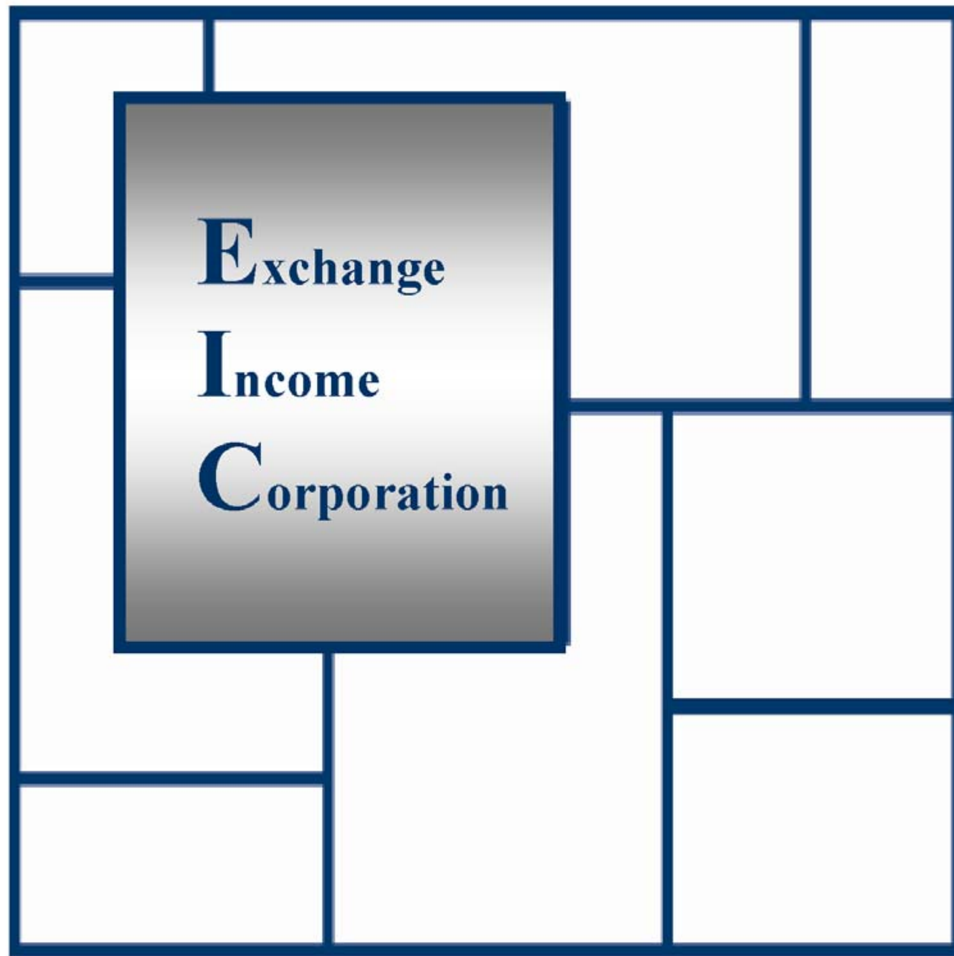


First Quarter Report

For the three months ended

March 31, 2017

CEO's Message

The first quarter of 2017 was a very busy one for EIC as we laid the foundation for a year of continued growth. Financially it would appear to be rather unremarkable with revenue up only slightly and EBITDA down marginally year over year, but when you dig a little deeper you can see that the first quarter was the sound execution of a plan which will enable EIC to continue on its established growth trajectory. Thirteen years of regular and reliable dividend increases bear witness to the fact you need to invest in order to harvest, and in the first quarter we made investments which will enable new record levels of performance in the balance of 2017.

The first quarter of the fiscal year is always the most seasonally challenging. Winter temperatures in Canada allow for winter roads into northern communities which lessen demand for our air services. This makes the first part of the year the ideal time to overhaul and prepare the fleet for the busier remainder of the year. We have traditionally completed the overhaul of our smaller aircraft such as our Metro aircraft internally, but have not had the ability to do the same with our larger aircraft which we have historically outsourced. As a result of the capabilities of Provincial which was acquired in 2015, we established and announced a plan in 2016 to internalize the overhaul of our larger aircraft (Dash 8 and ATR). By internalizing this function we not only avoid paying a third party a profit margin and thereby reducing our cost, but more significantly it gave us the capability to control the timing of the overhauls and complete as many as possible during the slower part of the year. This will limit capacity constraints during the busy season later in the year. We executed our plan flawlessly in the first quarter. Not only did we successfully move all overhauls to our own facility, we completed six overhauls in the first quarter compared to one in the first quarter of last year and nine for the entire year. As we have discussed frequently in the past, the number of overhauls in a given period varies greatly from period to period. 2017 is a year where more overhauls of large aircraft are scheduled, with 50% more than 2016 and approximately a third higher than a typical year. We completed almost half of this program in the first quarter and are scheduled to be 75% complete by the end of the second quarter following which our investment in maintenance capital expenditures at our airline operations will fall back to, and in fact below historical averages. With the purchase of an additional aircraft at Perimeter during the first quarter and a second early in the second quarter, as well as one at Calm, we will have enough surplus capacity to eliminate the need for the rental aircraft in the future while generating new revenues and expansion into new markets in the balance of the year.

In order to ensure that we maintained appropriate levels of service to our customers while we went through the internal overhaul process, we contracted third party airlines to provide extra capacity through the beginning of April. All of these rental aircraft have now been returned but this commitment to service resulted in a one-time cost of over $3 million in the first quarter.

The winter road season was abnormally long in 2017 and this served to reduce revenues in the first quarter, but these variances are normal year to year and are simply part of the business. Winter storms also played a bigger role than normal in 2017. We expect to lose a number of flights to weather but in 2017 it was far higher than normal. We lost 1,415 flights in 2017 compared with 680 in 2016 and while most passengers rebook to another day, the abnormal number of lost flights had a financial impact of approximately $1 million.

Keewatin was awarded the five year medevac contract for the Kitikmeot region of Nunavut during the first quarter of 2017. Replacing the incumbent for this contract means Keewatin has all three medevac contracts in Nunavut enabling them to deliver their premier medevac service to all of Nunavut. Not only does this further establish Keewatin as the preeminent northern medevac provider but it also expands our territory further west opening up additional opportunities for the future. Work under this contract will begin in the fourth quarter.

Our aerospace business continues to grow. Regional One completed the net purchase of 4 operating aircraft and saw the number of aircraft on short and long term lease grow by 11 compared to the first quarter of 2016. This expansion of the lease portfolio combined with the sale of parts and complete aircraft saw our EBITDA rise by 27% in the first quarter, a trend which is not only expected to continue but to accelerate through the balance of the year. Provincial focused on the plan for the 25 year fixed wing search and rescue contract which was awarded in late 2016. In addition to the maintenance work previously announced we expect to assist Airbus in certain component modifications before the planes go into service. We look to expand our partnership with Airbus by participating in other programs around the world in the future. Additionally, we continued the development of our own maritime surveillance aircraft and expect it to go into service later this year.

The outlook for our Manufacturing segment continues to strengthen. We have seen an increase in demand at most of our manufacturing entities. Stainless and the Alberta Operations in particular have seen improvement as a result of the strengthening US economy and higher oil prices. While WesTower remains slow because of the cyclical nature of investment by the cellular carriers we expect the segment as a whole to experience slow but steady growth through the balance of the year.

We completed the offering of common shares which was announced in late 2016. This equity raise strengthened our balance sheet and when combined with our expanded credit facility has provided us with $300 million in available capital to invest in 2017 and beyond. Our acquisition pipeline is the strongest it has been in several years, and while multiples remain, in our opinion,

unsustainably high in the USA we are examining a number of strategic opportunities in Canada. We will continue to invest in our existing operations where opportunities that meet our return requirements are available.

In my year end message to shareholders I stated that I was excited about 2017 and that is even more the case today. We have executed on vertically integrating our airlines. We have purchased new aircraft to facilitate expansion into new markets. Our investments in growing our aerospace business continue to exceed our return expectations and our Manufacturing segment is strengthening. We spent the first quarter preparing our fleet and are now well positioned to execute for the balance of the year. While our first quarter results did not match the unique circumstances that drove exceptional results in the first quarter of 2016, we are pleased that they were ahead of our internal plan, and lay the groundwork for the balance of the year. We expect to materially exceed the prior year comparatives for the balance of the year resulting in our annual payout ratio returning to lower levels and will facilitate the Board's examination of an increase to our dividend rate later in 2017. Thank you for your ongoing support. I look forward to reporting our second quarter to you where the impact of these decisions will be more evident.

Mike Pyle
Chief Executive Officer

May 9, 2017

FORWARD-LOOKING STATEMENTS

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

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

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

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this report are made as of the date of this report or such other date specified in such statement. Except as required by Canadian Securities Law, the Corporation does not undertake to update any forward-looking statements.

INTRODUCTION

This MD&A supplements the unaudited interim condensed consolidated financial statements and related notes for the three months ended March 31, 2017 ("Consolidated Financial Statements") of Exchange Income Corporation ("EIC" or "the Corporation"). All amounts are stated in thousands of Canadian dollars, except per share information and share data, unless otherwise stated.

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

1. FINANCIAL HIGHLIGHTS

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

FINANCIAL PERFORMANCE	2017	per share basic	per share fully diluted	2016	per share basic	per share fully diluted
For the three months ended March 31						
Revenue	$ 222,528			$ 217,898		
EBITDA	43,348			44,331		
Net earnings	5,559	$ 0.18	$ 0.18	9,873	$ 0.36	$ 0.35
Adjusted net earnings	7,808	0.25	0.25	12,008	0.43	0.43
Free Cash Flow	33,789	1.09	0.98	34,890	1.26	1.10
Free Cash Flow less maintenance capital expenditures	6,380	0.21	0.20	16,801	0.61	0.58
Free Cash Flow less maintenance capital expenditures payout ratio		250%	263%		79%	83%
Dividends declared	16,335	0.525		13,258	0.48	
FINANCIAL POSITION	March 31, 2017			December 31, 2016		
Working capital	$ 198,630			$ 178,492		
Capital assets	753,271			693,993		
Total assets	1,487,078			1,424,532		
Senior debt and finance leases	439,852			446,329		
Equity	569,838			486,137		
SHARE INFORMATION	March 31, 2017			December 31, 2016		
Common shares outstanding	31,143,722			28,793,354		
	March 31, 2017			March 31, 2016		
Weighted average shares outstanding during the period - basic	31,042,564			27,623,261		

2. OVERVIEW

EXCHANGE INCOME CORPORATION

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

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

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

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

Segment Summary

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

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

(b) **Manufacturing –** provides a variety of manufactured goods and related services in a number of industries and geographic markets throughout North America. The operations of **WesTower** are focused on the engineering, design, manufacturing and construction of communication infrastructure and 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. **Overlanders** manufactures precision sheet metal and tubular products. **Ben Machine** is a manufacturer of precision parts and components primarily used in the aerospace and defence sector.

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

SIGNIFICANT EVENTS

Bought Deal Financing of Common Shares

On January 4, 2017, the Corporation closed the bought deal financing of common shares, resulting in the issuance of 2,303,450 shares of the Corporation at $42.45 per share. This includes the full exercise of an overallotment option to purchase 300,450 shares, representing 15% of the size of the offering. The net proceeds of the offering were $93.0 million and were used to make a repayment against the Corporation's credit facility. The Corporation in turn made draws during the quarter to fund capital expenditures and expects to start experiencing returns on these investments throughout the remainder of the year.

Amended Credit Facility

During the first quarter, the Corporation amended the terms of its credit facility. The amendments include increasing the credit available to $695 million allocated to the Corporation's Canadian head office and US $55 million allocated to EIIF Management USA Inc., which is an aggregate increase of $200 million over the Corporation's previous credit facility. Two banks were added to the syndicate and the maturity was extended to March 2021.

3. KEY PERFORMANCE INDICATORS

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

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

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

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

EBITDA	Three Months Ended March 31,		2017		2016
Earnings before income taxes		$	7,907	$	15,688
Depreciation and amortization			27,498		21,671
Finance costs - interest			7,705		6,908
Acquisition costs			238		64
		$	43,348	$	44,331

The EBITDA generated by the Corporation during the current period was $43.3 million, a decrease of $1.0 million or 2% from the comparative period. The variance is a result of a decrease in EBITDA generated by the Aerospace & Aviation segment ($0.7 million decrease) and an increase in head office costs ($0.4 million increase), partially offset by an increase in EBITDA generated by the Manufacturing segment ($0.1 million increase). Management's strategy to internalize the overhaul of larger aircraft, and concentrate that work early in the year during the Corporation's slower season resulted in the Corporation incurring approximately $3.0 million in third party costs in order to maintain appropriate service levels during that time. In addition, the Corporation experienced a 108% increase in the number of cancelled flights due to poor weather during the quarter. While most passengers rebook to another day, the abnormal weather resulted in a decrease in EBITDA of approximately $1.0 million. Substantially offsetting these challenges, Regional One experienced growth in EBITDA during the quarter as a result of the deployment of some of the growth capital expenditures made during 2016 and in the first quarter of 2017. Changes in foreign exchange rates served to reduce EBITDA by $2.3 million compared to the prior period. The total foreign exchange difference is broken out into a $1.2 million reduction in operating results of the segments and a $1.1 million gain recorded at head office in 2016 which did not recur in 2017. This effectively increased head office costs compared to the prior year but was offset by lower performance based compensation in the current period. The Canadian dollar was stronger in the first quarter of 2017 compared to the first quarter of 2016 which resulted in this variance. It should be noted that the as of the date of this report the exchange rate variance has now reversed and has weakened compared to 2016.

NET EARNINGS AND NET EARNINGS PER SHARE

The Net Earnings generated by the Corporation for the current period was $5.6 million, a decrease of $4.3 million or 44% from the comparative period. The decrease in Net Earnings was impacted most notably by an increase of $5.8 million in depreciation on the Corporation's capital assets over prior year. A further discussion of the changes impacting Net Earnings is included in *Section 4 – Analysis of Operations*.

Basic Net Earnings per share generated by the Corporation for the current period was $0.18, a decrease of $0.18 or 50% from the comparative period. The decrease is due to the combined impact of the decrease in Net Earnings and the 12% increase in the average number of shares outstanding compared to 2016. This increase in the share base is mainly attributable to the Corporation's equity offering, which closed at the beginning of 2017, and the impact of convertible debenture conversions throughout 2016. This successful equity offering has reduced all of the Corporation's per share amounts for the quarter as the Corporation has not begun to experience the full benefit of the investments made with the raised capital. Details around the change in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

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

FREE CASH FLOW Three Months Ended March 31,		2017		2016
Cash flows from operations	$	6,884	$	18,613
Change in non-cash working capital items and long-term deferred revenue		26,667		16,213
Acquisition costs		238		64
	$	33,789	$	34,890
per share - Basic	$	1.09	$	1.26
per share - Fully Diluted	$	0.98	$	1.10

The Free Cash Flow generated by the Corporation for the current period was $33.8 million, a decrease of $1.1 million or 3% from the comparative period. The change in Free Cash Flow is the result of a number of factors but primarily due to the decrease in EBITDA generated in the current period and higher cash interest costs, partially offset by a decrease in current taxes.

An increase of $0.7 million of cash interest on the Corporation's credit facility decreased Free Cash Flow. The increase in credit facility interest is due to the significant growth capital expenditures made by the Corporation throughout 2016 and in the first quarter of 2017 using funding from the Corporation's credit facility. The cash interest on the Corporation's convertible debentures was flat compared to 2016.

The Corporation's cash taxes decreased by $0.8 million in the current period, which increased Free Cash Flow. The lower cash taxes are primarily as a result of the decreased earnings generated by the Corporation. Further detail on changes in cash taxes can be found in *Section 4 – Analysis of Operations*.

On a basic per share basis, the decrease in per share amounts was the result of the 12% increase in the average number of shares outstanding in the current period and the decrease in Free Cash Flow generated during the period. The combined impact resulted in Free Cash Flow of $1.09 per share for the current period, a decrease of $0.17 per share or 13% over the comparative period (fully diluted $0.98, a decrease of $0.12 or 11%). The higher share base is decreasing the basic per share amount by $0.13 per share compared to the prior period, with the remaining variance as a result of lower Free Cash Flow generated. Details around the change in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

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

FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENDITURES Three Months Ended March 31,		2017		2016
Free Cash Flow	$	33,789	$	34,890
Maintenance Capital Expenditures		27,409		18,089
	$	6,380	$	16,801
per share - Basic	$	0.21	$	0.61
per share - Fully Diluted	$	0.20	$	0.58

The Free Cash Flow less maintenance capital expenditures generated by the Corporation for the current period was $6.4 million, a decrease of $10.4 million or 62% from the comparative year. This was caused by a decrease in Free Cash Flow as described above and a $9.3 million or 52% increase in maintenance capital expenditures. The Corporation made the strategic decision to perform as much maintenance work in the first quarter when the Corporation experiences lower demand for air services, and as a result, experienced higher maintenance capital expenditures. Further discussion on maintenance capital expenditures can be found in the Capital Expenditures Section below.

Maintenance capital expenditures fluctuate from period to period. As a result of the variability in timing of maintenance capital expenditures, Free Cash Flow is a more stable metric than Free Cash Flow less maintenance capital expenditures as a measure of ongoing operating performance. Maintenance capital expenditures are variable because overhaul maintenance for aircraft engines and airframe heavy checks are treated as capital expenditures when the event takes place. Free Cash Flow less maintenance capital expenditures is still an important operating metric; however, it will be subject to quarterly and annual variability as a result of the uneven timing of maintenance capital expenditures and therefore needs to be evaluated over longer operating periods.

The decrease in Free Cash Flow less maintenance capital expenditures and the higher number of the Corporation's shares outstanding in the current period resulted in the decrease in basic per share amounts The combined impact resulted in Free Cash Flow less maintenance capital expenditures of $0.21 per share for the current period, a decrease of $0.40 per share or 66% from the

comparative period (fully diluted $0.20, decrease of $0.38 or 66%). Details around the change in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

CAPITAL EXPENDITURES

CAPITAL EXPENDITURES	Three Months Ended March 31,	2017	2016
Maintenance capital expenditures		$ 27,221	$ 17,905
add: finance lease principal payments		188	184
Maintenance capital expenditures		27,409	18,089
Growth capital expenditures		58,790	27,866
CAPITAL EXPENDITURES		$ 86,199	$ 45,955
Maintenance capital expenditures per share - Basic		$ 0.88	$ 0.65
Growth capital expenditures per share - Basic		1.89	1.01
Total capital expenditures per share - Basic		$ 2.77	$ 1.66

Capital expenditures are split between growth and maintenance. In all subsidiary companies other than Regional One, this is done based on the nature of the asset being purchased. If it creates a new source of cash flow, it is a growth capital expenditure, and if it serves to maintain existing cash flow streams, it is a maintenance capital expenditure. The split within Regional One is done on a different basis because of its significant leasing revenue.

Operating aircraft purchased by Regional One are classified as capital expenditures. Operating aircraft under lease are being used up and if over time re-investment is not made, either through overhaul or the purchase of replacement aircraft, cash flow will decline. As such, all capital expenditures up to the depreciation expense are classified as maintenance as they sustain the ability of the lease portfolio to generate existing cash flow streams. Capital investments in excess of depreciation expense will create new cash flows and are classified as growth capital expenditures. If an aircraft or parts are taken out of inventory and added to capital assets, a capital expenditure is recorded. When an operating aircraft is sold, the sale is netted against growth capital expenditures in the period of the sale.

Purchases of inventory by Regional One, including aircraft that are intended to be parted out and sold, are reflected in working capital and have no impact on growth or maintenance capital expenditures. If a decision is made to take an operating aircraft out of Regional One's lease portfolio to be parted out, the asset is transferred to inventory from capital assets and a negative growth capital expenditure is recorded.

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

The Corporation's maintenance capital expenditures totaled $27.4 million in the current period, an increase of $9.3 million or 52% over the comparative period. The majority of the expenditures occurred in the Aerospace & Aviation segment, as it invested $26.8 million, while the Manufacturing segment invested $0.6 million.

The $26.8 million of maintenance capital expenditures invested by the Aerospace & Aviation segment was $9.3 million or 53% higher than the comparative period. The Corporation made the strategic decision to perform as much of the required maintenance work as possible during the seasonally slow first quarter. In addition to internalized maintenance work previously done on smaller aircraft, the Legacy Airlines were able to internalize the maintenance work on all of their larger aircraft by sending the work to Provincial. Using resources from across the segment, the Corporation was able to internalize all of the overhaul work and performed six overhauls in the first quarter compared to one in the first quarter of 2016. The maintenance capital expenditures of the Legacy Airlines and Provincial increased in aggregate by $5.5 million or 41% during the first quarter of 2017 as a result of the successful execution of the plan to front load maintenance work into the first quarter. As mentioned above, the maintenance capital expenditures of the Corporation are subject to quarterly and annual variability as the number of overhaul events can change from quarter to quarter and year to year. In 2017, we are expecting a 50% increase in the number of large aircraft overhauls compared to 2016. Overhauls are highly variable quarter to quarter and year to year. They are best viewed over a longer term. Overhauls in 2017 are expected to be approximately one-third higher than a typical year. Regional One's investment in maintenance capital expenditures increased by $3.8 million or 93% over the comparative period. This increase is caused by the additional depreciation on the growing number of aircraft in Regional One's lease portfolio due to previous growth capital expenditures.

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

Growth capital expenditures for the period totaled $58.8 million, an increase of $30.9 million or 111% over the comparative period. The growth capital expenditures were made entirely by the Aerospace & Aviation segment. The most significant investments were the purchases of 6 operating aircraft by Regional One, including its continuing investment in the CRJ900 platform as per the agreement

with Bombardier previously announced in the 2016 annual report. After the impact of the sale of 2 aircraft during the period, Regional One had net additions of 4 aircraft to its leasing portfolio. Provincial continued to invest in the construction of a capability demonstrator aircraft during the period. In addition, the Legacy Airlines purchased an ATR 72 aircraft and a Dash 8 aircraft. This additional capacity will aid with expansion into new markets and help address the challenges associated with bad weather and changes in the needs of our customers quickly and cost effectively by eliminating costly third party rentals.

Since its acquisition by EIC, Regional One has consistently delivered returns that exceed our target return on capital. EIC intends to rigorously identify and assess opportunities to grow Regional One's asset base and thereby its ability to generate profits. When capital expenditures are made by Regional One, these aircraft often take approximately six months before Regional One starts experiencing returns on these investments.

DIVIDENDS & PAYOUT RATIO

The amounts and record dates of the dividends declared during the three months ended March 31, 2017 and the comparative period in 2016 were as follows:

			2017 Dividends			2016 Dividends
Month	Record date	Per Share	Amount	Record date	Per Share	Amount
January	January 31, 2017	$ 0.175	$ 5,438	January 29, 2016	$ 0.16	$ 4,424
February	February 28, 2017	0.175	5,447	February 29, 2016	0.16	4,416
March	March 31, 2017	0.175	5,450	March 31, 2016	0.16	4,418
Total		$ 0.525	$ 16,335		$ 0.48	$ 13,258

Dividends declared for the current period increased over the comparative period. This was caused by the increase in the dividend rate per month in the current period and the higher number of shares outstanding in 2017. The Corporation increased the monthly dividend rate per share by $0.0075 in the second quarter of 2016 (5% increase) and $0.0075 in the fourth quarter of 2016 (4% increase). This resulted in the dividends declared for the first quarter of 2017 totaling $0.525 per share compared to $0.48 per share in the comparative period, an increase of 9%. Dividends declared during the period totaled $16.3 million. Impacting the dividends declared in 2017 most significantly was the Corporation's issuance of shares through its equity offering that closed on January 4, 2017, resulting in the issuance of 2,303,450 shares of the Corporation and the convertible debenture conversions throughout 2016, resulting in the issuance of 925,156 shares.

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

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

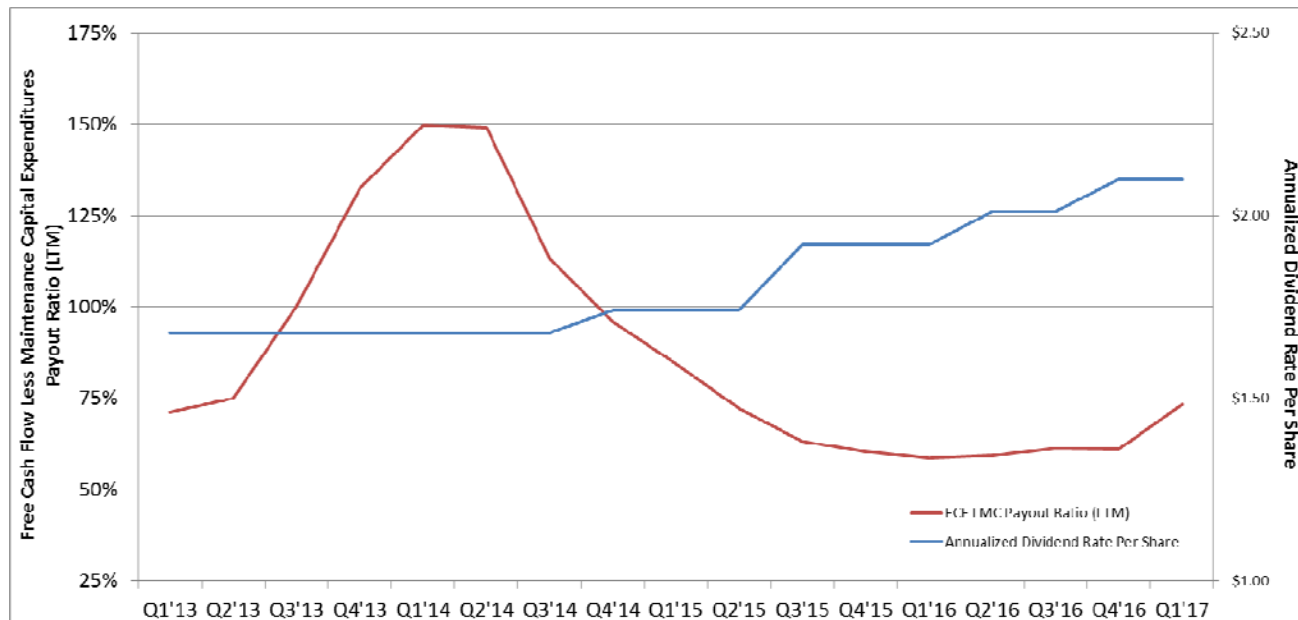
Payout Ratios for the Corporation		Per share	Per share		Per share	Per share
Three Months Ended March 31,	2017	basic	fully diluted	2016	basic	fully diluted
Free Cash Flow		*48%*	*54%*		*38%*	*44%*
Free Cash Flow less maintenance capital expenditures		*250%*	*263%*		*79%*	*83%*

The Corporation's Free Cash Flow and Free Cash Flow less maintenance capital expenditures payout ratios increased compared to the prior period. The increase in the Free Cash flow payout ratio was impacted most significantly by the Corporation's decision to raise equity in the first quarter of 2017, resulting in the issuance of 2,303,450 shares. The Corporation's Free Cash Flow less maintenance capital expenditures payout ratio was impacted by the Corporation's strategic decision to perform as much maintenance work as possible during the seasonally slow first quarter for the Legacy Airlines, the equity raise completed in the first quarter, and the convertible debenture conversions throughout 2016.

The first quarter of the fiscal year is always the most seasonally challenging for the Corporation. Winter roads into northern communities lessen the demand for the Corporation's air services. Due to this seasonality, payout ratios should be assessed over longer periods of time as the payout ratio in a single quarter can be impacted by seasonal variations that do not impact the

Corporation's ability to pay dividends over a longer period of time. The Corporation analyzes the trailing twelve months payout ratio when assessing its ability to pay and increase dividends, which is illustrated in the following graph.

The following graph shows the Corporation's historical Free Cash Flow less maintenance capital expenditures trailing 12 months payout ratio on the left axis. On the right axis, the annualized dividend rate per share is shown. As can be seen in the graph, the current trailing twelve months payout ratio of 73% is near historical lows despite an increase in the annualized dividend from $1.68 per share in the first quarter of 2013 to $2.10 per share in the first quarter of 2017.



In addition to the Free Cash Flow less maintenance capital expenditures payout ratio, the Corporation also monitors dividends declared as a percentage of net earnings (net earnings payout ratio). As the Corporation has grown, its net earnings are no longer impacted to the same extent as in the past by expenses not included in the Free Cash Flow calculation, such as intangible asset amortization and acquisition costs. The Corporation's trailing twelve months net earnings payout ratio was 104% for the first quarter of 2017, up from 101% in the first quarter of 2016. This increase was largely as a result of the growth of the dividend rate over the past twelve months and the increase in the average shares outstanding. While the net earnings payout ratio is expected to be less volatile compared to Free Cash Flow less maintenance capital expenditures payout ratio, the net earnings payout ratio will still be impacted by the same seasonal fluctuations. In addition, the net earnings payout ratio will be subject to variability in periods with significant acquisition costs and non-cash expenses. We anticipate that over time, the difference between the net earnings payout ratio and Free Cash Flow less maintenance capital expenditures payout ratio will be reduced as the net earnings of the Corporation see continued improvement.

4. ANALYSIS OF OPERATIONS

The following section analyzes the financial results of the Corporation for the three months ended March 31, 2017 and the comparative 2016 period.

	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 and amortization				27,498
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

	Three Months Ended March 31, 2016			
	Aerospace & Aviation	Manufacturing	Head Office[2]	Consolidated
Revenue	$ 173,510	$ 44,388	$ -	$ 217,898
Expenses[1]	129,955	39,841	3,771	173,567
EBITDA	43,555	4,547	(3,771)	44,331
Depreciation and amortization				21,671
Finance costs - interest				6,908
Acquisition costs				64
Earnings before income tax				15,688
Current income tax expense				4,476
Deferred income tax expense				1,339
Net earnings				$ 9,873

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

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

AEROSPACE & AVIATION SEGMENT

Aerospace & Aviation Segment Three Months Ended March 31,	2017	2016	Variance	Variance %
Revenue	$ 177,035	$ 173,510	$ 3,525	2%
Expenses	134,186	129,955	4,231	3%
EBITDA	$ 42,849	$ 43,555	$ (706)	-2%

The Aerospace & Aviation segment's revenue for the current period was $177.0 million, an increase of $3.5 million or 2% over the first quarter of 2016. EBITDA generated by the Aerospace & Aviation segment for the current quarter was $42.8 million, a decrease of $0.7 million or 2% from the first quarter of 2016. EBITDA margins were 24.2% in the current quarter versus 25.1% in the comparative period.

In the Legacy Airlines, the results for first quarter reflect the seasonal nature of the business and the fact that the first quarter is always the slowest. This seasonality is caused by the availability of winter roads as an alternative to flight service and the impact of negative weather which can result in flight cancellations. Revenue for the Legacy Airlines increased compared to the first quarter of 2016. This is the result of growth in our Kivalliq market across all revenue streams. This growth was offset to a certain degree by decreases in our Manitoba passenger market and in our rotary wing operations. EBITDA decreased as a result of the increased use

of third party charters, increased maintenance expenses and extreme weather. The weather during the first quarter of 2017 caused an unusually high number of flight cancellations. The Legacy Airlines experienced 1,158 weather related flight cancellations in the first quarter of 2017 in comparison to 581 in the first quarter of 2016. The poor weather, capacity constraints resulting from the successful execution of our maintenance program resulted in capacity challenges that we chose to address through the use of third party charters. This resulted in increased operating costs of approximately $3.0 million, but was necessary to ensure the appropriate level of service to our customers. The completion of the seasonally compressed overhaul program, together with the purchase of additional aircraft to be utilized in our geographic expansion will eliminate the need for these third party rentals in future years.

The strategic decisions associated with our aircraft maintenance program resulted in a higher volume of maintenance being performed in the first quarter but at a lower cost relative to the work performed. During the first quarter of 2017, six overhauls were completed. This compares to one overhaul in the first quarter of 2016. The maintenance work that has historically been done by third parties was performed internally by Provincial. This has allowed us to defray the profit margins paid to third parties and gives us control over the scheduling of that work and therefore strategically shift maintenance work into our slower first quarter. We anticipate higher levels of overhaul work to continue to be performed early in the second quarter before returning to or below historical levels. Use of third party rentals is not expected to be required and all aircraft used in the first quarter have been returned to their owners.

Revenue generated by Regional One and Provincial increased by 1% and EBITDA increased by 12%. Regional One's revenue growth reflects both higher lease revenue and higher parts sales. Due to the increasing proportion of lease revenue, EBITDA margins have continued to strengthen. Provincial's revenue decreased in the quarter. This reflects the completion of an aerospace modification contract at the end of 2016 and the offsetting positive impact of the acquisition of CarteNav in August of 2016. The average currency exchange rates used in translation of Regional One's results and Provincial's aerospace contracts to Canadian dollars reflects a stronger Canadian dollar in 2017. This reduced the positive impact of currency translation for both of these entities. Provincial's airline business had increases in both revenue and EBITDA and improvements in EBITDA margin as competitive pressure has softened and volumes have increased. Provincial also experienced severe weather during the quarter, which, in addition to those detailed above for the Legacy Airlines, resulted in the cancellation of 257 flights in the first quarter of 2017 compared to 99 in the first quarter of 2016.

The Legacy Airlines and Provincial's airline businesses were both impacted by increased fuel costs in the quarter. We have implemented select fuel surcharges where deemed appropriate in the second quarter to partially offset this impact. These cost increases were largely offset by reduced costs of aircraft parts, maintenance and flight training costs as a result of the stronger Canadian dollar.

MANUFACTURING SEGMENT

Manufacturing Segment	Three Months Ended March 31,	**2017**	2016	Variance	Variance %
Revenue		$ **45,493**	$ 44,388	$ 1,105	2%
Expenses		**40,800**	39,841	959	2%
EBITDA		$ **4,693**	$ 4,547	$ 146	3%

The revenue of the Manufacturing segment for the current period was $45.5 million, an increase of $1.1 million or 2% over the comparative period. The Manufacturing segment generated EBITDA of $4.7 million for the current period, an increase of $0.1 million or 3% over the comparative period.

Stainless increased its US dollar revenue over the comparative period and saw an increase in both field projects and shop operations, with the growth in field projects outpacing the growth in shop operations. The higher proportion of sales from field operations positively impacted margins. These positive factors were muted slightly by the impact of the stronger Canadian dollar, which resulted in a lower converted Canadian dollar value of Stainless' US operations.

Overlanders and Ben Machine continue to perform in line with expectations, and both experienced slightly higher EBITDA over the prior period. In addition, efforts placed on increasing market share with new customers at Overlanders have begun to show promise as we are seeing orders materialize from these new customers.

The start of the improved economic conditions in the regions serviced by the Alberta Operations drove an improvement in its financial performance. Higher oil and natural gas prices compared to the first quarter of 2016 positively impacted demand for the Alberta Operations' products and services. This, coupled with a positive impact from the agriculture sector, helped to improve both revenue and EBITDA compared to the prior period.

Revenue for WesTower in the first quarter of 2017 was down compared to the first quarter of 2016. The shift in capital spending by the cellular carriers, with more focus on preparing for the next generation of technology, has impacted revenue and EBITDA.

Customers' scopes of work have included much less of the traditional WesTower services. We are also continuing to see a higher proportionate demand for more labour-intense equipment upgrade and service type projects.

HEAD OFFICE

Head Office Costs	Three Months Ended March 31,		2017		2016		Variance	Variance %
Expenses		$	4,194	$	3,771	$	423	11%

The head office costs of the Corporation increased in the current period by $0.4 million or 11% from the comparative period. The increase in head office costs relates to a foreign exchange gain in the prior period which did not recur in 2017. This gain resulted in lower head office costs of $1.1 million in the first quarter of 2016. The variance caused by the foreign exchange gain in the prior period was mitigated by lower performance based compensation in the current period.

OTHER NON-EBITDA ITEMS

	Three Months Ended March 31,		2017		2016		Variance	Variance %
Depreciation and amortization		$	27,498	$	21,671	$	5,827	27%

The Corporation's depreciation and amortization for the first quarter of 2017 was $27.5 million, an increase of $5.8 million or 27% over the comparative period. The $27.5 million can be broken down into $24.7 million on the Corporation's capital assets and $2.8 million on the Corporation's intangible assets. The investment in Regional One's lease portfolio during 2016 and in the first quarter of 2017 is driving the increase in depreciation compared to the prior period.

	Three Months Ended March 31,		2017		2016		Variance	Variance %
Finance costs - interest		$	7,705	$	6,908	$	797	12%

The Corporation's interest incurred for the current period was $7.7 million, an increase of $0.8 million over the comparative period. Interest incurred on the Corporation's credit facility increased by $0.7 million and interest incurred on the Corporation's convertible debentures increased by $0.1 million over the comparative period.

The increase in credit facility interest relates to higher debt levels outstanding as the Corporation made draws to fund the growth capital expenditures at Regional One and an increase in interest rates on US denominated borrowings. The overall effective interest rate on the Corporation's credit facility is 3.56% for the first quarter of 2017 (2016 – 3.47%), which includes standby charges on the unused portion of the credit facility. The Corporation strategically chooses to have significant available credit, giving the Corporation the opportunity to act quickly when the right opportunity presents itself, resulting in higher standby charges.

	Three Months Ended March 31,		2017		2016		Variance	Variance %
Acquisition Costs		$	238	$	64	$	174	272%

The acquisition costs incurred by the Corporation during the first quarter of 2017 totaled $0.2 million compared to $0.1 million in the comparative period. The acquisition costs will vary from period to period depending on the acquisition activity of the Corporation and are expensed as incurred.

	Three Months Ended March 31,		2017		2016		Variance	Variance %
Current income tax expense		$	3,664	$	4,476	$	(812)	-18%
Deferred income tax expense (recovery)			(1,316)		1,339		(2,655)	-198%
Income tax expense		$	2,348	$	5,815	$	(3,467)	-60%

The effective tax rate decreased to 29.7% from 37.1% in the comparative period primarily as a result of $1.0 million charge to deferred income tax expense in the comparative period arising from a change in the statutory tax rate in one of the jurisdictions in which the company operates. The effective tax rate in the current period also declined as a result of a comparatively larger proportion of the Corporation's earnings being generated in jurisdictions which are subject to a lower tax rate than in Canada. With the Corporation's expansion into Ireland, this trend is expected to continue throughout the remainder of the year.

The Corporation's income tax expense for the current period was $2.3 million, a decrease of $3.5 million from the comparative period. Current tax expense decreased in the current period due to an overall decrease in the Corporation's earnings before taxes.

The deferred tax recovery in the current quarter resulted primarily from differences in the timing of the recognition of certain deductions for tax purpose.

5. SUMMARY OF QUARTERLY RESULTS

	2017				2016				2015
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenue	$ 222,528	$ 221,657	$ 224,620	$ 226,851	$ 217,898	$ 224,504	$ 212,750	$ 196,214	$ 173,935
EBITDA	43,348	51,304	60,012	56,928	44,331	46,055	54,052	48,053	31,080
Net earnings	5,559	13,822	20,581	17,214	9,873	9,923	15,983	13,394	934
Basic	0.18	0.48	0.72	0.62	0.36	0.36	0.64	0.58	0.04
Diluted	0.18	0.47	0.67	0.59	0.35	0.35	0.60	0.54	0.04
Adjusted net earnings	7,808	16,571	23,127	20,388	12,008	12,636	18,811	16,516	4,299
Basic	0.25	0.58	0.81	0.74	0.43	0.46	0.76	0.71	0.19
Diluted	0.25	0.56	0.74	0.69	0.43	0.45	0.69	0.64	0.18
Free Cash Flow	33,789	40,765	45,873	42,683	34,890	36,025	42,195	37,626	23,926
Basic	1.09	1.42	1.60	1.54	1.26	1.31	1.70	1.63	1.04
Diluted	0.98	1.25	1.37	1.34	1.10	1.14	1.43	1.33	0.88
FCF less maintenance capital expenditures	6,380	22,823	26,484	25,476	16,801	20,460	24,966	19,870	9,109
Basic	0.21	0.80	0.93	0.92	0.61	0.74	1.01	0.86	0.40
Diluted	0.20	0.74	0.84	0.84	0.58	0.69	0.89	0.75	0.39

6. LIQUIDITY AND CAPITAL RESOURCES

Our financial position continued to strengthen in 2017. The Corporation strengthened its balance sheet through the completion of its equity offering in 2017, using the net proceeds to repay the Corporation's credit facility. In addition, the Corporation secured additional access to capital by amending its credit facility. The Corporation's working capital, Free Cash Flow and capital resources are strong and we have no long-term debt or debentures maturing before 2019. As a result, we have sufficient liquidity and access to capital to make further acquisitions, invest in our operating subsidiaries and meet our obligations.

As at March 31, 2017, the Corporation had a cash position of $21.1 million (December 31, 2016 of $26.5 million) and net working capital of $198.6 million (December 31, 2016 of $178.5 million), which represents a current ratio of 2.27 to 1 (December 31, 2016 of 2.05 to 1).

	March 31, 2017	December 31, 2016	Change
Cash and cash equivalents	$ 21,058	$ 26,494	$ (5,436)
Accounts receivable	135,913	150,338	(14,425)
Costs incurred plus recognized profits in excess of billings	9,713	7,567	2,146
Inventory	153,923	129,854	24,069
Prepaid expenses and deposits	34,189	34,295	(106)
Accounts payable and accrued expenses	(115,751)	(127,423)	11,672
Income taxes payable	(238)	(3,570)	3,332
Deferred revenue	(27,750)	(27,222)	(528)
Billings in excess of costs incurred plus recognized profits	(11,414)	(10,772)	(642)
Current portion of long-term debt and finance leases	(1,013)	(1,069)	56
Net working capital	$ 198,630	$ 178,492	$ 20,138

Working capital has increased by $20.1 million since December 31, 2016. During the quarter, the Corporation made significant investments in Regional One's inventory of parts for resale. This includes several aircraft that are scheduled for part out. The Corporation's working capital position can vary somewhat from period to period primarily due to variations in the timing of receipts and payment associated with larger customer contracts.

The Corporation obtained additional cash through the means described in this section, and also generated $33.8 million of Free Cash Flow from operations during the first quarter of 2017. The Corporation used these funds for its dividends and capital expenditures. See *Section 3 – Key Performance Indicators* for more information on the capital expenditures made by the Corporation.

While payment of reliable and growing dividends is an objective of the Corporation, the Corporation does not have a formal dividend policy. The Corporation's dividends are dependent on its ability to generate cash flow from operations and Free Cash Flow. During the first quarter of 2017, the Corporation declared dividends totaling $16.3 million in comparison to $13.3 million during the comparative period. This was a result of an increased number of shares outstanding and the $0.0075 increase in the monthly dividend rate announced in May of 2016 and the $0.0075 increase in the dividend rate announced in November 2016. The monthly dividend declared in any given month is paid to shareholders on or about the 15th of the following month.

Overview of Capital Structure

The Corporation's capital structure is summarized below.

		March 31 2017		December 31 2016
Total senior debt outstanding (principal value)	$	**440,167**	$	445,425
Convertible debentures outstanding (par value)		**229,979**		230,082
Common shares		**559,620**		463,603
Total capital	$	**1,229,766**	$	1,139,110

Credit facility

During the first quarter of 2017, the Corporation amended the terms of its credit facility. The amendment included an aggregate increase in credit available of $200 million to $750 million. Two banks were added to the syndicate and the maturity was extended to March 2021. The Corporation's amended credit facility consists of $695 million allocated to the Corporation's Canadian head office and US $55 million allocated to EIIF Management USA Inc. The facility allows for borrowings to be denominated in either Canadian or US funds. At March 31, 2017, the Corporation had drawn $10.0 million and US $322.9 million (December 31, 2016 - $217.3 million and US $169.9 million). The currency risk associated with our US dollar draws is hedged as described further below.

During the first quarter of 2017, the Corporation used the net proceeds of $93.0 million from its equity offering to make a repayment against the credit facility. Offsetting this repayment, the Corporation made draws on the credit facility to support capital purchases, mainly relating to the addition of aircraft to Regional One's lease and parts portfolio.

During the quarter, the Corporation continued to use derivatives through several Cross Currency Basis Swaps ("Swap") with a member of the Corporation's lending syndicate. The Swap requires that funds are exchanged back in 30 days at the same terms unless both parties agree to extend the Swap for a further 30 days. By borrowing in US dollars, the Corporation is able to take advantage of lower interest rates on US dollar LIBOR denominated borrowings. The Swap mitigates the risk of changes in the value of the Corporation's US dollar LIBOR borrowings as they will be exchanged for the same Canadian equivalent in 30 days. At March 31, 2017, US $161.9 million (December 31, 2016 - US $37.8 million) of the Corporation's US denominated borrowings are hedged as part of the Swaps.

Convertible Debentures

The following summarizes the convertible debentures outstanding as at March 31, 2017 and the changes in the amount of convertible debentures outstanding during the three months ended March 31, 2017:

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

Par value		Balance, beginning of period		Issued		Converted		Redeemed / Matured		Balance, end of period
Unsecured Debentures - September 2012	$	56,940	$	-	$	(32)	$	-	$	56,908
Unsecured Debentures - March 2013		65,000		-		-		-		65,000
Unsecured Debentures - March 2014		39,142		-		(71)		-		39,071
Unsecured Debentures - June 2016		69,000		-		-		-		69,000
Total	$	230,082	$	-	$	(103)	$	-	$	229,979

Share Capital

The following summarizes the changes in the shares outstanding of the Corporation during the three months ended March 31, 2017:

	Date issued (redeemed)	Number of shares
Shares outstanding, beginning of period		28,793,354
Issued upon conversion of convertible debentures	various	3,106
Issued under dividend reinvestment plan (DRIP)	various	39,734
Prospectus offering, January 2017	January 4, 2017	2,303,450
Issued under First Nations community partnership agreements	March 28, 2017	4,078
Shares outstanding, end of period		31,143,722

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

The Corporation's dividend reinvestment plan ("DRIP") continued during 2017 and the Corporation received $1.5 million throughout the period for an aggregate 39,734 shares being issued in accordance with the DRIP.

The average shares outstanding for three months ended March 31, 2017 increased 12% over the comparative period. This increase is mainly as a result of the equity offering completed by the Corporation on January 4, 2017 and the shares issued as a result of convertible debenture conversions throughout 2016.

Normal Course Issuers Bid

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

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 attractive investment for the Corporation.

7. RELATED PARTY TRANSACTIONS

The related party transactions that the Corporation entered into during the three months ended March 31, 2017 are consistent with those described in the Corporation's MD&A for the year ended December 31, 2016.

8. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. There were no changes to the Corporation's critical accounting estimates and judgments from those described in the MD&A of the Corporation for the year ended December 31, 2016.

9. ACCOUNTING POLICIES

The accounting policies of the Corporation used in the determination of the results for these interim condensed consolidated financial statements for the three months ended March 31, 2017 that are discussed and analyzed in this report are described in detail in Note 3 of the Corporation's 2016 annual consolidated financial statements and Note 3 of the Corporation's interim condensed consolidated financial statements for the three months ended March 31, 2017.

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

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, 2017, and has concluded that the design of internal controls over financial reporting is effective.

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

Disclosure Controls and Procedures

Management has established and maintained disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Corporation is made known to management in a timely manner and that information required to be disclosed by the Corporation is reported within the time periods prescribed by applicable securities legislation. Management has concluded that disclosure controls and procedures were designed effectively as at March 31, 2017.

11. RISK FACTORS

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

12. OUTLOOK

Acquisition strategy

The Corporation remains steadfast in its acquisition principles, including meeting EIC's return requirements. EIC will not be influenced by the historically high valuation multiples that have persisted in many segments of the acquisition market. Instead, EIC continues to actively pursue both strategic acquisitions and niche businesses who align with EIC's operating strategy. Vendors who are attracted to our ownership style that provides them access to capital to grow their business continue to show interest in joining EIC.

EIC remains committed to being active in the acquisition market, in addition to its internal growth opportunities. The Corporation is well positioned to take advantage of these opportunities with approximately $325 million of undrawn credit facility available to fund acquisitions or internal investment opportunities.

Aerospace & Aviation Segment

The 2016 accomplishments within the Aerospace & Aviation segment, as well as steady improvement in the Manufacturing segment's macro environment will drive solid operating results for the remainder of the year. As discussed throughout this report, the Legacy Airlines experienced third party charter costs of $3 million during the first quarter. The additional third party aircraft have now been returned after the successful completion of the scheduled maintenance work in the quarter. The impact of the third party charters in

the first quarter of 2017, higher fuel prices and a very seasonally strong 2016 first quarter resulted in 2017 first quarter operating performance that was marginally lower than the prior period. However, the accomplishments in 2016 will significantly improve this trend throughout the rest of the year. Additionally, fuel surcharges are in the process of being implemented where appropriate to offset the impact of rising fuel prices.

In 2016, Regional One invested $140 million in additional assets to fuel their growth. This included moving into the CRJ900 platform, expanding their presence in the ERJ market and establishing an arrangement with Bombardier providing Regional One the opportunity to acquire additional aircraft in the future. This led to Regional One signing an agreement to purchase thirteen CRJ900 aircraft from Bombardier in 2016. These aircraft have now all been acquired and will generate increased cash flow throughout the remainder of 2017 as they are put on lease. These aircraft combined with the additional growth capital expenditures have increased the asset base of Regional One, which will lead to strong year over year performance for the remainder of 2017. The aircraft for lease have been purchased by the Corporation's Irish subsidiary that was established in 2016. The expansion into Ireland continues to deliver the lease opportunities and the returns anticipated by the Corporation. The major accomplishments in 2016 have not only led to a strong outlook for 2017, but have positioned Regional One for future growth.

Similar to Regional One, Provincial also had significant accomplishments in 2016 further strengthening their long-term outlook. For the current year, the multi-year $150 million contract with a major customer in the Middle East signed in November 2015, their strategic acquisition of CarteNav in mid-2016, and improving competitive conditions in its Newfoundland and Labrador's aviation market thus far in 2017 have Provincial well positioned to continue to deliver strong results. The completion of an aerospace modification contract at the end of 2016 resulted in the reduction of third party revenue in Provincial's aerospace business. Provincial took advantage of this capacity to complete the internal overhaul program during the quarter. Provincial is encouraged, however, with the quality and number of potential modification contracts coming up for bid. The demonstrator surveillance aircraft and the Fixed-Wing Search and Rescue ("FWSAR") contract, while not contributing to the 2017 results, continue to be top priorities for Provincial. The demonstrator surveillance aircraft is proceeding on time and on budget. Other EIC companies, including Ben Machine, CarteNav and DECA, are working closely with Provincial on this project. The project is on track to be completed at the end of this year and they will look to capitalize on this project in 2018. Provincial continues to work closely with Airbus Defence and Space on the FWSAR contract. To date Provincial has procured the necessary resources for 2017, they are on schedule, and have met all their milestones. Additionally, their new venture with Airbus, Airpro Sar Services Incorporated, continues to solidify and grow as expected and may generate work beyond the in-service support for the FWSAR contract. The work on these projects in 2017 will continue to lay the long-term foundation for growth. Provincial was able to keep these programs on track despite being impacted by hurricane strength winds, which significantly damaged one of their hangars. While this hangar is fully insured, the damage could lead to short-term capacity issues and costs.

Perimeter and Bearskin are working closely together to expand their service in Northwestern Ontario ("NWO"). In the second quarter, they will add additional routes and aircraft in this market expanding their reach, revenue, and customer service in the region. Perimeter has added two Dash 8's to date in 2017 as well as re-purposed three of Bearskin's Metro aircraft. Together this extra lift will increase service to the NWO market and provide the additional backup aircraft required for the Manitoba market. One Dash 8 has already been put into service in the second quarter and the other will be online shortly providing Perimeter the necessary capacity to execute on its expansion plans as it enters its busy season starting at the end of the second quarter. This additional capacity will essentially eliminate the need for third party capacity. Similar to 2016, a small competitor again announced their intention to service Winnipeg from NWO once per day starting in the second quarter. While this is insignificant compared to the service EIC's airlines provide to communities throughout Manitoba and NWO, EIC will continue to monitor this competitor and respond accordingly.

As discussed in the fourth quarter, Calm Air signed a long-term contract with a major northern retailer cargo customer. The contract not only is a long-term commitment from this customer, but also increases the amount of cargo they transport by air and added three new locations. Calm Air executed on these new commitments in the first quarter increasing its performance and its outlook for the future. Subsequent to the first quarter of 2017, the North West Company provided notice that it will be transitioning all of its freight services to its newly acquired subsidiary. The North West Company's freight is moved on dedicated freighters, which is Calm Air's lowest margin work. As such, the $14 million of lost annual revenue will reduce profitability by considerably less than $1 million. This development was not unexpected by EIC, as the North West Company work was budgeted to be lost in the second half of 2017 after another cargo customer received Calm Air's daily premium cargo service which was tied to a long-term contract.

Keewatin continues to look for new opportunities in the market that fit its unique skill set. In this regard, Keewatin was awarded the five year medevac contract for the Kitikmeot region of Nunavut in the first quarter of 2017. Replacing the incumbent for this contract now means Keewatin has all three regions of Nuvavut under contract. This contract award further establishes Keewatin as the preeminent northern medevac provider. Keewatin will ramp up its staffing and equipment throughout 2017 in order to start service by the end of 2017, leading to some short-term increased costs. Keewatin's performance on their two other Nunavut contracts laid the foundation for this contract win and adding the third contract positions Keewatin extremely well for the future.

The outlook for our operating airlines is strong as we expand into new territories, expand our service with customers and add additional aircraft. EIC's airlines are balancing this growth with the pilot shortage issue, which has increased recently in the industry. Higher commercial passenger levels industrywide have increased the need for pilots, putting pressure on our airlines to recruit, hire and train pilots as some of our pilots progress to international airlines. Our airline executives continue to successfully manage the operational challenges and increased costs this creates.

Manufacturing Segment

The improving macro factors for our Manufacturing segment carried forward into the first quarter of 2017. The first quarter year over year performance resulted in a small increase and we expect this trend to further improve over the remainder of the year.

Bookings and enquiries at Stainless continue to build on the improvement seen at the end of 2016. Not only has the level and quality of the enquiries been better, but field activity has also increased creating a better balance of operations with the shop production. Stainless is encouraged by the increased level of demand and their booking success over the past months has positioned them for a strong 2017.

There have been further signs that the Alberta economy bottomed out in 2016 and is showing signs of improvement. Activity levels, including quoting and orders have improved for the Alberta Operations. While the hyperactive level of a few years ago will not return in the near future, recent activity levels are encouraging. Furthermore, our Alberta Operations has enhanced their competitive position in the market through their service level and customer commitment throughout the downturn. This has positioned Alberta Operations to improve on their 2016 performance.

Ben Machine is poised to continue the solid performance they have delivered since joining EIC in 2015. Demand has remained steady and their order book is strong as defence spending has increased. Ben Machine is seeing enquiries return from previous customers, which have not had work requirements over the last number of years.

Overlanders also has experienced an increase in demand year over year. Some of their significant customers who service the housing industry are benefiting from the new home and renovation market. Additionally, they are seeing an uptick in new customers with both manufacturing and painting requirements. Their ability to land these customers is a direct result of the investment they made in equipment and a new paint booth.

WesTower is EIC's only manufacturer currently experiencing headwinds. Decreased spending by the major cellular carriers has reduced demand for their services as it is impacted by the end of a technology cycle. WesTower is responsibly managing their costs through this lower demand environment while focusing on maintaining their invaluable experience and workforce as Canada's predominant leader in communication and infrastructure construction and support services. WesTower has also focused on broadening the scope of their services to include traditional wireline services as it prepares for the next wave of technology to be rolled out by the cellular carriers in the Canadian marketplace. This lower demand is expected to persist through the balance of 2017.

Maintenance Capital Expenditures

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

As disclosed in the 2016 annual report, the 2017 year will be a higher year for maintenance capital expenditures. This is driven by two factors; the increased size of Regional One's aircraft leasing pool and the timing of maintenance events within the operating airlines. The operating airlines will experience higher scheduled aircraft heavy checks and engine overhauls in 2017 as a result of the timing of these events. The maintenance departments schedule the events to maximize the utilization of the fleets, resulting in the majority of these events occurring in the first four months of 2017 to match the airlines' lower capacity requirements. This resulted in unusually high maintenance capital expenditures in the first quarter of 2017 and this level of maintenance capital expenditures is expected to persist into the second quarter of 2017. During the first quarter, six overhauls were completed compared to one in the prior period. The variance to prior year is expected to persist, with the scheduled number of overhauls for fiscal 2017 at 14 compared to 9 in 2016. After the first two quarters, the maintenance capital expenditures are expected to return to the historical norms experienced by the operating airlines.

13. NON-IFRS FINANCIAL MEASURES

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

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

Adjusted Net Earnings: is defined as net earnings adjusted for acquisition costs expensed, amortization of intangible assets that are purchased at the time of acquisition and one-time non-cash accelerated accretion charges as a result of convertible debenture redemptions.

Adjusted net earnings		**2017**
		Q1
Net earnings	$	**5,559**
Adjusting items, net of tax		
Acquisition costs		**238**
Intangible asset amortization		**2,011**
Adjusted net earnings	$	**7,808**
		2016
		Q1
Net earnings	$	9,873
Adjusting items, net of tax		
Acquisition costs		49
Intangible asset amortization		2,086
Adjusted net earnings	$	12,008

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

Maintenance and Growth Capital Expenditures: are the capital expenditures made by the Corporation to maintain the operations of the Corporation at its current level and includes the principal payments made by the Corporation on its finance leases. Other capital expenditures are classified as growth capital expenditures and are not considered by management in determining the cash flows required to sustain the current operations of the Corporation.

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

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

ADDITIONAL INFORMATION

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited, in thousands of Canadian dollars)

As at	March 31 2017	December 31 2016
ASSETS		
CURRENT		
Cash and cash equivalents	$ 21,058	$ 26,494
Accounts receivable	135,913	150,338
Costs incurred plus recognized profits in excess of billings	9,713	7,567
Inventory	153,923	129,854
Prepaid expenses and deposits	34,189	34,295
	354,796	348,548
OTHER ASSETS	14,519	14,589
CAPITAL ASSETS	753,271	693,993
INTANGIBLE ASSETS	104,712	107,277
DEFERRED INCOME TAX ASSETS	235	238
GOODWILL	259,545	259,887
	$ 1,487,078	$ 1,424,532
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ 115,751	$ 127,423
Income taxes payable	238	3,570
Deferred revenue	27,750	27,222
Billings in excess of costs incurred plus recognized profits	11,414	10,772
Current portion of long-term debt and finance leases (Note 6)	1,013	1,069
	156,166	170,056
LONG-TERM DEBT AND FINANCE LEASES (Note 6)	438,839	445,260
OTHER LONG-TERM LIABILITIES	20,479	18,399
DEFERRED REVENUE	10,244	11,293
CONVERTIBLE DEBENTURES (Note 7)	213,176	212,344
DEFERRED INCOME TAX LIABILITY	78,336	81,043
	917,240	938,395
EQUITY		
SHARE CAPITAL (Note 8)	559,620	463,603
CONVERTIBLE DEBENTURES - Equity Component (Note 7)	11,240	11,245
CONTRIBUTED SURPLUS	3,478	3,478
DEFERRED SHARE PLAN	7,853	7,207
RETAINED EARNINGS		
Cumulative Earnings	253,145	247,586
Cumulative Dividends	(306,966)	(290,631)
	(53,821)	(43,045)
ACCUMULATED OTHER COMPREHENSIVE INCOME	41,468	43,649
	569,838	486,137
	$ 1,487,078	$ 1,424,532

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

Approved on behalf of the directors by:

Duncan Jessiman, Director — *Signed*

Donald Streuber, Director — *Signed*

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

For the periods ended March 31	2017	2016
REVENUE		
Aerospace & Aviation	$ 177,035	$ 173,510
Manufacturing	45,493	44,388
	222,528	217,898
EXPENSES		
Aerospace & Aviation expenses - excluding depreciation and amortization	109,341	109,533
Manufacturing expenses - excluding depreciation and amortization	34,662	33,782
General and administrative	35,177	30,252
	179,180	173,567
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER (Note 4)	43,348	44,331
Depreciation and amortization	27,498	21,671
Finance costs - interest	7,705	6,908
Acquisition costs	238	64
EARNINGS BEFORE INCOME TAXES	7,907	15,688
INCOME TAX EXPENSE (RECOVERY)		
Current	3,664	4,476
Deferred	(1,316)	1,339
	2,348	5,815
NET EARNINGS	$ 5,559	$ 9,873
EARNINGS PER SHARE (Note 11)		
Basic	$ 0.18	$ 0.36
Diluted	$ 0.18	$ 0.35

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited, in thousands of Canadian dollars)

Attributable to common shareholders

For the periods ended March 31	2017	2016
NET EARNINGS	$ 5,559	$ 9,873
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that are or may be reclassified to the Statement of Income		
Cumulative translation adjustment, net of tax recovery of $3 and $79, respectively	(2,660)	(20,209)
Net gain on hedge of net investment in foreign operation, net of tax expense of $34 and $538, respectively	479	3,369
	(2,181)	(16,840)
COMPREHENSIVE INCOME (LOSS)	$ 3,378	$ (6,967)

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited, in thousands of Canadian dollars)

	Share Capital	Convertible Debentures - Equity Component	Contributed Surplus - Matured Debentures	Deferred Share Plan	Retained Earnings: Cumulative Earnings	Retained Earnings: Cumulative Dividends	Accumulated Other Comprehensive Income (Loss)	**Total**
Balance, January 1, 2016	$ 425,561	$ 11,200	$ 1,788	$ 5,123	$ 186,491	$ (234,300)	$ 50,755	$ **446,618**
Shares issued under dividend reinvestment plan	1,252	-	-	-	-	-	-	**1,252**
Deferred share plan vesting	-	-	-	477	-	-	-	**477**
Shares cancelled under NCIB	(889)	-	-	-	(395)	-	-	**(1,284)**
Comprehensive income (loss)	-	-	-	-	9,873	-	(16,840)	**(6,967)**
Dividends declared	-	-	-	-	-	(13,258)	-	**(13,258)**
Balance, March 31, 2016	**$ 425,924**	**$ 11,200**	**$ 1,788**	**$ 5,600**	**$ 195,969**	**$ (247,558)**	**$ 33,915**	**$ 426,838**
Balance, January 1, 2017	$ 463,603	$ 11,245	$ 3,478	$ 7,207	$ 247,586	$ (290,631)	$ 43,649	$ **486,137**
Prospectus offering, January 2017 (Note 8)	94,285	-	-	-	-	-	-	**94,285**
Convertible debentures								
Converted into shares (Note 7)	104	(5)	-	-	-	-	-	**99**
Shares issued under dividend reinvestment plan (Note 8)	1,528	-	-	-	-	-	-	**1,528**
Shares issued under First Nations community partnership agreements (Note 8)	100	-	-	-	-	-	-	**100**
Deferred share plan vesting	-	-	-	646	-	-	-	**646**
Comprehensive income (loss)	-	-	-	-	5,559	-	(2,181)	**3,378**
Dividends declared (Note 9)	-	-	-	-	-	(16,335)	-	**(16,335)**
Balance, March 31, 2017	**$ 559,620**	**$ 11,240**	**$ 3,478**	**$ 7,853**	**$ 253,145**	**$ (306,966)**	**$ 41,468**	**$ 569,838**

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

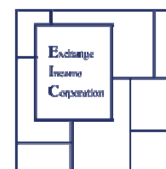
Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of Canadian dollars)

For the periods ended March 31	2017	2016
OPERATING ACTIVITIES		
Net earnings for the period	$ 5,559	$ 9,873
Items not affecting cash:		
Depreciation and amortization	27,498	21,671
Accretion of interest	1,192	1,114
Long-term debt discount	163	246
Gain on sale of disposal of capital assets	(191)	106
Deferred income tax expense	(1,316)	1,339
Deferred share program share-based vesting	646	477
	33,551	34,826
Changes in non-cash operating working capital items and long-term deferred revenue (Note 14)	(26,667)	(16,213)
	6,884	18,613
FINANCING ACTIVITIES		
Net proceeds from (repayment of) long-term debt & finance leases, net of issuance costs	(5,564)	53,884
Issuance of shares, net of issuance costs	94,520	1,252
Payment for repurchase of shares under NCIB	-	(1,284)
Cash dividends (Note 9)	(16,335)	(13,258)
	72,621	40,594
INVESTING ACTIVITIES		
Purchase of capital assets	(93,647)	(45,365)
Proceeds from disposal of capital assets	7,987	(406)
Purchase of intangible assets	(351)	-
Investment in other assets	(1,052)	(283)
Finance lease receivable payments, net of reserves	2,122	703
	(84,941)	(45,351)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,436)	13,856
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	26,494	15,497
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 21,058	$ 29,353
Supplementary cash flow information		
Interest paid	$ 7,262	$ 6,932
Income taxes paid	$ 7,096	$ 1,518

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



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

1. ORGANIZATION

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

As at March 31, 2017, the principal operating subsidiaries of the Corporation are Perimeter Aviation LP ("Perimeter"), Keewatin Air LP ("Keewatin"), Calm Air International LP ("Calm Air"), Bearskin Lake Air Service LP ("Bearskin"), Custom Helicopters Ltd. ("Custom Helicopters"), Overlanders Manufacturing LP ("Overlanders"), Water Blast Manufacturing LP ("Water Blast"), WesTower Communications Ltd. ("WesTower CDA"), R1 Canada LP ("Regional One Canada"), Provincial Aerospace Ltd. ("Provincial"), Ben Machine Products Company Inc. ("Ben Machine"), and EIIF Management USA Inc. ("EIIF USA"). Stainless Fabrication, Inc. ("Stainless"), Dallas Sailer Enterprises, Inc. ("Water Blast Dakota"), and Regional One, Inc. ("Regional One") are wholly owned subsidiaries of EIIF USA. Through the Corporation's subsidiaries, products and services are provided in two business segments: Aerospace & Aviation and Manufacturing.

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

2. BASIS OF PREPARATION

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

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

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

These interim condensed consolidated financial statements were approved by the Board of Directors of the Corporation for issue on May 9, 2017.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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 how much cash is being generated by the Corporation and assists in determining the need for additional cost reductions, evaluation of personnel and resource allocation decisions. Operating profit before depreciation, amortization, finance costs and other is referred to as an additional IFRS measure and may not be comparable to similar measures presented by other companies.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. There were no changes to the Corporation's critical accounting estimates and judgments from those described in the most recent annual financial statements.

6. LONG-TERM DEBT AND FINANCE LEASES

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

	March 31 2017	December 31 2016
Revolving term facility:		
Canadian dollar amounts drawn	$ 10,000	$ 217,300
United States dollar amounts drawn (US$322,900 and US$169,900 respectively)	430,167	228,125
Total credit facility debt outstanding, principal value	440,167	445,425
less: unamortized transaction costs	(2,281)	(1,087)
less: unamortized discount on outstanding Banker's Acceptances	-	(163)
Net credit facility debt	437,886	444,175
Finance leases	1,966	2,154
Total net credit facility debt and finance leases	439,852	446,329
less: current portion of finance leases	(1,013)	(1,069)
Long-term debt and finance leases	$ 438,839	$ 445,260

The Corporation's credit facility is secured by a general security agreement over the assets of the Corporation, subject to customary terms, conditions, covenants and other provisions, and includes both financial and negative covenants. The Corporation is in compliance with all financial and negative covenants as at March 31, 2017.

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

Interest expense recorded by the Corporation during the three months ended March 31, 2017 for the long-term debt and finance leases was $3,570 (2016 – $2,831).

Credit Facility

The following is the continuity of long-term debt for the three months ended March 31, 2017:

	Three Months Ended March 31, 2017				
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar portion	$ 217,300	$ 52,500	$ (259,800)	$ -	$ 10,000
United States dollar portion	228,125	209,794	(7,760)	8	430,167
	$ 445,425				$ 440,167

7. CONVERTIBLE DEBENTURES

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

Summary of the debt component of the convertible debentures:

	2017 Balance, Beginning of Period	Debentures Issued	Accretion Charges	Debentures Converted	Redeemed / Matured	2017 Balance, End of Period
Unsecured - 2012	$ 54,838	$ -	$ 174	$ (31)	$ -	$ 54,981
Unsecured - 2013	62,662	-	160	-	-	62,822
Unsecured - 2014	37,366	-	91	(69)	-	37,388
Unsecured - 2016	64,486	-	141	-	-	64,627
						219,818
less: unamortized transaction costs						(6,642)
Convertible Debentures - Debt Component, end of period						$ 213,176

During the three months ended March 31, 2017, convertible debentures totaling a face value of $103 were converted by the holders at various times into 3,106 shares of the Corporation (2016 – nil face value converted).

Interest expense recorded during the three months ended March 31, 2017 for the convertible debentures was $4,135 (2016 – $4,077).

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 2017	December 31 2016
Unsecured Debentures - 2012	$ 3,164	$ 3,166
Unsecured Debentures - 2013	3,063	3,063
Unsecured Debentures - 2014	1,751	1,754
Unsecured Debentures - 2016	3,262	3,262
Convertible Debentures - Equity Component, end of period	$ 11,240	$ 11,245

All convertible debentures outstanding at March 31, 2017 represent direct unsecured debt obligations of the Corporation.

8. SHARE CAPITAL

Changes in the shares issued and outstanding during the three months ended March 31, 2017 are as follows:

	Number of Shares	2017 Amount
Share capital, beginning of period	28,793,354	$ 463,603
Issued upon conversion of convertible debentures	3,106	104
Issued under dividend reinvestment plan	39,734	1,528
Prospectus offering, January, 2017	2,303,450	94,285
Issued under First Nations community partnership agreements	4,078	100
Share capital, end of period	31,143,722	$ 559,620

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

9. 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, 2017 and the comparative 2016 period are as follows:

			2017 Dividends			2016 Dividends
Month	Record date	Per Share	Amount	Record date	Per Share	Amount
January	January 31, 2017	$ 0.175	$ 5,438	January 29, 2016	$ 0.16	$ 4,424
February	February 28, 2017	0.175	5,447	February 29, 2016	0.16	4,416
March	March 31, 2017	0.175	5,450	March 31, 2016	0.16	4,418
Total		$ 0.525	$ 16,335		$ 0.48	$ 13,258

Subsequent to March 31, 2017 and before these interim condensed consolidated financial statements were authorized, the Corporation declared a monthly dividend of $0.175 per share for April 2017.

10. SEGMENTED AND SUPPLEMENTAL INFORMATION

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

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

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

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

	Three Months Ended 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 and amortization				27,498
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

	Three Months Ended March 31, 2016			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 173,510	$ 44,388	$ -	$ 217,898
Expenses	129,955	39,841	3,771	173,567
EBITDA	43,555	4,547	(3,771)	44,331
Depreciation and amortization				21,671
Finance costs - interest				6,908
Acquisition costs				64
Earnings before income tax				15,688
Current income tax expense				4,476
Deferred income tax expense				1,339
Net earnings				$ 9,873

	March 31, 2017			
	Aerospace & Aviation	**Manufacturing**	**Head Office[1]**	**Consolidated**
Total assets	**$ 1,315,413**	**$ 206,959**	**$ (35,294)**	**$ 1,487,078**
Net capital asset additions, excluding finance leases	**85,285**	**371**	**4**	**85,660**

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

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

11. 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, 2017 and comparative period in 2016 are as follows:

Three Months Ended March 31	2017	2016
Net earnings	$ 5,559	$ 9,873
Effect of dilutive securities		
Convertible debenture interest	-	-
Diluted earnings	$ 5,559	$ 9,873
Basic weighted average number of shares	31,042,564	27,623,261
Effect of dilutive securities		
Deferred shares	631,718	390,267
Convertible debentures	-	-
Diluted basis average number of shares	31,674,282	28,013,528
Earnings per share:		
Basic	$ 0.18	$ 0.36
Diluted	$ 0.18	$ 0.35

12. DEFERRED SHARE PLAN

During the three months ended March 31, 2017, the Corporation granted deferred shares to certain personnel. The fair value of the deferred shares granted was $3,238 (2016 - $3,173) at the time of the grant and was based on the market price of the Corporation's shares at that time. During the three months ended March 31, 2017, the Corporation recorded compensation expense of $646 for the Corporation's Deferred Share Plan within the general and administrative expenses of head office (2016 - $477).

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation's activities expose it to a variety of financial risks: market risk (primarily currency risk and interest rate risk), credit risk and liquidity risk. Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary. The following describes the risk management areas that have significantly changed from those described in the audited December 31, 2016 consolidated financial statements.

Market Risk

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

Currency Risk

The Corporation has US $322,900 or $430,167 (December 31, 2016 - US $169,900 or $228,125) outstanding on its credit facility. The outstanding funds in USD results in currency risk that the future cash flows will fluctuate with the changes in market currency rates. The exposure for the USD portion of its credit facility outstanding is offset by the cash generated through the operations of its US based subsidiaries. Of the total US credit facility drawn, US $38,600 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 $122,400 (December 31, 2016 - US $89,000) of credit facility draws, which mitigates the foreign currency translation risk arising from the subsidiary`s net assets. The loan is designated as a net investment hedge and no ineffectiveness was recognized from the net investment hedge.

During the quarter, the Corporation continued the use of derivatives through several cross currency basis swaps ("Swap") with a member of the Corporation's lending syndicate. The Swap requires that funds are exchanged back in 30 days at the same

terms unless both parties agree to extend the Swap for a further 30 days. By borrowing in US dollars, the Corporation is able to take advantage of lower interest rates on US dollar LIBOR denominated borrowings. The Swap mitigates the risk of changes in the value of the Corporation's US dollar LIBOR borrowings as they will be exchanged for the same Canadian equivalent in 30 days. The Swap is designated as a hedge of the underlying debt instrument and no ineffectiveness was recognized. The fair value of the Swaps at March 31, 2017 was $(1,317). At March 31, 2017, the notional value of the swaps outstanding is US $161,900 (December 31, 2016 - US $37,800).

Interest Rates

The Corporation is subject to the risk that future cash flows associated with the credit facility outstanding (Note 6) 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, 2017:

- US$322,900 (2016 – US$139,000) was outstanding under US LIBOR,
- nil (2016 – US$30,900) was outstanding under USD Prime,
- $10,000 (2016 – nil) was outstanding under Prime, and
- nil (2016 – $217,300) was outstanding under Banker's Acceptances.

The interest rates of the convertible debentures (Note 7) 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, 2017	Quoted prices in an active market Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Financial Liabilities				
Consideration liabilities - Financial liability at fair value through profit and loss	$ (3,970)	$ -	$ -	$ (3,970)
Cross currency basis swap - Financial liability at fair value through profit and loss	(1,317)	-	(1,317)	-
Fair Value Disclosures				
Other assets - Amortized cost	4,175	-	4,175	-
Other assets - Fair value through OCI	2,943	-	-	2,943
Long term debt - Amortized cost	(437,886)	-	-	(440,167)
Convertible debt - Amortized cost	(213,176)	(253,436)	-	-

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

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

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

Consideration Liability Summary	**March 31**	December 31
For the periods ended	**2017**	2016
Opening	**$ 3,765**	$ 484
Accretion	**66**	140
Settled during the period	**-**	(260)
Acquisition of CarteNav	**-**	3,414
Acquisition of Team J.A.S.	**141**	9
Translation (gain)/loss	**(2)**	(22)
Ending	**$ 3,970**	$ 3,765

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

There were 438,209 shares of the Corporation that were originally issued into escrow at the time of acquisition of Regional One and relate to the retention of the vendor as CEO. The remaining shares are anticipated to be settled and released from escrow evenly on each of the next two anniversaries of closing the acquisition (175,283 shares in escrow as at March 31, 2017).

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, 2017, management had determined that the fair value of its long term debt approximates its carrying value. The fair value of long-term debt has been calculated by discounting the expected future cash flows using a discount rate of 3.45%. The

discount rate is determined by using a risk free benchmark bond yield for instruments of similar maturity adjusted for the Corporation's specific credit risk. In determining the adjustment for credit risk, the Corporation considers market conditions, the underlying value of assets secured by the associated instrument and other indicators of the Corporation's credit worthiness.

As at March 31, 2017, management estimated the fair value of the convertible debentures based on trading values. The estimated fair value of its convertible debentures is $253,436 (December 31, 2016 - $261,062) with a carrying value of $213,176 (December 31, 2016 - $212,344).

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

14. CHANGES IN WORKING CAPITAL ITEMS

The changes in non-cash operating working capital items during the three months ended March 31, 2017 and the comparative period in 2016 are as follows:

Period Ended March 31	2017	2016
Accounts receivable	$ 14,425	$ (3,781)
Costs incurred plus recognized profits in excess of billings	(2,146)	(2,092)
Inventory	(24,069)	9,308
Prepaid expenses and deposits	106	(2,645)
Accounts payable and accrued charges	(11,813)	(5,573)
Income taxes receivable/payable	(3,332)	2,714
Deferred revenue	528	(3,138)
Billings in excess of costs incurred plus recognized profits	642	(5,408)
Foreign currency impact	41	(5,598)
Net change in working capital items	$ (25,618)	$ (16,213)

During the quarter, long-term deferred revenue decreased by $1,049 (March 31, 2016 - nil), which has been combined with the change in working capital from the table above on the statement of cash flows.