depreciation and financing costs are both accounted for outside of EBITDA.

Sales and service gross margins at 36% in the quarter were consistent with margins in fiscal 2017 at 37%, however within this revenue stream there were two offsetting factors impacting margins. The sale of a larger CRJ700 asset in the first quarter of 2018 impacted margins. The margins realized on aircraft sales are often lower than parts and the sale of a larger aircraft can lead to lower percentage margins as the transaction value is higher. This lower margin sale was offset by higher margins experienced in the sales of parts. The parts sales is the revenue stream that is more consistent period to period while the aircraft sales can fluctuate more period to period.

Manufacturing Segment

Manufacturing segment revenue increased by $30.7 million or 68% to $76.2 million. EBITDA also increased by $7.8 million or 166% to $12.5 million. The acquisition of Quest midway through the fourth quarter of 2017 is the largest contributor to these increases.

In addition to the $7.3 million of EBITDA contributed by Quest, the remaining manufacturing entities experienced growth in revenue and EBITDA over the first quarter of 2017. Revenues for these companies increased compared to 2017 resulting in growth in EBITDA of 11% over the same period. Over the past several quarters, WesTower has made a number of changes to its operations to capitalize on opportunities presented by the current requirements of its customer base and to generate efficiencies in its operations; the impacts of those changes began to emerge in the first quarter of 2018. Ben Machine has benefitted from the sustained increased worldwide defense spending and Alberta Operations has been positively impacted by the slow but steady economic recovery in its markets.

NET EARNINGS

Three Months Ended March 31		2018		2017		Variance	Variance %
Net Earnings	$	**8,614**	$	5,559	$	3,055	55%
Net Earnings per share	$	**0.27**	$	0.18	$	0.09	50%

Net Earnings for the quarter ended March 31, 2018 was $8.6 million, an increase of $3.1 million or 55%. This increase was driven primarily by the 25% increase in EBITDA, the remeasurement of contingent consideration (*Section 8 – Critical Accounting Estimates and Judgments*) and was partially offset by increased interest and depreciation.

Interest costs have increased by $3.3 million due to the increase in long term debt outstanding on the Corporation's credit facility and increases in benchmark borrowing rates from the comparative period. Further discussion of the Corporation's outstanding debt balances can be found in *Section 6 – Liquidity and Capital Resources*.

Depreciation has increased by $3.7 million or 15% mainly as a result of the purchases of capital assets during 2017 and also due to recent acquisitions.

Income tax expense has decreased by $0.3 million and the effective rate of tax has decreased to 19.5% from 29.7%. The proportion of pre-tax earnings has shifted to lower tax rate jurisdictions in comparison to the first quarter of 2017. Additionally, the tax rate applicable to taxable earnings in the US has decreased due to tax reform in comparison to the prior year.

The 50% increase in basic Net Earnings per share was due to a 55% increase in Net Earnings, and was slightly offset by the 1% increase in the weighted average number of shares outstanding compared to the first quarter of 2017. Details around the change in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

ADJUSTED NET EARNINGS *(Section 12 – Non-IFRS Financial Measures and Glossary)*

Three Months Ended March 31,		2018		2017
Net Earnings	$	**8,614**	$	5,559
Acquisition costs, net of tax		**515**		238
Amortization of intangible assets, net of tax		**3,470**		2,011
Interest accretion on acquisition contingent consideration		**333**		-
Adjusted Net Earnings	$	**12,932**	$	7,808
per share - Basic	$	**0.41**	$	0.25
per share - Diluted	$	**0.40**	$	0.25

Adjusted Net Earnings for the quarter ended March 31, 2018 increased by 66% to $12.9 million in comparison to the first quarter of 2017. The increase in Net Earnings and increased amortization of the Corporation's intangible assets, net of tax, drove the increase in Adjusted Net Earnings. The increase in amortization in the first quarter of 2018 is primarily due to the impact of the Quest acquisition in November of 2017.

Adjusted Net Earnings per share increased by 64% compared to the first quarter of 2017 as a result of increased Adjusted Net Earnings, slightly offset by the 1% increase in the weighted average number of shares outstanding in the current year.

FREE CASH FLOW *(Section 12 – Non-IFRS Financial Measures and Glossary)*

FREE CASH FLOW — Three Months Ended March 31,		2018		2017
Cash flows from operations	$	**15,614**	$	6,311
Change in non-cash working capital items and long-term deferred revenue		**24,467**		27,240
Acquisition costs, net of tax		**515**		238
	$	**40,596**	$	33,789
per share - Basic	$	**1.29**	$	1.09
per share - Fully Diluted	$	**1.15**	$	0.98

The Free Cash Flow generated by the Corporation for the first quarter of 2018 was $40.6 million, an increase of $6.8 million or 20% over the comparative period. The main reason for this increase is the $10.7 million or 25% increase in EBITDA, partially offset by increased interest costs and current taxes. Free Cash Flow is discussed further in *Section 12 – Non-IFRS Measures and Glossary*.

On a basic per share basis, the increase in absolute Free Cash Flow was slightly offset by the 1% increase in the weighted average shares outstanding during the period. The combined impact resulted in Free Cash Flow of $1.29 per share, an increase of 18% over the comparative period (fully diluted $1.15, an increase of 17%). Details around the increase in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

Changes in non-cash working capital balance is included in cash flow from operations per the Statement of Cash Flow and is removed in the reconciliation to Free Cash Flow. As a result, it has no impact on the calculation of Free Cash Flow. Discussion of changes in working capital is included within *Section 3 – Investing Activities*.

3. INVESTING ACTIVITIES

Investment through the acquisition of new businesses or through the purchase of capital assets and investment in working capital to maintain and grow our existing portfolio of subsidiaries is a primary objective of the Corporation.

ACQUISITIONS

CANLink Global Inc.

On February 28, 2018, the Corporation acquired all of the shares of CANLink Global Inc. ("Moncton Flight College"). Moncton Flight College, headquartered in Moncton, New Brunswick, is the largest flight training college in Canada having trained over 19,000 students since its inception. Moncton Flight College offers domestic Canadian pilot training as well as a foreign pilot program. Moncton Flight College provides a unique opportunity as an internal avenue for pilot recruitment and retention for EIC's aviation companies.

The components of the consideration paid to acquire Moncton Flight College are outlined in the table below.

Consideration given:		
Cash (net of closing adjustments)	$	25,376
Issuance of 176,102 shares of the Corporation at $34.06 per share		5,998
Estimated working capital post-closing adjustment		898
Contingent cash consideration - earn out		16,784
Total purchase consideration	$	**49,056**

The preliminary purchase price allocation will be finalized later in 2018 when final settlement of working capital and other post-closing adjustments occur. The purchase price includes an initial payment of cash and the issuance of common shares to the vendors, net of normal closing adjustments, plus a multi-year earn out if certain performance targets are met for fiscal periods 2018 and 2019. The maximum earn out that can be achieved by the vendors is $20 million. The contingent consideration recorded by the Corporation reflects the discounted liability of the estimated performance targets being met for fiscal 2018 and 2019. The valuation of separately identifiable intangible assets was not complete at the time of this report and the table shows the combination of goodwill and intangible assets together. The preliminary allocation of the purchase price is reflected in the table that follows.

Fair value of assets acquired:		
Cash	$	1,464
Accounts receivable		721
Inventory		1,684
Prepaid expenses and deposits		160
Capital assets		10,335
		14,364
Less fair value of liabilities assumed:		
Accounts payable and accrued liabilities		1,163
Income taxes payable		4,064
Deferred revenue		2,348
Deferred income tax liabilities		741
Fair value of identifiable net assets acquired		6,048
Goodwill and intangible assets		43,008
Total purchase consideration	$	**49,056**

Partnership with Wasaya Group

On April 19, 2018, the Corporation closed the previously announced partnership transaction with Wasaya Group. The partnership is expected to enhance the level of air service in Northwestern Ontario and result in operational efficiencies. EIC has invested $25 million in Wasaya, of which $13 million is a loan to Wasaya and $12 million is an equity investment, which has been funded through the issuance of shares of the Corporation to the vendors of Wasaya. During the first quarter, the Corporation funded an initial investment of $2 million of the $13 million loan and subsequently funded the remaining $11 million on close. The Corporation's equity investment in Wasaya will be accounted for using the equity method and will be recorded in Other Assets on the Statement of Financial Position.

CAPITAL EXPENDITURES

CAPITAL EXPENDITURES	Three Months Ended March 31, 2018			
	Aerospace & Aviation	Manufacturing	Head Office	Total
Maintenance Capital Expenditures	$ 29,436	$ 932	$ 104	$ 30,472
add: finance lease principal payments	-	282	-	282
Maintenance Capital Expenditures	29,436	1,214	104	30,754
Growth Capital Expenditures	1,276	764	-	2,040
	$ 30,712	$ 1,978	$ 104	$ 32,794

CAPITAL EXPENDITURES	Three Months Ended March 31, 2017			
	Aerospace & Aviation	Manufacturing	Head Office	Total
Maintenance Capital Expenditures	$ 26,845	$ 372	$ 4	$ 27,221
add: finance lease principal payments	-	188	-	188
Maintenance Capital Expenditures	26,845	560	4	27,409
Growth Capital Expenditures	58,790	-	-	58,790
	$ 85,635	$ 560	$ 4	$ 86,199

Aerospace & Aviation

The Legacy Airlines' $12.4 million of Maintenance Capital Expenditures in the first quarter accounted for 42% of the Aerospace & Aviation segment's total Maintenance Capital Expenditures. The Legacy Airlines' investment in Maintenance Capital Expenditures was consistent with the comparative period. The strategy to perform as much required maintenance as possible during the seasonally slower first quarter remains unchanged from last year but the nature of the work being performed has shifted somewhat. During the first quarter of 2017, the bulk of the maintenance work was being spent on large aircraft maintenance events; during the first quarter of 2018, a significant portion of the work has been spent on scheduled engine events. This work is consistent with our expectations and with our previously-communicated disclosures. During the first quarter, the Legacy Airlines invested $0.5 million in Growth Capital Expenditures.

Maintenance Capital Expenditures totaled $9.1 million and Growth Capital Expenditures totaled $2.6 million at Provincial during the quarter. The Maintenance Capital Expenditures have increased by $2.4 million or 37% because the work in 2018 is primarily focused on more expensive engine overhauls compared to the type of maintenance performed in the first quarter of 2017, which is consistent with our planned maintenance activities for the quarter. The Growth Capital Expenditures are primarily related to the ongoing development of Provincial's demonstrator surveillance aircraft which will enable Provincial to expand its service offering, which is materially complete and expected to be ready to meet customers' demands in the third quarter of 2018.

Regional One's $7.9 million of Maintenance Capital Expenditures are in line with the comparative period, which are directly attributable to the depreciation on its fleet of leased aircraft and engines. The table below provides a summary of the fleet of assets in Regional One's lease portfolio.

Regional One Lease Portfolio	March 31, 2018		December 31, 2017	
	Aircraft	Engines	Aircraft	Engines
Lease portfolio	39	50	37	48

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. It is important to note that not all of the aircraft and engines in the portfolio will be on lease at any given time.

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. The first quarter of 2018 reflects the impact of the combination of disposals and depreciation exceeding the purchase of capital assets, resulting in negative Growth Capital Expenditures of $1.8 million. The negative Growth Capital Expenditures is related to timing between the sale or part out of aircraft that were previously in the lease portfolio and the replacement of those assets. We do not expect to see negative Growth Capital Expenditures on a regular basis as it is our intention to maintain or grow the lease portfolio at Regional One, however, the timing between the removal of assets from the portfolio and replacement of those assets will vary from quarter to quarter.

Manufacturing Segment

Maintenance Capital Expenditures in the Manufacturing segment primarily relate to replacement of production equipment or components of that equipment and can vary significantly from year to year. Certain manufacturing assets have long useful lives and therefore can last for many years before requiring replacement or significant repair. Maintenance Capital Expenditures of $1.2 million made by our Manufacturing segment entities during the first quarter of 2018 is an increase of 117% from the comparative period and is entirely the result of the Quest acquisition.

Growth Capital Expenditures of $0.8 million in this segment were related to the purchase of equipment by Stainless to increase its production capacity in response to the growth in demand.

INVESTMENT IN WORKING CAPITAL

During the quarter, the Corporation made investments in working capital in several subsidiaries. Detail of the increase is included in Note 15 and the Statement of Cash Flows in the Corporation's Consolidated Financial Statements.

The $24.5 million increase in working capital during the first quarter of 2018 was principally driven by two items; the sale of an aircraft by Regional One with extended terms as well as investment in the growth of Quest.

Additional investment in working capital was made in our Manufacturing segment to support Quest's growth in business volume. Additionally, Quest has begun making deposits on new equipment associated with its expansion into the United States. Once the new equipment is delivered, the deposits associated with the equipment will be transferred to capital assets and will be reflected as Growth Capital Expenditures. Changes in working capital in other entities within the Manufacturing segment were not significant.

Investments in working capital in our Aerospace & Aviation segment related to purchases of parts inventory and an increase in accounts receivable at Regional One. Regional One sold an aircraft during the quarter for which the related receivable is backed by an irrevocable letter of credit which guarantees collection during the fourth quarter of 2018. Changes in working capital within Provincial and the Legacy Airlines were relatively insignificant and reflect variations in the timing of receipts and payments associated with larger customer contracts and fluctuations in foreign currency.

The overall net working capital position of the Corporation at December 31, 2017 included the September 2019 debentures as a current liability as they were redeemed in January 2018. Included in current assets was cash on hand which was used to repay those debentures. The March 31, 2018 net working capital balance does not include these amounts.

4. DIVIDENDS AND PAYOUT RATIOS

The payment of stable and growing dividends to shareholders is a cornerstone goal of the Corporation. We are able to keep this commitment through our consistent execution of our core strategy of diversification, disciplined organic investment in our subsidiaries and disciplined acquisition of companies with defensible and steady cash flows.

Dividends

Month	Record date	Per Share		2018 Dividends Amount	Record date	Per Share		2017 Dividends Amount
January	January 31, 2018	$ 0.175	$	5,484	January 31, 2017	$ 0.175	$	5,438
February	February 28, 2018	0.175		5,517	February 28, 2017	0.175		5,447
March	March 29, 2018	0.1825		5,732	March 31, 2017	0.175		5,450
Total		$ 0.5325	$	16,733		$ 0.525	$	16,335

Dividends declared for the current year increased over the comparative year as a result of the increase in the dividend rate per month in the current year and the higher number of shares outstanding in 2018. The Corporation increased the monthly dividend rate per share by $0.0075 during the first quarter of 2018 (4% increase).

The Corporation uses both an earnings-based payout ratio (Adjusted Net Earnings) and a cash flow-based payout ratio (Free Cash Flow less Maintenance Capital Expenditures) to assess its ability to pay dividends to shareholders. Both methods of calculating the payout ratio provide an indication of the Corporation's ability to generate sufficient funds from its operations to pay dividends.

Adjusted Net Earnings excludes acquisition costs, amortization of intangible assets and unusual one-time items. Amortization of intangible assets results from intangible assets that are recorded when the Corporation completes an acquisition as part of the purchase price allocation for accounting purposes. There are no future capital expenditures associated with maintaining or replacing these intangible assets, therefore intangible asset amortization is not considered when assessing the ability to pay dividends. Acquisition costs are external costs incurred by the Corporation depending on acquisition activity and these costs are not required to maintain existing cash flows and therefore these costs are not considered in assessing the payment of dividends. Adjusted Net Earnings includes depreciation on all capital expenditures and is not impacted by the period to period variability in Maintenance Capital Expenditures.

Free Cash Flow less Maintenance Capital Expenditures ensures that the resulting payout ratio reflects the replacement of capital assets that is necessary to maintain our existing revenue streams. Cash outflows associated with acquisitions and capital expenditures that will result in growth are not included in this payout ratio because they will generate future returns.

The Corporation analyzes its payout ratios on a trailing twelve month basis when assessing its ability to pay and increase dividends. The use of a longer period of time reduces the impact of seasonality on the analysis. 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. Therefore 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.

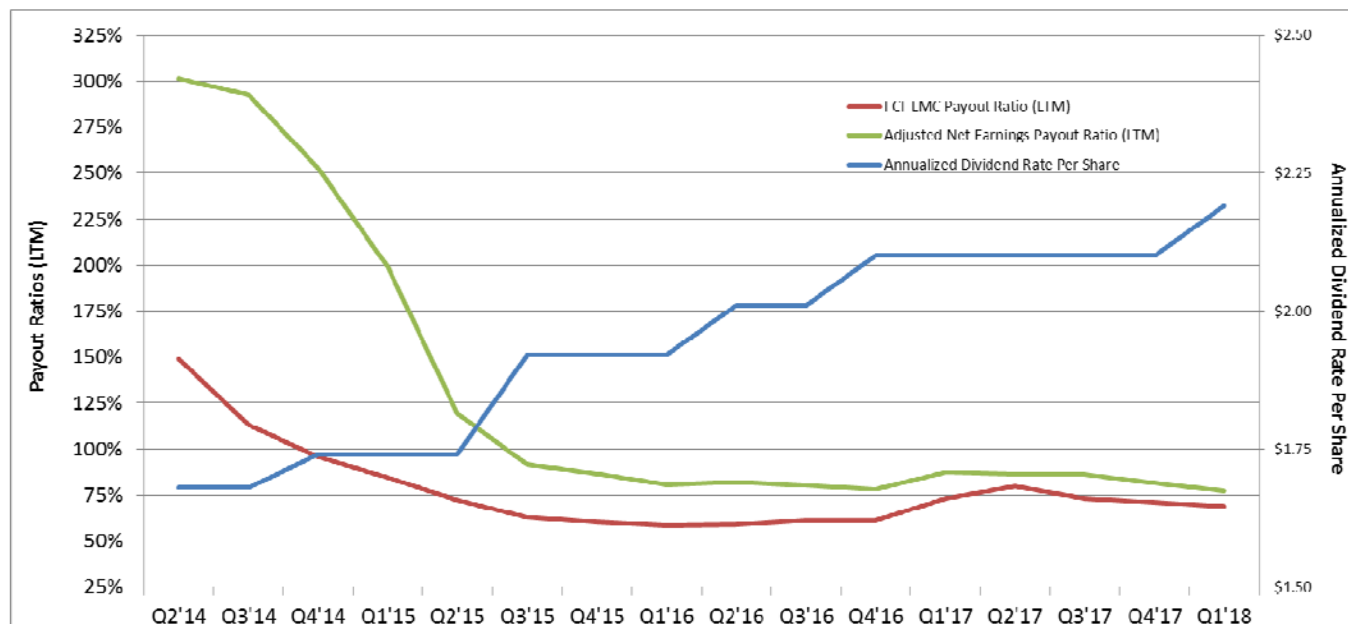
Payout Ratios

Basic per Share Payout Ratios for the Corporation	2018		2017	
periods ended March 31	Three Months	Trailing Twelve Months	Three Months	Trailing Twelve Months
Adjusted Net Earnings	*130%*	*77%*	*210%*	*88%*
Free Cash Flow less Maintenance Capital Expenditures	*172%*	*69%*	*250%*	*73%*

The Corporation's three month Adjusted Net Earnings payout ratio and three month Free Cash Flow less Maintenance Capital Expenditures payout ratio both improved over the prior period, resulting in improvements in both trailing twelve month payout ratios. The percentage increase in Adjusted Net Earnings exceeded the increase in dividends declared during the period, resulting in an improved payout ratio and contributed to a stronger trailing twelve month payout ratio. In addition, the percentage increase in Free Cash Flow exceeded the impact of the increase in Maintenance Capital Expenditures and dividends, resulting in an improved payout ratio for both the three month and trailing twelve month periods.

The nature of Maintenance Capital Expenditures means it can fluctuate from period to period based on the timing of maintenance events as discussed in *Section 3 – Investing Activities*. The Adjusted Net Earnings payout ratio is not impacted by the timing differences from Maintenance Capital Expenditures and is therefore a more stable metric.

The graph that follows shows the Corporation's historical Free Cash Flow less Maintenance Capital Expenditures trailing twelve months payout ratio and Adjusted Net Earnings trailing twelve months payout ratio on the left axis. On the right axis, the annualized dividend rate per share is shown.



5. OUTLOOK

Acquisition strategy

EIC continued to execute on its acquisition strategy in recent months. The fourth quarter acquisition of Quest has been integrated into EIC and we are actively working on its expansion into a second facility to be domiciled in the US. The first quarter acquisition of Moncton Flight College was closed on February 28, 2018 and the transaction with Wasaya was recently completed in the second quarter of 2018. These transactions serve to further diversify EIC, significantly expand our Manufacturing segment, and strategically strengthen our airlines. While EIC is still actively seeking new acquisitions, it is likely this pace will slow while the focus is placed on closing and integrating these companies.

Aerospace & Aviation Segment

The diversified group of companies within the Aerospace & Aviation segment continue to work together to enhance their ability to effectively deliver services to their customers. The strategic transactions of Moncton Flight College and Wasaya will further bolster this segment's strength of service.

The increased demand for pilots worldwide has been well publicized. Our airlines, like other Canadian airlines, have dealt with the growing pressure for years to recruit, hire, and train pilots. In order to turn this pressure and increased cost into an advantage, EIC has established a comprehensive strategy for our airlines and has developed a pilot recruitment and retention program. This strategy is multifaceted and will allow our airlines to take advantage of the unique structure of our ownership to provide pilots a pathway throughout their career. It is important to realize that professional pilots obtain their education and then often fly progressively larger aircraft as they build their hours and gain experience, frequently requiring pilots to move to different airlines. However, EIC, with its different companies and variety of operations, has the ability to provide options throughout the pilot's career. The acquisition of Moncton Flight College in the first quarter of this year was a significant milestone in our comprehensive approach, as now we can include education and training opportunities within our organization. The implementation of this comprehensive pilot retention program is underway and will continue to offer more dynamic solutions over the upcoming quarters, allowing EIC and its airlines to be a destination, as well as a pathway in pilot's careers.

The completion of the Wasaya transaction significantly increases EIC's presence in Northwestern Ontario. Over the last couple years, EIC has started flying into the northern market in Northwestern Ontario, a market that is similar to our northern Manitoba market. The

Wasaya transaction significantly increases our coverage in this market and most importantly, partners us with the First Nations communities in this market. The partnership with Wasaya enables us to work together to service this market, providing greater route connectivity and provides Wasaya access to the benefits of EIC's aviation group. The aviation group has unlocked the collective expertise of the entities and are benefiting from working together to generate additional revenue and cost savings opportunities.

Growth capital expenditures in the quarter were $1.3 million. This relatively low level of growth capital expenditure, which was in line with previously communicated expectations, was driven by the sale of aircraft at Regional One, low aircraft additions at Regional One, and lower capital expenditures at the other aviation companies. As discussed previously, Regional One continues to spend considerable time and effort investigating new platforms. This led to the addition of 28 ERJ145 aircraft subsequent to quarter end providing Regional One a considerable presence in this platform. The purchase when combined with follow on capital to be invested in the fleet will lead to increased growth capital expenditures in the second quarter. Consistent with Regional One's model, the aircraft will be monetized through part out, leases, and aircraft sales. While leases have been negotiated for a number of aircraft, it is expected to take six months to begin generating the expected return on this new platform. This platform is expected to generate returns consistent with Regional One's historical investments. Aircraft sales are lumpy and their timing varies quarter to quarter. The second quarter of 2017 represented a high quarter for aircraft sales at Regional One and this is not expected to repeat in the second quarter of 2018. Additionally, Regional One is putting the CRJ900 aircraft, acquired last year, on their second lease. This will result in not all of these aircraft being deployed in the second quarter. Finally, Regional One's results in the second quarter will be impacted by a stronger Canadian dollar compared to the second quarter of 2017. These factors will lead to EBITDA at Regional One in the second quarter of 2018 likely being lower than the record EBITDA generated in the second quarter of 2017 of $32.2 million.

Previous investments and initiatives continue to be executed by our entities. This included Keewatin finalizing the contract for the Baffin region of Nunavut. Keewatin was the incumbent in this territory and was awarded a new five year contract through a tender process. This will result in Keewatin expanding its services and adding a second base in this territory in 2018. Keewatin is now in the first year of a five year contract for two of the three regions on Nunavut and is awaiting the award of a five year contract in the Kivalliq region, where it is the incumbent. The investment in the demonstrator surveillance aircraft by Provincial was substantially completed in the first quarter of 2018. We are working with the regulator to have the aircraft approved in the second quarter so it is ready for deployment in the third quarter of 2018. Multiple government bodies in both North America and overseas have been active in negotiations. Likewise, the Fixed Wing Search and Rescue project is progressing as planned. Milestones have been achieved according to plan and we will continue to execute this phase of the contract. In 2019 the first aircraft is scheduled to be delivered and our activity will increase in 2022 when we are actively servicing and maintaining the aircraft. At that point in time, the revenue generated from the contract will increase to more significant levels.

Fuel prices are higher than the levels experienced in 2017. This has and will have some short term impact on results, however over the long term most of the Company's aviation subsidiaries have the ability to adjust prices to reflect higher fuel costs and are implementing fuel surcharges where appropriate. The Company's airlines providing services to government agencies and other contract customers have fuel flow through provisions mitigating the exposure from changes in fuel cost. For the remainder of the services fuel surcharges can be added, however the Company and its subsidiaries are mindful of the impact price increases have on the communities they serve and therefore often implement these prices changes over time, after providing notice of the change well in advance of its implementation.

Manufacturing Segment

As outlined in the fourth quarter report, the EBITDA from this segment was expected to approximately double in 2018. The first quarter supported this expectation as EBITDA more than doubled in the quarter. This growth is primarily from the acquisition of Quest, but also as a result of strong order books in the majority of the segment and operational improvement at WesTower. As stated in the fourth quarter outlook, this higher level of performance is expected to continue moving forward.

The customer demand and resulting backlogs at Stainless, Ben Machine and Overlanders are strong and expected to continue throughout 2018. Alberta Operations continue to improve its performance as the economy in its regions has stabilized. They have taken this opportunity to expand their footprints in Saskatchewan. In addition to its current store in Estevan, Saskatchewan, they will be adding stores in Regina and Saskatoon in 2018.

WesTower has been developing its expertise to expand its offerings into new service offerings such as in-building solutions. Progress has been made in this non-traditional work as WesTower has bid and had some recent wins. This success will strengthen WesTower's business as they position themselves to provide more service requirements for the telecommunication companies, lessening the cyclical impact of the technology change in this industry on WesTower's performance.

Quest's operating performance under EIC's ownership continues to be quite strong and is operating higher than expected as the timing of the jobs in the first quarter enabled Quest to deliver a higher level of throughput than normal. Despite this higher level of throughput, Quest's backlog continued to grow substantially. This trajectory makes the previously announced second manufacturing facility imperative. Quest has finalized its plans for this facility and is starting to execute this expansion plan. The facility will be

domiciled in Texas and will more than double its current capacity. The facility will start operations in 2019 and is expected to be fully running by the second half of 2019. The vast majority of the planned 2019 production for this facility is already supported by the confirmed orders in Quest's backlog. Quest's EBITDA has exceeded our expectations, making it highly likely that the vendors will achieve their earn out growth targets in the first year of ownership, resulting in the payout of the entire $15 million earn out based on the 2018 results.

Capital Expenditures

Consistent with the 2017 year end outlook, Maintenance Capital Expenditures are expected to be slightly higher than the levels of 2017. This held true in the first quarter as Maintenance Capital Expenditures were $30.8 million compared to $27.4 million in the comparative period. Additionally, the timing of Maintenance Capital Expenditures will follow the same quarterly timing as 2017 with more expenditures weighted to the first half of the year.

Based on current operational plans, EIC is expecting lower Growth Capital Expenditures in 2018. Despite this lower level of capital expenditures, EIC is still investing in some critical growth projects in addition to the demonstrator surveillance aircraft that was largely completed in the first quarter of 2018. The investment in the new manufacturing facility in the US for Quest's expansion is planned to occur throughout the remainder of 2018 with production commencing in 2019. In the first quarter, Keewatin was awarded the five year medevac contract in the Baffin region of Nunavut. As part of this contract, we will be adding expanded and enhanced coverage through an additional base and two new aircraft. Subsequent to quarter end, Regional One made an investment in the ERJ145 platform, which will lead to positive growth capex in the second quarter. In addition, EIC has other smaller growth capital expenditures planned in other subsidiaries throughout the year.

A key tenet to EIC's business model is to invest in our subsidiaries. As such, EIC will continue to assess prospects to grow through additional investment as opportunities are developed by its subsidiaries throughout the year. Regional One is the most fluid example as their business opportunities can arise and be acted upon in short order. Their ability to be opportunistic in the expansion of their aircraft portfolio is a critical aspect of our long-term investment strategy.

6. LIQUIDITY AND CAPITAL RESOURCES

During the first quarter of 2018, the Corporation redeemed its 7 year 5.5% convertible debentures which were due September 30, 2019. The redemption was funded with a portion of the proceeds of the $100 million of 5 year 5.25% convertible unsecured subordinated debenture offering which closed on December 20, 2017. Subsequent to quarter end, the Corporation amended its credit facility to increase its size by $250 million and extend its term to May 2022. Additionally, one financial institution was added to the syndicate and the interest rate charged on utilized and unutilized portions of the facility were reduced. 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 the facility to correspond to the increasing size of the Corporation.

Our working capital position, Free Cash Flow and capital resources are strong and we have no long term debt coming due until March 2020. Our strong balance sheet combined with the recent changes to our credit facility and convertible debentures have enhanced our access to capital to make acquisitions and invest in our operating subsidiaries.

As at March 31, 2018, the Corporation had a cash position of $14.4 million (December 31, 2017 of $72.3 million) and a net working capital position of $260.6 million (December 31, 2017 of $240.0 million) which represents a current ratio of 2.28 to 1 (December 31, 2017 of 1.91 to 1). The Corporation's cash balance at December 31, 2017 included $56.8 million to fund the redemption of its 7 year 5.5% convertible debentures which were redeemed in January 2018.

The Corporation aims to maintain leverage ratios 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 senior leverage ratio maximum of 3 (the maximum was increased to 3.25 subsequent to March 31, 2018). The Corporation's leverage ratio at March 31, 2018 as calculated under the terms of our credit facility, which is adjusted for the impact of the timing of acquisitions, was 2.25 (December 31, 2017 – 1.86). Our leverage ratio at December 31, 2017 was impacted by the cash position that was used to redeem the debentures as noted above.

Overview of Capital Structure

The Corporation's capital structure is summarized below.

	March 31 2018	December 31 2017
Total senior debt outstanding (principal value)	$ 625,382	$ 550,318
Convertible debentures outstanding (par value)	261,835	318,678
Common shares	581,632	576,471
Total capital	$ 1,468,849	$ 1,445,467

Credit facility

The size of the Corporation's credit facility as at March 31, 2018 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 size of the facility was increased subsequent to March 31, 2018 to $945 million allocated to the Corporation's Canadian head office. There was no change to the amount allocated to EIIF Management USA Inc., which remained at US $55 million. The facility allows for borrowings to be denominated in either Canadian or US funds. As of March 31, 2018, the Corporation had drawn $167.0 million and US $355.5 million (December 31, 2017 - $109.7 million and US $351.2 million). During the quarter, the Corporation made draws on its credit facility to fund the acquisition of Moncton Flight College, investments in working capital as described in *Section 3 – Investing Activities*, the initial investment in Wasaya Group and purchases of shares for cancellation under its NCIB. Subsequent to March 31, 2018 a further draw was made to fund the final investment in Wasaya Group.

During the quarter, the Corporation used 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. The swap mitigates the risk of changes in the value of the US dollar borrowings as it will be exchanged for the same Canadian equivalent in 30 days. At March 31, 2018, US $194.0 million (December 31, 2017 – US $194.7 million) of the Corporation's US denominated borrowings are hedged with these swaps.

Convertible Debentures

The following summarizes the convertible debentures outstanding during the period ended March 31, 2018 and the changes in the amount of convertible debentures outstanding during the three months ended March 31, 2018:

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Unsecured Debentures - 2012(1)	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
Unsecured Debentures - 2017	EIF.DB.I	December 31, 2022	5.25%	$51.50

Par value	Balance, beginning of period	Issued	Converted	Redeemed / Matured	Balance, end of period
Unsecured Debentures - September 2012(1)	$ 56,843	$ -	$ (90)	$ (56,753)	$ -
Unsecured Debentures - March 2013	64,980	-	-	-	64,980
Unsecured Debentures - March 2014	27,880	-	-	-	27,880
Unsecured Debentures - June 2016	68,975	-	-	-	68,975
Unsecured Debentures - December 2017	100,000	-	-	-	100,000
Total	$ 318,678	$ -	$ (90)	$ (56,753)	$ 261,835

Note 1): On January 11, 2018, the Corporation redeemed its 7 year 5.50% convertible debentures which were due September 30, 2019.

Share Capital

The following summarizes the changes in the shares outstanding of the Corporation during the three months ended March 31, 2018:

	Date issued (redeemed)	Number of shares
Shares outstanding, beginning of period		31,317,890
Issued upon conversion of convertible debentures	various	2,445
Issued under dividend reinvestment plan (DRIP)	various	48,192
Shares cancelled under NCIB	various	(137,700)
Issued to Moncton Flight College vendors on closing	February 28, 2018	176,102
Issued under First Nations community partnership agreements	March 14, 2018	1,000
Shares outstanding, end of period		31,407,929

On February 28, 2018, the Corporation issued 176,102 shares having a value of $6.0 million as part of the purchase price of Moncton Flight College.

The Corporation issued 48,192 shares under its dividend reinvestment plan ("DRIP") during the first quarter of 2018 and received $1.6 million for those shares in accordance with the DRIP.

During the first quarter of 2018, the Corporation repurchased shares for cancellation under its NCIB, which is detailed further below.

The weighted average shares outstanding during the quarter ended March 31, 2018 increased by 1% over the comparative period. The increase is mainly attributable to the shares issued as a result of the conversion of convertible debentures throughout 2017 and shares issued in connection with the acquisition of Quest, mostly offset by shares repurchased and cancelled under the Corporation's NCIB throughout 2017 and 2018.

Normal Course Issuers Bid

On January 31, 2018, the Corporation received approval from the TSX for the renewal of its NCIB to purchase up to an aggregate of 1,566,827 shares, representing 5% of the issued and outstanding shares as at January 23, 2018. Purchases of shares pursuant to the renewed NCIB can be made through the facilities of the TSX commencing on February 5, 2018 and ending on February 4, 2019. The maximum number of shares that can be purchased by the Corporation on a daily basis is 36,859 shares, other than block purchase exemptions.

During the first quarter, the Corporation purchased a total of 137,700 shares through its NCIB. The Corporation paid $4.5 million to purchase these shares at a weighted average purchase price of $32.59. All shares purchased under the NCIB were cancelled.

The Corporation sought renewal of the NCIB because it believes that, from time to time, the market price of the shares may not fully reflect the value of the shares. The Corporation believes that, in such circumstances, the purchase of shares represents an accretive use of capital.

7. RELATED PARTY TRANSACTIONS

The related party transactions that the Corporation entered into during the three months ended March 31, 2018 are consistent with those described in the Corporation's MD&A for the year ended December 31, 2017.

8. 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 MD&A of the Corporation for the year ended December 31, 2017, other than as noted below.

The Corporation's liabilities for contingent consideration associated with the earn out portion of its acquisitions is reassessed each period end subsequent to the related acquisition. The carrying value of the liability is based on an estimates of both the amount of the potential payment and probability that the earn out will be paid. In the current period, the estimated liability for additional purchase consideration associated with CarteNav was reduced to reflect expected earnings levels during the remaining earn out period. This resulted in a recovery of $1.5 million and is included on the Other line of the Statement of Income.

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 three months ended March 31, 2018 that are discussed and analyzed in this report are described in detail in Note 3 of the Corporation's 2017 annual consolidated financial statements and Note 3 of the Corporation's interim condensed consolidated financial statements for the three months ended March 31, 2018.

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 2017 annual consolidated financial statements, except as discussed below.

Adoption of IFRS 15 *Revenue from Contracts with Customers*

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 additional disclosures. IFRS 15 supersedes IAS 11, Customer Contracts, and IAS 18, Revenue, as well as various IFRIC and SIC interpretations regarding revenue. The Corporation's adoption of IFRS 15 was effective beginning on January 1, 2018. The Corporation has adopted IFRS 15 from January 1, 2018 which resulted in changes in accounting policies and adjustments recognized in the financial statements. In accordance with the transition provision in IFRS 15, the Corporation has adopted the standard on a modified retrospective basis. There was no restatement of comparative financial information with the cumulative effect of adoption recognized as an adjustment to the opening balance of retained earnings for the period commencing January 1, 2018. Under this transition method, the Corporation has applied IFRS 15 retrospectively only to those contracts that were not completed as of January 1, 2018. The impact of adoption is summarized in the Note 3 – Significant Accounting Policies of the Corporation's interim financial statements.

10. CONTROLS AND PROCEDURES

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining internal controls over financial reporting in order to provide reasonable assurance with regards to the reliability of financial reporting and preparation of financial statements in accordance with 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 March 31, 2018, and has concluded that the design of the internal controls over financial reporting is effective.

Quest was acquired November 14, 2017 and Moncton Flight College was acquired on February 28, 2018. In accordance with section 3.3(1)(b) of National Instrument 52-109, management has limited the scope of its design of internal controls over financial reporting to exclude the controls at Quest and Moncton Flight College. Management will include these entities in the scope of its assessments for the year ended December 31, 2018.

Quest and Moncton Flight College had EBITDA of $8.2 million included in the consolidated results of the Company for the first quarter of 2018. As at March 31, 2018, these entities had current assets and non-current assets of $41.5 million and $126.2 million, respectively, and current liabilities and non-current liabilities of $15.8 million and $31.5 million, respectively.

There have been no other material changes to the Corporation's internal controls during the 2018 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 effective as at March 31, 2018.

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, 2017.

12. NON-IFRS FINANCIAL MEASURES AND GLOSSARY

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: Maintenance Capital Expenditures is defined as 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.

Regional One's purchases of operating aircraft within its lease portfolio are capital expenditures and the process used to classify those expenditures as either growth or maintenance is based on the depreciation of that portfolio. 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. 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 potential future earnings and cash flows. 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.

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.

13. QUARTERLY INFORMATION

The following summary reflects quarterly results of the Corporation:

	2018				2017				2016
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenue	$ **266,027**	$ 263,910	$ 253,367	$ 273,145	$ 222,528	$ 221,657	$ 224,620	$ 226,851	$ 217,898
EBITDA	**54,013**	63,315	71,964	70,071	43,348	51,304	60,012	56,928	44,331
Net earnings	**8,614**	16,920	23,902	25,779	5,559	13,822	20,581	17,214	9,873
Basic	**0.27**	0.55	0.78	0.83	0.18	0.48	0.72	0.62	0.36
Diluted	**0.27**	0.53	0.72	0.77	0.18	0.47	0.67	0.59	0.35
Adjusted net earnings	**12,932**	22,260	25,716	23,943	7,808	16,631	23,145	20,403	12,023
Basic	**0.41**	0.72	0.84	0.77	0.25	0.58	0.81	0.74	0.43
Diluted	**0.40**	0.68	0.77	0.72	0.25	0.56	0.74	0.69	0.43
Free Cash Flow	**40,596**	49,745	55,849	51,731	33,789	40,765	45,873	42,683	34,890
Basic	**1.29**	1.61	1.81	1.66	1.09	1.42	1.60	1.54	1.26
Diluted	**1.15**	1.45	1.58	1.46	0.98	1.25	1.37	1.34	1.10
FCF less maintenance capital expenditures	**9,842**	27,748	35,976	21,842	6,380	22,823	26,484	25,476	16,801
Basic	**0.31**	0.90	1.17	0.70	0.21	0.80	0.93	0.92	0.61
Diluted	**0.31**	0.86	1.05	0.66	0.20	0.74	0.84	0.84	0.58
Maintenance capital expenditures	**30,754**	21,997	19,873	29,889	27,409	17,942	19,389	17,207	18,089
Growth capital expenditures	**2,040**	15,768	20,771	33,048	58,790	44,760	53,268	33,489	27,866

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	March 31 2018	December 31 2017
ASSETS		
CURRENT		
Cash and cash equivalents	$ 14,394	$ 72,315
Accounts receivable	215,318	207,796
Costs incurred plus recognized profits in excess of billings	13,872	9,294
Inventory	188,831	178,397
Prepaid expenses and deposits	31,928	29,932
Income taxes receivable	-	5,072
	464,343	502,806
OTHER ASSETS	30,914	25,570
CAPITAL ASSETS	818,904	796,576
INTANGIBLE ASSETS	132,159	135,706
DEFERRED INCOME TAX ASSETS	-	258
GOODWILL	332,902	288,281
	$ 1,779,222	$ 1,749,197
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ 163,015	$ 166,415
Income taxes payable	2,475	-
Deferred revenue (Note 3)	26,886	24,160
Billings in excess of costs incurred plus recognized profits	10,360	14,200
Current portion of long-term debt and finance leases (Note 7)	1,022	1,170
Current portion of convertible debentures (Note 8)	-	56,843
	203,758	262,788
LONG-TERM DEBT AND FINANCE LEASES (Note 7)	624,395	549,451
OTHER LONG-TERM LIABILITIES	45,297	34,493
DEFERRED REVENUE	6,197	6,934
CONVERTIBLE DEBENTURES (Note 8)	242,058	240,962
DEFERRED INCOME TAX LIABILITY	74,530	77,061
	1,196,235	1,171,689
EQUITY		
SHARE CAPITAL (Note 9)	581,632	576,471
CONVERTIBLE DEBENTURES - Equity Component (Note 8)	11,151	14,311
CONTRIBUTED SURPLUS	6,631	3,478
DEFERRED SHARE PLAN	10,667	9,867
RETAINED EARNINGS		
Cumulative Earnings (Note 3)	328,534	320,141
Cumulative Dividends	(372,451)	(355,718)
Cumulative impact of share cancellation under the NCIB (Note 9)	(14,026)	(12,074)
	(57,943)	(47,651)
ACCUMULATED OTHER COMPREHENSIVE INCOME	30,849	21,032
	582,987	577,508
	$ 1,779,222	$ 1,749,197

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 March 31		2018		2017
REVENUE				
Aerospace & Aviation	$	189,823	$	177,035
Manufacturing		76,204		45,493
		266,027		222,528
EXPENSES				
Aerospace & Aviation expenses - excluding depreciation and amortization		115,268		109,341
Manufacturing expenses - excluding depreciation and amortization		55,261		34,662
General and administrative		41,485		35,177
		212,014		179,180
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER (Note 4)		54,013		43,348
Depreciation of capital assets		28,462		24,743
Amortization of intangible assets		4,754		2,755
Finance costs - interest		11,046		7,705
Acquisition costs		515		238
Other (Note 5)		(1,471)		-
EARNINGS BEFORE INCOME TAXES		10,707		7,907
INCOME TAX EXPENSE (RECOVERY)				
Current		4,475		3,664
Deferred		(2,382)		(1,316)
		2,093		2,348
NET EARNINGS	$	8,614	$	5,559
EARNINGS PER SHARE (Note 12)				
Basic	$	0.27	$	0.18
Diluted	$	0.27	$	0.18

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands of Canadian dollars)

Attributable to common shareholders

For the periods ended March 31		2018		2017
NET EARNINGS	$	8,614	$	5,559
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that are or may be reclassified to the Statement of Income				
Cumulative translation adjustment, net of tax expense (recovery) of $7 and $(3), respectively.		15,354		(2,660)
Net gain on hedge of net investment in foreign operation, net of tax expense (recovery) of $(769) and $34, respectively.		(5,537)		479
		9,817		(2,181)
COMPREHENSIVE INCOME	$	18,431	$	3,378

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			Accumulated Other Comprehensive Income (Loss)	**Total**
					Cumulative Earnings	Cumulative Dividends	Cumulative impact of share repurchase under NCIB		
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)	94,285	-	-	-	-	-		-	**94,285**
Convertible debentures									
Converted into shares (Note 9)	104	(5)	-	-	-	-	-	-	**99**
Shares issued under dividend reinvestment plan (Note 9)	1,528	-	-	-	-	-	-	-	**1,528**
Shares issued under First Nations community									
partnership agreements (Note 9)	100	-	-	-	-	-	-	-	**100**
Deferred share plan vesting	-	-	-	646	-	-	-	-	**646**
Comprehensive income	-	-	-	-	5,559	-	-	(2,181)	**3,378**
Dividends declared (Note 10)	-	-	-	-	-	(16,335)	-	-	**(16,335)**
Balance, March 31, 2017	**$ 559,620**	**$ 11,240**	**$ 3,478**	**$ 7,853**	**$ 253,540**	**$ (306,966)**	**$ (395)**	**$ 41,468**	**$ 569,838**
Balance, January 1, 2018 (Restated - Note 3)	$ 576,471	$ 14,311	$ 3,478	$ 9,867	$ 319,920	$ (355,718)	(12,074)	$ 21,032	$ **577,287**
Shares issued to acquisition vendors (Note 6)	5,998	-	-	-	-	-	-	-	**5,998**
Convertible debentures									
Converted into shares (Note 9)	97	(7)	-	-	-	-	-	-	**90**
Matured/Redeemed	-	(3,153)	3,153	-	-	-	-	-	**-**
Shares issued under dividend reinvestment plan (Note 9)	1,566	-	-	-	-	-	-	-	**1,566**
Shares issued under First Nations community									
partnership agreements (Note 9)	35	-	-	-	-	-	-	-	**35**
Deferred share plan vesting (Note 13)	-	-	-	800	-	-	-	-	**800**
Shares cancelled under NCIB (Note 9)	(2,535)	-	-	-	-	-	(1,952)	-	**(4,487)**
Comprehensive income	-	-	-	-	8,614	-	-	9,817	**18,431**
Dividends declared (Note 10)	-	-	-	-	-	(16,733)	-	-	**(16,733)**
Balance, March 31, 2018	**$ 581,632**	**$ 11,151**	**$ 6,631**	**$ 10,667**	**$ 328,534**	**$ (372,451)**	**$ (14,026)**	**$ 30,849**	**$ 582,987**

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

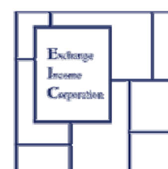
Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of Canadian dollars)

For the periods ended March 31	2018	2017
OPERATING ACTIVITIES		
Net earnings for the period	$ 8,614	$ 5,559
Items not affecting cash:		
Depreciation of capital assets	28,462	24,743
Amortization of intangible assets	4,754	2,755
Accretion of interest	1,651	1,192
Long-term debt discount	(243)	163
Gain on sale of disposal of capital assets	(104)	(191)
Deferred income tax expense	(2,382)	(1,316)
Deferred share program share-based vesting	800	646
Other (Note 5)	(1,471)	-
	40,081	33,551
Changes in non-cash operating working capital items and long-term deferred revenue (Note 15)	(24,467)	(27,240)
	15,614	6,311
FINANCING ACTIVITIES		
Net proceeds from (repayment of) long-term debt & finance leases, net of issuance costs (Note 7)	63,446	(5,564)
Redemption of convertible debentures (Note 8)	(56,753)	-
Issuance of shares, net of issuance costs	1,600	94,520
Payment for repurchase of shares under NCIB (Note 9)	(4,487)	-
Cash dividends (Note 10)	(16,733)	(16,335)
	(12,927)	72,621
INVESTING ACTIVITIES		
Purchase of capital assets	(40,553)	(93,647)
Proceeds from disposal of capital assets	8,685	7,987
Purchase of intangible assets	(644)	(351)
Investment in other assets	(3,015)	(1,052)
Cash outflow for acquisitions, net of cash acquired	(23,912)	-
Finance lease receivable payments, net of reserves and other	(1,401)	2,122
	(60,840)	(84,941)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(58,153)	(6,009)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	72,315	26,494
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	232	573
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 14,394	$ 21,058
Supplementary cash flow information		
Interest paid	$ 6,420	$ 7,262
Income taxes paid	$ 1,061	$ 7,096

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 and aviation services and equipment, and manufacturing sectors. 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 March 31, 2018, the principal operating subsidiaries of the Corporation are Perimeter Aviation LP (including its operating division, Bearskin Airlines), Keewatin Air LP, Calm Air International 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., Quest Window Systems Inc., CANLink Aviation Inc. ("Moncton Flight College") and EIIF Management USA Inc. Stainless Fabrication, Inc., Dallas Sailer Enterprises, Inc., and Regional One Inc. are wholly owned subsidiaries of EIIF Management USA Inc. 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 certain of 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, 2017. 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 first quarter, the Corporation reclassified certain of the comparative figures to correspond with current period reporting classification on the Statement of Cash Flow.

These interim condensed consolidated financial statements were approved by the Board of Directors of the Corporation for issue on May 8, 2018.

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, except as noted below. Note 3 of the Corporation's 2017 audited financial statements includes a comprehensive listing of the Corporation's significant accounting policies.

Adoption of IFRS 15 *Revenue from Contracts with Customers*

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 additional disclosures. IFRS 15 supersedes IAS 11, Customer Contracts, and

IAS 18, Revenue, as well as various IFRIC and SIC interpretations regarding revenue. The Corporation's adoption of IFRS 15 was effective beginning on January 1, 2018. The Corporation has adopted IFRS 15 from January 1, 2018 which resulted in changes in accounting policies and adjustments recognized in the financial statements. In accordance with the transition provision in IFRS 15, the Corporation has adopted the standard on a modified retrospective basis. There was no restatement of comparative financial information with the cumulative effect of adoption recognized as an adjustment to the opening balance of retained earnings for the period commencing January 1, 2018. Under this transition method, the Corporation has applied IFRS 15 retrospectively only to those contracts that were not completed as of January 1, 2018. As a result of the adoption of IFRS 15, the Corporation's accounting policy for revenue recognition has been revised and disclosed below.

The following table shows the adjustments recognized for each individual line item. Line items that were not affected by the changes have not been included. As a result, the subtotals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail below.

	Reported at January 1, 2018	Balance without the adoption of IFRS 15	Impact of Adoption
Statement of Financial Position			
Opening cumulative earnings	$ 319,920	$ 320,141	$ (221)
Opening deferred revenue	24,480	24,160	320
Opening deferred income tax liability	76,962	77,061	(99)

The Corporation made an adjustment to opening retained earnings as a result of the adoption of IFRS 15, reducing opening retained earnings by $221 relating to contracts with a licensing deliverable and an associated support contract. Under the Corporation's previous revenue recognition policy, the revenue associated with the software licenses were recognized immediately. Under IFRS 15, the Corporation determined that the software license revenue should be recognized over the life of the associated support contract as the two deliverables represented a single performance obligation, resulting in a one-time adjustment to reduce previously recognized revenue.

In addition to the transitional disclosures above, additional disclosures required under IFRS 15 are included within Note 11 – Segmented and Supplemental Information.

Revised Revenue Recognition Policy

The Corporation recognizes revenue from the sale of retail and manufactured goods and from the sale of services. Revenue is recognized for the major business activities using the methods outlined below.

Aerospace & Aviation Segment

i. Aftermarket parts sales

Revenue from the sale of parts is recognized when control of the part has passed to the customer, which is generally when the part is shipped and title has passed.

The Corporation is also party to consignment agreements where parts are sold with the Corporation acting as consignee. With respect to consignment sales the Corporation assesses whether it is a principal or an agent under the terms of the agreement. In circumstances where the Corporation is a principal, revenue is recognized in a manner consistent with other parts sales as described above. In circumstances where the Corporation is an agent, revenue is recorded net of the related cost of the part, such that the revenue recognized is equal to the margin earned by the Corporation.

The Corporation may enter into finance leases with customers. In such circumstances, the Corporation records gross profit from the lease that is equivalent to the present value of the lease payments received less the cost of the related asset. Interest revenue is earned over the term of the lease and recognized using the effective interest method. Long-term receivables relating to sales-type leases are recorded within "Other Assets" on the Statement of Financial Position.

ii. Aircraft and engine sales

Revenue from the sale of aircraft and engines is recognized when control of the asset has passed to the customer, which is generally when the asset has been delivered to the customer and title has passed.

iii. Aircraft and engine lease revenue

Revenue from leasing of aircraft and aircraft components is recognized as revenue on a straight-line basis over the terms of the lease agreements. Certain of the Corporation's lease contracts call for billings either in advance of or subsequent to the customer's usage of the aircraft under the lease. Lease revenue received in advance are recorded as deferred revenue until such time that it has been earned. Security deposits received from customers are recorded as a liability within "Other Long-Term Liabilities" on the Statement of Financial Position. Certain leases require payments from the customer that are for the purpose of maintenance of the leased aircraft. In circumstances where the payment must be returned to the customer if it is not used for maintenance activities, the payment received from the customer is recorded as a maintenance liability. The maintenance liability is recorded in Other Long-Term Liabilities on the Statement of Financial Position.

iv. Surveillance and aircraft modification services

Revenue from surveillance services is recognized when the surveillance flight has been taken. In the case of aircraft modification services, the customer is obligated to pay for work performed to date, therefore revenue is recognized over time as the modification services are performed. The stage of completion is determined based on the costs incurred to date in comparison to the expected total costs. The timing of billings to the customer and customer payments can result in either an asset ("Costs incurred plus recognized profits in excess of billings") or a liability ("Billings in excess of costs incurred plus recognized profit").

v. Software development and sales of software licenses

Revenue from software development is recognized over time based on the completion of contractual performance obligations. The stage of completion is determined based on the costs incurred to date in comparison to the expected total costs. The contract price is allocated to the performance obligations. When a performance obligation is completed and the customer is obligated to pay for the work performed, the associated revenue is recognized.

vi. Charter, passenger flight, medevac and cargo services

The Corporation records revenue from flight services (charter, passenger and cargo) when the flight has been completed. Payments for these services that are received in advance of the related flight are recorded as deferred revenue until the flight is taken, the ticket expires or the goods are shipped.

Where a customer receives loyalty points based on the value of the ticket purchased, the points awarded are recognized as a separate component of the purchase price of the ticket. The amount allocated to the loyalty points component is determined based on the fair value of the loyalty points relative to the fair value of the ticket purchased. The amount allocated to the loyalty points awarded is deferred and recognized as revenue when the loyalty points are redeemed by the passenger.

The Corporation performs regular evaluations of its deferred revenue liabilities and these evaluations may result in adjustments to the amount of revenue recognized. Due to the complexity associated with pricing, refunds, exchanges and historical experience with unused tickets and other factors, certain amounts are recognized as revenue based on estimates. Events and circumstances may cause actual results to be different from estimates.

vii. Fixed Base Operations (FBO) sales and services

The Corporation records revenue from the sale of fuel, de-icing and other FBO sales and services when the goods or services have been delivered to the customer. Certain fuel sales transactions have the characteristics of agent sales and as a result, revenue from this type of transaction is recorded based on the net amount received from the customer. The net amount is the difference between the amount billed to the customer less the amount paid to the supplier of the fuel. The amount receivable from the customer and the amount owed to the fuel supplier are not recorded on a net basis because the legal right of offset does not exist.

Manufacturing Segment

i. Sale of equipment and manufactured goods

Revenue from the sale of equipment and manufactured goods is recognized when control of the asset has passed to the customer, this is generally at the time of delivery. Payments received from customers in advance of the delivery of the goods are recorded as deferred revenue.

ii. Manufactured window sales

Revenue from the sale of manufactured windows as a subcontractor, primarily in the US, is recognized when control of the asset has passed to the customer, which is at the time of delivery to the contractor. Revenue from the manufacture and installation of window systems is recognized over time based on output measures such as surveys of work performed and units delivered, which represents the continuous transfer of control of goods and services to the customer. Such contracts provide that the customer accept completion of progress to date and compensate the Corporation for services rendered. The timing of billings to the customer and customer payments can result in either an asset ("Costs incurred plus recognized profits in excess of billings") or a liability ("Billings in excess of costs incurred plus recognized profit").

iii. Tower construction services

Revenue from the construction of towers is recognized over time based on the stage of completion. The stage of completion is determined based on the costs incurred to date in comparison to the expected total costs. Such contracts provide that the customer accept completion of progress to date and compensate the Corporation for services rendered. The timing of billings to the customer and customer payments can result in either an asset ("Costs incurred plus recognized profits in excess of billings") or a liability ("Billings in excess of costs incurred plus recognized profit").

iv. Stainless tank sales

Revenue from the construction of stainless tanks is recognized over time based on the stage of completion. The stage of completion is determined based on the costs incurred to date in comparison to the expected total costs. Such contracts provide that the customer accept completion of progress to date and compensate the Corporation for services rendered. The timing of billings to the customer and customer payments can result in either an asset ("Costs incurred plus recognized profits in excess of billings") or a liability ("Billings in excess of costs incurred plus recognized profit").

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 the performance of the business 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, except as noted below.

The Corporation's liabilities for contingent consideration associated with the earn out portion of its acquisitions is reassessed each period end subsequent to the related acquisition. The carrying value of the liability is based on an estimates of both the amount of the potential payment and probability that the earn out will be paid. In the current period, the estimated liability for additional purchase consideration associated with CarteNav was reduced to reflect expected earnings levels during the remaining earn out period. This resulted in a recovery of $1,471 and is included on the Other line of the Statement of Income.

6. ACQUISITIONS

Acquisition of CANLink

On February 28, 2018, the Corporation acquired all of the shares of CANLink Global Inc. ("Moncton Flight College"). Moncton Flight College, headquartered in Moncton, New Brunswick, is a flight training college in Canada. Moncton Flight College offers domestic Canadian pilot training as well as a foreign pilot program.

The components of the consideration paid to acquire Moncton Flight College are outlined in the table below.

Consideration given:		
Cash (net of closing adjustments)	$	25,376
Issuance of 176,102 shares of the Corporation at $34.06 per share		5,998
Estimated working capital post-closing adjustment		898
Contingent cash consideration - earn out		16,784
Total purchase consideration	$	49,056

The preliminary purchase price allocation will be finalized later in 2018 when final settlement of working capital and other post-closing adjustments occur. The purchase price includes an initial payment of cash and the issuance of common shares to the vendors, net of normal closing adjustments, plus a multi-year earn out if certain performance targets are met for fiscal periods 2018 and 2019. The maximum earn out that can be achieved by the vendors is $20,000. The contingent consideration recorded by the Corporation reflects the discounted liability of the estimated performance targets being met for fiscal 2018 and 2019. The valuation of separately identifiable intangible assets was not complete at the time of this report and the table shows the combination of goodwill and intangible assets together. The preliminary allocation of the purchase price is reflected in the table that follows.

Fair value of assets acquired:		
Cash	$	1,464
Accounts receivable		721
Inventory		1,684
Prepaid expenses and deposits		160
Capital assets		10,335
		14,364
Less fair value of liabilities assumed:		
Accounts payable and accrued liabilities		1,163
Income taxes payable		4,064
Deferred revenue		2,348
Deferred income tax liabilities		741
Fair value of identifiable net assets acquired		6,048
Goodwill and intangible assets		43,008
Total purchase consideration	$	49,056

7. LONG-TERM DEBT AND FINANCE LEASES

The following summarizes the Corporation's long-term debt and finance leases as at March 31, 2018 and December 31, 2017:

	March 31 2018	December 31 2017
Revolving term facility:		
Canadian dollar amounts drawn	$ 167,000	$ 109,700
United States dollar amounts drawn (US$355,500 and US$351,230 respectively)	458,382	440,618
Total credit facility debt outstanding, principal value	625,382	550,318
less: unamortized transaction costs	(1,504)	(1,707)
less: unamortized discount on outstanding Banker's Acceptances	(346)	(103)
Net credit facility debt	623,532	548,508
Finance leases	1,885	2,113
Total net credit facility debt and finance leases	625,417	550,621
less: current portion of finance leases	(1,022)	(1,170)
Long-term debt and finance leases	$ 624,395	$ 549,451

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 March 31, 2018.

Interest expense recorded by the Corporation during the three months ended March 31, 2018 for the long-term debt and finance leases was $6,055 and (2017 – $3,570).

Credit Facility

The following is the continuity of long-term debt for the three months ended March 31, 2018:

	Three Months Ended March 31, 2018				
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar portion	$ 109,700	$ 114,300	$ (57,000)	$ -	$ 167,000
United States dollar portion	440,618	52,245	(47,004)	12,523	458,382
	$ 550,318				$ 625,382

Subsequent to March 31, 2018, the Corporation amended its credit facility. Details of the amendment can be found in Note 16 – Subsequent Events.

8. CONVERTIBLE DEBENTURES

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Unsecured Debentures - 2012[1]	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
Unsecured Debentures - 2017	EIF.DB.I	December 31, 2022	5.25%	$ 51.50

Note 1): On January 11, 2018, the Corporation redeemed its 7 year 5.50% convertible debentures which were due September 30, 2019.

Summary of the debt component of the convertible debentures:

	2018 Balance, Beginning of Period	Debentures Issued	Accretion Charges	Debentures Converted	Redeemed / Matured	2018 Balance, End of Period
Unsecured - 2012	$ 56,843	$ -	$ -	$ (90)	$ (56,753)	$ -
Unsecured - 2013	63,311	-	171	-	-	63,482
Unsecured - 2014	26,833	-	114	-	-	26,947
Unsecured - 2016	65,041	-	151	-	-	65,192
Unsecured - 2017	94,762	-	200	-	-	94,962
						250,583
less: unamortized transaction costs						(8,525)
Convertible Debentures - Debt Component, end of period						$ 242,058

During the three months ended March 31, 2018, convertible debentures totaling a face value of $90 were converted by the holders at various times into 2,445 shares of the Corporation (2017 – $103 face value into 3,106 shares).

Interest expense recorded during the three months ended March 31, 2018 for the convertible debentures was $4,658 (2017 – $4,135).

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:

	March 31 2018	December 31 2017
Unsecured Debentures - 2012	$ -	$ 3,160
Unsecured Debentures - 2013	3,062	3,062
Unsecured Debentures - 2014	1,238	1,238
Unsecured Debentures - 2016	3,261	3,261
Unsecured Debentures - 2017	3,590	3,590
Convertible Debentures - Equity Component, end of period	$ 11,151	$ 14,311

All convertible debentures outstanding at March 31, 2018 represent direct unsecured debt obligations of the Corporation.

9. SHARE CAPITAL

Changes in the shares issued and outstanding during the three months ended March 31, 2018 are as follows:

	Number of Shares		2018 Amount
Share capital, beginning of period	31,317,890	$	576,471
Issued upon conversion of convertible debentures	2,445		97
Issued under dividend reinvestment plan	48,192		1,566
Issued under First Nations community partnership agreements	1,000		35
Shares cancelled under NCIB	(137,700)		(2,535)
Issued to Moncton Flight College vendors on closing	176,102		5,998
Share capital, end of period	31,407,929	$	581,632

On January 31, 2018, the Corporation received approval from the TSX for the renewal of its NCIB and during the three months ended March 31, 2018 purchased a total of 137,700 shares. The Corporation purchased the shares at an average cost of $32.59 per share for aggregate consideration of $4,487. All of the shares repurchased under NCIB were cancelled. The excess of the cost over the average book value of $1,952 was charged to retained earnings.

On February 28, 2018, the Corporation completed its acquisition of Moncton Flight College, which included the issuance of 176,102 shares having a value of $5,998 (Note 6).

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 three months ended March 31, 2018 and the comparative 2017 period are as follows:

Month	Record date	Per Share	2018 Dividends Amount	Record date	Per Share	2017 Dividends Amount
January	January 31, 2018	$ 0.175	$ 5,484	January 31, 2017	$ 0.175	$ 5,438
February	February 28, 2018	0.175	5,517	February 28, 2017	0.175	5,447
March	March 29, 2018	0.1825	5,732	March 31, 2017	0.175	5,450
Total		$ 0.5325	$ 16,733		$ 0.525	$ 16,335

Subsequent to March 31, 2018 and before these interim condensed consolidated financial statements were authorized, the Corporation declared a monthly dividend of $0.1825 per share for April 2018.

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. Moncton Flight College provides pilot training services. The results of Moncton Flight College are included in the Aerospace & Aviation segments results as of the date of acquisition (Note 6). The Manufacturing segment consists of niche specialty manufacturers in markets throughout Canada and the United States.

The Corporation evaluates each segment's performance based on Earnings before Interest, Taxes, Depreciation and Amortization ("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 the Corporation's total EBITDA, certain statement of financial position amounts and capital asset additions. It includes expenses incurred at head office of the Corporation.

	Three Months Ended March 31, 2018			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 189,823	$ 76,204	$ -	$ 266,027
Expenses	143,105	63,706	5,203	212,014
EBITDA	46,718	12,498	(5,203)	54,013
Depreciation of capital assets				28,462
Amortization of intangible assets				4,754
Finance costs - interest				11,046
Acquisition costs				515
Other (Note 5)				(1,471)
Earnings before income tax				10,707
Current income tax expense				4,475
Deferred income tax recovery				(2,382)
Net earnings				$ 8,614

	Three Months Ended March 31, 2017			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 177,035	$ 45,493	$ -	$ 222,528
Expenses	134,186	40,800	4,194	179,180
EBITDA	42,849	4,693	(4,194)	43,348
Depreciation of capital assets				24,743
Amortization of intangible assets				2,755
Finance costs - interest				7,705
Acquisition costs				238
Earnings before income tax				7,907
Current income tax expense				3,664
Deferred income tax recovery				(1,316)
Net earnings				$ 5,559

	March 31, 2018			
	Aerospace & Aviation	Manufacturing	Head Office[(1)]	Consolidated
Total assets	$ 1,435,150	$ 312,079	$ 31,993	$ 1,779,222
Net capital asset additions, excluding finance leases	30,068	1,696	104	31,868

	December 31, 2017			
	Aerospace & Aviation	Manufacturing	Head Office[(1)]	Consolidated
Total assets	$ 1,354,888	$ 318,039	$ 76,270	$ 1,749,197
Net capital asset additions, excluding finance leases	220,865	2,713	907	224,485

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.

Revenues

In accordance with IFRS 15, the following table provides disaggregated information about revenue from contracts with customers. We believe that disaggregation by type of sale is most appropriate. The purpose of this disclosure is to provide information about the nature of our contracts and about the timing, amount and uncertainties associated with customer contracts. The comparative figures in the chart below have not been adjusted for the impact of IFRS 15 as it is not required under the modified retrospective method.

Revenue Streams	March 31 2018	March 31 2017
Aerospace & Aviation Segment		
Sale of goods - point in time	$ 97,189	$ 94,291
Sales of services - point in time	90,900	81,716
Sale of services - over time	1,734	1,028
Manufacturing Segment		
Sale of goods - point in time	43,452	15,003
Sale of services - over time	32,752	30,490
Total revenue	$ 266,027	$ 222,528

12. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income attributable to owners of the Corporation by the weighted average number of common 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 the net income is adjusted to eliminate the interest expense from the convertible debentures less the tax effect.

The computation for basic and diluted earnings per share for the three months ended March 31, 2018 and comparative period in 2017 are as follows:

Three Months Ended March 31		**2018**		2017
Net earnings	**$**	**8,614**	$	5,559
Effect of dilutive securities				
Convertible debenture interest		**-**		-
Diluted earnings	**$**	**8,614**	$	5,559
Basic weighted average number of shares		**31,382,120**		31,042,564
Effect of dilutive securities				
Deferred shares		**790,622**		631,718
Convertible debentures		**-**		-
Diluted basis weighted average number of shares		**32,172,742**		31,674,282
Earnings per share:				
Basic	**$**	**0.27**	$	0.18
Diluted	**$**	**0.27**	$	0.18

13. DEFERRED SHARE PLAN

During the three months ended March 31, 2018, the Corporation granted deferred shares to certain personnel. The fair value of the deferred shares granted was $4,138 (2017 - $3,238) at the time of the grant and was based on the market price of the Corporation's shares at that time. During the three months ended March 31, 2018, the Corporation recorded compensation expense of $800 for the Corporation's Deferred Share Plan within the general and administrative expenses of head office (2017 - $646).

14. 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, 2017 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 $355,500 or $458,382 (December 31, 2017 - US $351,230 or $440,618) 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, US $5,200 (December 31, 2017 - US $230) is drawn by EIIF USA, an entity that uses US dollars as its functional currency. Therefore, the currency risk on this balance is recognized in other comprehensive income.

The Corporation`s investment in those subsidiaries with USD functional currencies are hedged partially by US $156,300 (December 31, 2017 - US $156,300) 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. 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 March 31, 2018 was a gain of $143 (December 31, 2017 - loss of $5,748). At March 31, 2018, the notional value of the swaps outstanding is US $194,000 (December 31, 2017 - US $194,700).

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 March 31, 2018:

- US $355,500 (December 31, 2017 – US $351,000) was outstanding under US LIBOR,
- nil (December 31, 2017 – US $230) was outstanding under USD Prime,
- nil (December 31, 2017 – $66,500) was outstanding under Prime, and
- $167,000 (December 31, 2017 – $43,200) 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:

		Fair Value		
Recurring fair value measurements	Carrying Value March 31, 2018	Quoted prices in an active market Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Financial Assets (Liabilities)				
Consideration liabilities - Financial liability at fair value through profit and loss	$ (33,956)	$ -	$ -	$ (33,956)
Other long term assets - Cross currency basis swap - Financial asset at fair value through profit and loss	143	-	143	-
Fair Value Disclosures				
Other assets - Amortized cost	13,528	-	13,528	-
Other assets - Fair value through OCI	1,903	-	-	1,903
Long term debt - Amortized cost	(623,532)	-	-	(625,382)
Convertible debt - Amortized cost	(242,058)	(269,737)	-	-

		Fair Value		
	Carrying Value	Quoted prices in an active market	Significant other observable inputs	Significant unobservable inputs
Recurring fair value measurements	December 31, 2017	Level 1	Level 2	Level 3
Financial Liabilities				
Consideration liabilities - Financial liability at fair value through profit and loss	$ (17,410)	$ -	$ -	$ (17,410)
Other long term liabilities - Cross currency basis swap - Financial liability at fair value through profit and loss	(5,748)	-	(5,748)	-
Fair Value Disclosures				
Other assets - Amortized cost	8,170	-	8,170	-
Other assets - Fair value through OCI	1,963	-	-	1,963
Long term debt - Amortized cost	(548,508)	-	-	(550,318)
Convertible debt - Amortized cost	(297,805)	(323,815)	-	-

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 acquisitions of Regional One, CarteNav, Team J.A.S., Quest, and Moncton Flight College, including any changes for settlements, changes in fair value and changes due to foreign currency fluctuations:

Consideration Liability Summary	**March 31**	December 31
For the periods ended	**2018**	2017
Opening	**$ 17,410**	$ 3,765
Accretion	**333**	238
Settled during the period	**-**	(463)
Change in estimate (Note 5)	**(1,471)**	-
Acquisition of Quest	**-**	13,889
Acquisition of CANLink	**17,682**	-
Translation (gain)/loss	**2**	(19)
Ending	**$ 33,956**	$ 17,410

The earn out liability recorded as part of the acquisitions are 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. The fair value of each earn out liability is determined at the time of the acquisition and uses several estimates. At the end of each reporting period, the Corporation reviews these estimates for reasonableness and makes any required adjustments to the carrying value of the liability.

Included in the $33,956 above is the earn outs for CarteNav, Quest, Moncton Flight College, and the estimated working capital settlement for Moncton Flight College.

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 March 31, 2018, which were released subsequent to March 31, 2018, on the fifth anniversary of the acquisition of Regional One.

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 March 31, 2018, 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 March 31, 2018, management estimated the fair value of the convertible debentures based on trading values. The estimated fair value of its convertible debentures is $269,737 (December 31, 2017 - $323,815) with a carrying value of $242,058 (December 31, 2017 - $297,805).

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.

15. CHANGES IN WORKING CAPITAL ITEMS

The changes in non-cash operating working capital items during the three months ended March 31, 2018 and the comparative period in 2017 are as follows:

Period Ended March 31	2018	2017
Accounts receivable	$ (4,058)	$ 14,042
Costs incurred plus recognized profits in excess of billings	(4,446)	(2,142)
Inventory	(5,755)	(24,497)
Prepaid expenses and deposits	(1,621)	20
Accounts payable and accrued charges	(7,230)	(11,320)
Income taxes receivable/payable	3,415	(3,493)
Deferred revenue	35	534
Billings in excess of costs incurred plus recognized profits	(4,070)	665
Net change in working capital items	$ (23,730)	$ (26,191)

During the quarter, long-term deferred revenue decreased by $737 (March 31, 2017 – $1,049) and is reflected with the change in working capital from the table above on the statement of cash flows.

16. SUBSEQUENT EVENTS

Subsequent Event – Partnership with Wasaya Group

On April 19, 2018, the Corporation closed the previously-announced partnership transaction with Wasaya Group. The Corporation invested $25,000 in Wasaya, of which $13,000 is a loan to Wasaya and $12,000 is an equity investment, which has been funded through the issuance of shares of the Corporation to the vendors of Wasaya. During the first quarter, the Corporation funded an initial investment of $2,000 of the $13,000 loan and subsequently funded the remaining $11,000 on close. The Corporation will account for the partnership using equity method accounting.

Subsequent Event - Amended Credit Facility

On May 7, 2018, the Corporation amended its credit facility to increase its size and extend its term. The amendments included increasing the available credit to $1,000,000, of which $945,000 is allocated to the Corporation's head office and US $55,000 is allocated to EIIF Management US, Inc. This is an increase of $250,000 over the Corporation's previous credit facility. In addition to increasing the credit facility available, the revised credit facility includes improved pricing on both amounts borrowed under the facility and standby charges paid for the unutilized portion of the facility. One financial institution was added to the syndicate and the maturity has been extended to May 7, 2022.