Exchange Income Corporation

First Quarter Report

For the three months ended March 31, 2019

CEO's Message

The first quarter of 2019 was a busy period for Exchange as we executed on several initiatives that will provide for future growth and stability. I will discuss these initiatives later in my message, but first let's look at our financial results for the first quarter, which continue our track record of profitable growth and are in line with the guidance that we provided to the market.

The first quarter of 2019 marks the first period in which our results include the adoption of IFRS 16. IFRS 16 requires that leases be recorded on the balance sheet. This standard results in higher EBITDA and slightly lower Earnings per share. When we reported our 2018 annual results, we provided guidance that we expected the adoption to increase EBITDA by approximately $20 million and decrease Net Earnings per share and Adjusted Net Earnings per share by approximately $0.05 on an annualized basis.

- Revenue grew by 12% to $297 million.
- EBITDA grew by 18% to $64 million. When the impact of IFRS 16 is removed, EBITDA grew by 9%.
- Adjusted Net Earnings per share was unchanged at $0.41. When the impact of IFRS 16 is excluded, Adjusted Net Earnings per share increased by $0.02 or 5% to $0.43.
- Free Cash Flow per share increased by 9% to $1.41 per share.
- Free Cash Flow less Maintenance Capital Expenditures improved 84% to $0.57 per share from $0.31 per share. As a result, the quarterly payout ratio declined from 172% to 96%.
- The payout ratio as a percentage of Adjusted Net Earnings increased marginally to 134% from 130% because of the increase in dividends per share.
- The trailing twelve month payout ratio is a better barometer of payout ratios given the seasonality of our aviation operations. On an Adjusted Net Earnings basis, the payout ratio improved from March 31, 2018 to 75%, while on a Free Cash Flow less Maintenance Capital Expenditure basis it improved significantly to 56%.

The improvement in the Free Cash Flow less Maintenance Capital Expenditure payout ratio was driven by two separate items. The first is an increase in the cash flow generated by the Company which is in line with growth in EBITDA. The second is a decline in Maintenance Capital Expenditures which is driven by the timing of certain engine overhaul events which unlike aircraft overhauls can vary from year to year. As previously disclosed, Maintenance Capital Expenditures for the full 2019 year are expected to increase in line with the overall growth of our business. These results mark significant progress towards our goal of a payout ratio of 50% on a Free Cash Flow less Maintenance Capital Expenditures basis and 60% on an Adjusted Net Earnings basis.

We are proud of the consistent implementation of our strategy over the last 15 years and the first quarter of 2019 was no different. We invest now for profitable growth in the future while maintaining a strong, flexible balance sheet which enables us to move quickly when opportunities arise. During the first quarter we completed a $75 million dollar convertible debenture offering. Demand for the issue was strong and as a result the underwriters exercised the full overallotment option bringing the offering to $86 million. We also announced that we would be redeeming the March 2014 convertible debenture which was due in 2021. The new debenture featured a seven year term, a lower interest rate and a much higher strike price of $49.00. The strike price on the March 2014 convertible debenture was $31.70 and as a result most of the existing issue converted into common shares ($25 million) while the balance ($3 million) was repaid with the proceeds of the new offering after quarter end. Following completion of this transaction our convertible debentures are now spread across four maturities between 2022 and 2026.

Quest has been a strong contributor to our growth since its acquisition in late 2017. Last year we announced that because of a rapidly growing order backlog and strong opportunities we would open a second manufacturing facility in 2019 in Dallas, Texas. I am very pleased to announce that the plant has been completed on time and on budget. We are currently increasing our staffing and will be in production by the end of the second quarter.

Provincial Aerospace (PAL) entered into the maritime surveillance business over three decades ago when it was awarded a contract from the Government of Canada to patrol Canada's 200 mile territory in the Atlantic and subsequently Pacific oceans. Over time the focus of this work has changed but PAL has expanded its relationship with the Government of Canada through multiple RFPs and competitive processes. PAL was the winning applicant on the latest RFP and will begin work under the new contract in mid-2020. We will continue to provide service under the current contract until that time. The new contract is expanded and uses both King Air and Dash 8 platforms. We intend to replace the existing King Air fleet with newer aircraft and more sophisticated equipment, which will enhance their capabilities. We expect to invest a further $50 million on this project which will generate revenue for the next decade.

The Manitoba Provincial Government announced last year that it was privatizing Manitoba Government Air Services. The process included three separate RFP's; Wildfire Suppression, General Transportation and Air Ambulance. EIC chose not to bid on the Wildfire Suppression RFP as we chose to focus in areas where we have direct experience but did provide proposals on the other sections. I am pleased to report that we were successful on the General Transportation RFP and will be providing charter services for the Manitoba Government beginning later this year. Most of this work is for the legal system in the northern region of Manitoba. It is a small contract but enhances our relationship with the Province by providing them with services that were provided by other private carriers in the past and significantly increases accountability and service standards to the Province. The medevac contract has not yet been awarded and the Government has not provided a specific timeline for when a decision will be made.

During 2018 we announced that we had leased 10 CRJ200 aircraft to SkyWest Inc. Our relationship with the world's leading operator of regional narrow body aircraft has continued to grow and we were very excited to enter into a joint venture with SkyWest to lease CRJ aircraft and or engines to other regional airlines around the world. We made an initial payment in respect of the joint venture transaction with SkyWest in the first quarter of the year and completed the transaction including the purchase of several engines early in the second quarter. We anticipate these assets will be deployed later in 2019. Partnering with an industry leader like SkyWest speaks to the strong industry reputation Regional One has developed. We look forward to deploying the initial assets in the joint venture and further developing our relationship with SkyWest.

In 2018 we provided formal guidance to the market for the first time in our history. We predicted strong growth and we met that guidance. We again provided guidance to the market where we expect fiscal 2019 EBITDA and Adjusted Net Earnings per share to grow at between 10 and 15% and 8 and 12%, respectively, excluding the impact of IFRS 16. Following our strong first quarter, our expectations for meeting this guidance remains unchanged. I want to thank our shareholders and all our stakeholders for their continued support. I look forward to seeing many of you at our AGM and speaking with you again following the release of our second quarter results in August.

Mike Pyle
Chief Executive Officer

May 7, 2019

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PREFACE

This Management's Discussion and Analysis ("MD&A") supplements the unaudited interim condensed consolidated financial statements and related notes for the three months ended March 31, 2019 ("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, 2019, its annual financial statements for the year ended December 31, 2018 and its annual MD&A for the year ended December 31, 2018. 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.

The Corporation's 2019 financial results include the impact of IFRS 16, a substantial change in lease accounting standards, effective January 1, 2019. The Corporation was required to adopt IFRS 16 and used the modified retrospective approach. Financial results prior to 2019 were not prepared on this basis. As a result, the comparability of the Corporation's 2019 EBITDA, Net Earnings and Adjusted Net Earnings prior to 2019 is impacted. The Corporation provided guidance on the impact of IFRS 16 adoption in *Section 10 – Accounting Policies* of its annual 2018 MD&A that 2019 annual EBITDA would increase approximately $20 million and Net Earnings and Adjusted Net Earnings would decrease approximately $0.05 per share. In addition, the opening balance sheet as of January 1, 2019 includes right of use assets of $120 million and a right of use lease liability of $123 million as a result of the adoption.

FORWARD-LOOKING STATEMENTS

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

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

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

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

EXCHANGE INCOME CORPORATION

The Corporation is a diversified, acquisition-oriented corporation focused on opportunities in aerospace & 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 shareholder 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 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, charter service and emergency medical services to communities located in Manitoba, Ontario and Nunavut. These services are provided by: **Calm Air**, **Perimeter**, **Bearskin** (as a division of Perimeter), **Keewatin**, **Custom Helicopters**, our equity investment in **Wasaya** and other aviation supporting businesses ("the **Legacy Airlines**"). **Regional One** is focused on supplying regional airline operators around the world with various after-market aircraft, engines, and component parts. **Provincial** (comprised of PAL Airlines, PAL Aerospace and Moncton Flight College) provides scheduled airline, charter service and emergency medical services 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 provides maritime surveillance and support operations in Canada, the Caribbean and the Middle East. Through Moncton Flight College, Provincial offers a full range of pilot flight training services, from private pilot licensing to commercial pilot programs. Together all 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 several industries and geographic markets throughout North America. **Quest** is a manufacturer of an advanced unitized window wall system used primarily in high-rise multi-family residential projects in Canada and the United States. **WesTower** is focused on the engineering, design, manufacturing and construction of communication infrastructure and provision of technical services. **Stainless** manufactures specialized stainless steel tanks, vessels and processing equipment. The **Alberta Operations** manufactures specialized heavy duty pressure washing and steam systems, commercial water recycling systems and custom tanks for the transportation of various products, primarily oil, gasoline and water. **Ben Machine** is a manufacturer of precision parts and components primarily used in the aerospace and defence sector. **Overlanders** manufactures precision sheet metal and tubular products.

Management of the Corporation continuously monitors the operating subsidiaries. The operating subsidiaries of the Corporation, however, operate autonomously and maintain their individual business identities.

1. FINANCIAL HIGHLIGHTS AND SIGNIFICANT EVENTS

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

FINANCIAL PERFORMANCE		2019	per share basic	per share fully diluted		2018	per share basic	per share fully diluted
For the three months ended March 31								
Revenue	$	297,016			$	266,027		
EBITDA[(1)]		63,826				54,013		
Net Earnings		7,488	$ 0.24	$ 0.23		8,614	$ 0.27	$ 0.27
Adjusted Net Earnings[(1)]		12,724	0.41	0.40		12,932	0.41	0.40
Adjusted Net Earnings payout ratio[(1)]			134%	137%			130%	133%
Free Cash Flow[(1)]		44,246	1.41	1.25		40,596	1.29	1.15
Free Cash Flow less Maintenance Capital Expenditures[(1)]		17,722	0.57	0.55		9,842	0.31	0.31
Free Cash Flow less Maintenance Capital Expenditures payout ratio[(1)]			96%	100%			172%	172%
Dividends declared		17,187	0.5475			16,733	0.5325	
FINANCIAL POSITION		**March 31, 2019**				December 31, 2018		
Working capital	$	263,293			$	301,141		
Capital assets		904,252				877,691		
Total assets		2,103,285				1,957,298		
Senior debt		684,712				727,511		
Equity		604,661				617,247		
SHARE INFORMATION		**March 31, 2019**				December 31, 2018		
Common shares outstanding		31,473,091				31,316,006		
		March 31, 2019				March 31, 2018		
Weighted average shares outstanding during the period - basic		31,363,603				31,382,120		

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

SIGNIFICANT EVENTS

Amended Credit Facility

On February 1, 2019, the Corporation amended its credit facility to obtain more favourable pricing and extend its term. The revised credit facility includes improved pricing on both amounts borrowed under the facility and standby charges paid for the unutilized portion of the facility. The maturity of the facility has been extended to May 7, 2023.

Normal Course Issuers Bid (“NCIB”)

On February 8, 2019, the Corporation renewed its NCIB. Under the renewed NCIB, purchases could commence on February 22, 2019 and will end on February 21, 2020. Under the renewed NCIB, the Corporation can purchase a maximum of 1,567,004 shares and daily purchases will be limited to 21,522 shares, other than block purchase exemptions. The Corporation renewed its NCIB because it believes that from time to time, the market price of the common shares may not fully reflect the value of the common shares. The Corporation believes that in such circumstances, the purchase of common shares represents an accretive use of capital.

Joint Venture with SkyWest, Inc.

On February 19, 2019, the Corporation announced that it had completed a joint venture with SkyWest to acquire, lease and sell CF34 engines, expanding its relationship with SkyWest. Regional One also purchased several CRJ700 airframes from SkyWest. The airframes will be parted out, leased and sold consistent with Regional One’s model.

Aerial Surveillance Contract Award

On March 4, 2019, PAL Aerospace was awarded the Aerial Surveillance contract by the Government of Canada. The new five year contract takes effect in August 2020 with subsequent options to renew for up to five additional years. This new award will materially increase the scope and nature of services provided under the existing contract between PAL Aerospace and the Government of

Canada. PAL Aerospace's critical role in the delivery of Canada's aerial surveillance program provides the Government of Canada with the capability to monitor domestic and foreign vessel activities and detect potential illegal activity. The program also contributes significantly to pollution surveillance, environmental monitoring, and marine security for several other federal departments and agencies.

Convertible Debenture Offering

On March 26, 2019, the Corporation closed a bought deal offering of convertible debentures. At the closing of the offering, the Corporation issued $86.25 million principal amount of debentures including the exercise of the full $11.25 million over-allotment option that was granted to the underwriters. The debentures bear interest at 5.75% per annum, payable semi-annually. The debentures are convertible at the holder’s option into common shares of the Corporation at a conversion price of $49.00 per share. The maturity of the debentures is March 31, 2026.

Subsequent Event – Appointment of Chief Financial Officer

On April 10, 2019, Darryl Bergman was appointed the Chief Financial Officer of the Corporation. Mr. Bergman is a Chartered Professional Accountant and has over 25 years of multi-national finance, treasury and enterprise risk management experience in a variety of business sectors, including energy, food processing, chemical, steel and pulp and paper. He joins the Corporation from Northland Power Inc., where he was Vice President, Corporate Finance and Treasurer.

Subsequent Event - Early Redemption of Convertible Debentures

On April 26, 2019, the Corporation exercised its right to call its 7 year 6.00% convertible debentures which were due on March 31, 2021. The redemption of the debentures was completed with cash on hand from the Corporation’s issuance of its March 2019 5.75% convertible debenture offering. At March 31, 2019, $25.6 million principal amount was outstanding. Prior to the redemption date on April 26, 2019, $22.5 million principal amount of debentures were converted into 707,749 common shares at a price of $31.70 per share. On April 26, 2019 the remaining outstanding debentures in the principal amount of $3.1 million were redeemed by the Corporation.

2. RESULTS OF OPERATIONS

The following section analyzes the financial results of the Corporation for the three months ended March 31, 2019 and the comparative 2018 year.

	Three Months Ended March 31, 2019			
	Aerospace & Aviation	Manufacturing	Head Office[2]	Consolidated
Revenue	$ 216,744	$ 80,272	$ -	$ 297,016
Expenses[1]	159,118	67,259	6,813	233,190
EBITDA	57,626	13,013	(6,813)	63,826
Depreciation of capital assets				30,691
Amortization of intangible assets				4,480
Finance costs - interest				13,359
Depreciation of right of use assets				5,398
Interest expense on right of use lease liabilities				1,161
Acquisition costs				2,200
Other				(2,182)
Earnings before income tax				8,719
Current income tax expense				3,027
Deferred income tax recovery				(1,796)
Net Earnings				$ 7,488
Net Earnings per share (basic)				$ 0.24
Adjusted Net Earnings				$ 12,724
Adjusted Net Earnings per share (basic)				$ 0.41

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

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

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

REVENUE AND EBITDA

On a consolidated basis, the Corporation generated revenue of $297.0 million, an increase of $31.0 million or 12% over the comparative period. Of the increase, $26.9 million was generated by the Aerospace & Aviation segment and $4.1 million was generated by the Manufacturing segment.

EBITDA of $63.8 million was generated by the Corporation during the year, an increase of $9.8 million or 18% over the comparative period. Excluding the impact of the adoption of IFRS 16, EBITDA increased 9% over the prior year. This performance was primarily attributable to a significant increase in the Aerospace & Aviation segment.

During the period, the Corporation's head office costs increased $1.6 million over the prior period largely due to increased performance based compensation, including the new Restricted Share Plan.

Aerospace & Aviation Segment

Revenue generated by the Aerospace & Aviation segment increased by $26.9 million or 14% to $216.7 million.

Revenue in the Legacy Airlines and Provincial increased by $9.6 million or 7% over the comparative year. The increase in revenue can be attributed to higher volumes in Newfoundland & Labrador, which was due to activity in the natural resource sector, and increased volumes in the Kivalliq region. The segment also benefited from the inclusion of Moncton Flight College for a full quarter in 2019, as it was acquired partway through the first quarter of 2018.

Regional One's revenues for the current period increased by $17.3 million or 33%. This was driven by growth across all revenue streams as summarized in the table below.

Regional One Revenue	Three Months Ended March 31,		2019		2018		Variance	Variance %
Sales and service revenue		$	**53,158**	$	37,118	$	16,040	43%
Lease revenue			**16,773**		15,530		1,243	8%
		$	**69,931**	$	52,648	$	17,283	33%

The revenue generated by Regional One is comprised of two main streams – sales and service revenue and lease revenue. Sales and service revenue is derived from the sales of aircraft parts, aircraft engines and whole aircraft as well as from the provision of services such as asset management. Lease revenue is generated through the leasing of aircraft engines or whole aircraft.

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

Sales and service revenue increased by 43% over the prior period. This was a result of strong increases in sales of whole aircraft and engines and part sales, driven by investments made in prior years that increased Regional One's portfolio of assets for resale.

Lease revenue increased by $1.2 million in the current period because of higher utilization of aircraft within the portfolio and an increase in the number of assets on lease compared to the first quarter of 2018. This improvement started in the second half of 2018, as the whole fleet of CRJ900 aircraft were on lease and have been since the fourth quarter of 2018.

In the Aerospace & Aviation segment EBITDA increased $10.9 million or 23% to $57.6 million. Excluding the impact of IFRS 16, EBITDA increased by $7.0 million or 15% in the segment over the prior period.

EBITDA contributed by the Legacy Airlines and Provincial increased by $6.4 million or 24% and increased $2.8 million or 11% excluding the impact of IFRS 16. The increase in EBITDA was primarily driven by the 7% increase in revenue discussed above. Additionally, the segment benefited from fuel price stabilization, cost savings associated with operational efficiencies and our investment in Wasaya. Capacity sharing across airline subsidiaries and investment in additional aircraft in prior periods reduced third party charter costs.

The growth in EBITDA was achieved despite industry related labour challenges. Industry-wide labour shortages resulted in continued higher overtime, contractor and training costs. The airlines continue to actively work with Moncton Flight College to develop and implement initiatives to mitigate the impact, but these strategies will require time to take full effect.

Regional One's EBITDA increased $4.5 million or 22% from the prior period, or $4.3 million or 21% excluding the impact of IFRS 16. Increased revenue across all revenue streams contributed to increased EBITDA. Because of increased lease revenue, EBITDA increased by $1.1 million. In addition, margins on parts sales increased during the first quarter compared to the prior period and were at the upper end of historical highs for a quarter. Aircraft and engine sales, while making up a larger proportion of total revenue in 2019, contributed margins that are consistent with historical norms for Regional One.

Manufacturing Segment

The Manufacturing segment revenue increased by $4.1 million or 5% to $80.3 million over the prior period. EBITDA also increased by $0.5 million or 4% to $13.0 million and decreased $0.7 million or 6% excluding the impact of IFRS 16. Results at Quest in the first quarter of 2019 were impacted by temporary production delays due to a water main break, which flooded the plant and shutdown production in November. The plant was operational during the quarter but was not fully restored until the middle of March, resulting in inefficiencies that temporarily impacted EBITDA. Despite these challenges, Quest contributed EBITDA of $6 million compared to $7 million in the first quarter of 2018. The balance of the segment collectively experienced growth in revenue and EBITDA. The segment benefitted from an increase in custom manufacturing, high levels of defense spending worldwide, increased spending from telecommunications companies across Canada and operational efficiencies. Growth Capital Expenditures made in previous periods allowed the segment to respond to increased demand from customers, resulting in increased revenue and EBITDA.

NET EARNINGS

Three Months Ended March 31	2019	2018	Variance	Variance %
Net Earnings	$ **7,488**	$ 8,614	$ (1,126)	-13%
Net Earnings per share	$ **0.24**	$ 0.27	$ (0.03)	-11%

Net Earnings was $7.5 million, a decrease of $1.1 million from the prior period. Excluding the impact of IFRS 16, Net Earnings was relatively flat to the first quarter of 2018. The increase in EBITDA was offset by several items, in particular increased expenses associated with acquisitions and fleet expansion. Depreciation on assets purchased through acquisition and Growth Capital Expenditures drove the $2.2 million increase in depreciation expense. Interest expense increased by $2.3 million due to both the funding of Moncton Flight College and other investments and increases in benchmark borrowing rates in the last three quarters of 2018. Acquisition costs incurred by the Corporation increased $1.7 million in the first quarter of 2019 compared to the 2018 period, reducing Net Earnings. In the first quarter of 2019, the gain on revaluation of contingent consideration increased by $0.7 million over the comparative period. The revaluation of contingent consideration is required when the amount that will ultimately be paid to vendors differs from the amount estimated at the acquisition's close (*Section 8 – Critical Accounting Estimates and Judgments).*

Income tax expense has decreased by $0.9 million and the effective rate of tax has decreased to 14.1% from 19.5%. The gain on the remeasurement of contingent consideration in the current year increased $0.7 million, which is not taxable and was a higher proportion of earnings before tax compared to the gain in 2018, and therefore decreased the effective tax rate. Current tax expense decreased proportionately in the current year because of a higher proportion of pre-tax earnings in lower rate jurisdictions in comparison to 2018.

The decrease in basic Net Earnings per share was due to a decrease in Net Earnings as discussed above, including the negative impact of the adoption of IFRS 16, while the weighted average number of shares outstanding was relatively flat compared to 2018. Details around the change in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

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

Three Months Ended March 31,	2019	2018
Net Earnings	$ **7,488**	$ 8,614
Acquisition costs, net of tax	**1,644**	515
Amortization of intangible assets, net of tax	**3,270**	3,470
Interest accretion on acquisition contingent consideration	**322**	333
Adjusted Net Earnings	$ **12,724**	$ 12,932
per share - Basic	$ **0.41**	$ 0.41
per share - Diluted	$ **0.40**	$ 0.40

Adjusted Net Earnings was relatively flat to the prior period and excluding the impact of IFRS 16 Adjusted Net Earnings increased by $0.6 million or 5%. Adjusted Net Earnings included the add-back of acquisition related costs, comprising of $3.3 million in intangible asset amortization, $0.3 million in interest accretion on contingent consideration and $1.6 million in acquisition costs (all net of tax).

Adjusted Net Earnings per share was flat to the first quarter of 2018 at $0.41 per share. Excluding the impact of the adoption of IFRS 16, Adjusted Net Earnings increased 5% to $0.43 per share. The weighted average number of shares outstanding was relatively flat compared to 2018. Details around the change in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

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

FREE CASH FLOW	Three Months Ended March 31,		2019		2018
Cash flows from operations		$	34,738	$	15,614
Change in non-cash working capital items			12,144		24,467
Acquisition costs, net of tax			1,644		515
Principal payments on right of use liabilities			(4,280)		-
		$	44,246	$	40,596
per share - Basic		$	1.41	$	1.29
per share - Fully Diluted		$	1.25	$	1.15

The Free Cash Flow generated by the Corporation during the period was $44.2 million, an increase of $3.7 million or 9% over the comparative period. The main reasons for this increase are the $9.8 million or 18% increase in EBITDA and the decrease in current tax expense, partially offset by increased interest costs and principal payments on right of use assets. Free Cash Flow is discussed further in *Section 12 – Non-IFRS Measures and Glossary*.

Because of the increase in Free Cash Flow described above, Free Cash Flow on a basic per share basis increased by 9% to $1.41. The weighted average number of shares outstanding was relatively flat compared to 2018. Details around the increase in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

Changes in non-cash working capital is included in cash flow from operations per the Statement of Cash Flow and is removed in the reconciliation to Free Cash Flow. As a result, it has no impact on the calculation of Free Cash Flow. The investment in working capital during the period was driven primarily by investments made at Regional One in the first quarter of 2019. Regional One purchased several CRJ700 airframes that will be parted out and have been recorded in inventory at March 31, 2019. A more detailed discussion of changes in working capital is included within *Section 3 – Investing Activities*.

3. INVESTING ACTIVITIES

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

CAPITAL EXPENDITURES

	Three Months Ended March 31, 2019							
CAPITAL EXPENDITURES		**Aerospace & Aviation**		**Manufacturing**		**Head Office**		**Total**
Maintenance Capital Expenditures	$	25,715	$	767	$	42	$	26,524
Growth Capital Expenditures		37,821		3,261		-		41,082
	$	63,536	$	4,028	$	42	$	67,606
	Three Months Ended March 31, 2018							
CAPITAL EXPENDITURES		Aerospace & Aviation		Manufacturing		Head Office		Total
Maintenance Capital Expenditures	$	29,436	$	932	$	104	$	30,472
add: finance lease principal payments		-		282		-		282
Maintenance Capital Expenditures		29,436		1,214		104		30,754
Growth Capital Expenditures		1,276		764		-		2,040
	$	30,712	$	1,978	$	104	$	32,794

Aerospace & Aviation

Maintenance Capital Expenditures for the Legacy Airlines and Provincial for the first quarter of 2019 were $16.1 million, a decrease of 25% from 2018. The Corporation's strategy to perform as much required maintenance as possible during the seasonally slower first half of the year remains unchanged from prior years. Large aircraft maintenance events have more scheduling flexibility than engine maintenance events, which are typically dictated by usage. The required timing of maintenance events for several engines has moved to the balance of the year, resulting in lower Maintenance Capital Expenditures than expected. The Corporation still expects that, as indicated in its guidance provided in February, Maintenance Capital Expenditures will increase in line with the overall growth in its business in 2019. During the first quarter of 2019, the Legacy Airlines and Provincial invested $14.5 million in Growth Capital Expenditures. These expenditures primarily relate to investments required to support new contracts awarded to the Corporation, including the Department of Fisheries and Oceans contract for Provincial and the Government of Manitoba General Transport contract for the Legacy Airlines.

Regional One's Maintenance Capital Expenditures for the period ended March 31, 2019 were $9.6 million, an increase of 20% over the comparative period because of investments in the lease portfolio during 2018 and 2019. The Maintenance Capital Expenditures for Regional One are directly attributable to the depreciation on its fleet of leased aircraft and engines. The table below provides a summary of the fleet of assets in Regional One's lease portfolio.

Regional One Lease Portfolio	March 31, 2019		December 31, 2018	
	Aircraft	Engines	Aircraft	Engines
Lease portfolio	45	55	46	54

The Regional One lease portfolio is comprised of several different types of aircraft and engines, but the predominant platforms are the Bombardier CRJ aircraft, the GE CF34 engines that are used on those aircraft, and Embraer ERJ aircraft. Other platforms included in the portfolio are the Dash 8 and ATR aircraft. Regional One is not a traditional leasing company. It does not acquire assets with the intention of owning them for a long duration and deriving earnings solely from the financing spread. Regional One typically acquires assets with the intent of leasing them for a shorter duration, consuming available green time and producing cash flows, and then generating further profits once the aircraft have been retired from the active fleet and parted out. It is important to note that not all the aircraft and engines in the portfolio will be on lease at any given time.

Growth Capital Expenditures at Regional One represent the difference between net capital assets acquired (assets purchased less assets sold or transferred to inventory) and the amount of Maintenance Capital Expenditures. Because of the timing between the removal of assets from the lease portfolio and the replacement of those assets can vary from quarter to quarter, it is possible that negative Growth Capital Expenditures may arise in a particular quarter. However, we do not expect that negative Growth Capital Expenditures would consistently occur over a longer period as it is the Corporation's intention to maintain or grow the lease portfolio.

During the first quarter of 2019, the Corporation invested $33.0 million into Regional One, of which $9.7 million was in inventory and is discussed below. Regional One invested $23.3 million in Growth Capital Expenditures during the first quarter, which was the result of purchases made in connection with the SkyWest joint venture and the purchase of a CRJ700 aircraft. The purchase of the low-time CRJ700 combined with the purchase and sale of other smaller aircraft in the leasing portfolio resulted in a net decrease of one aircraft during the quarter. Further discussion of investment in inventory at Regional One is included below in the overall discussion of investment in working capital.

Manufacturing Segment

Maintenance Capital Expenditures in the Manufacturing segment primarily relate to replacement of production equipment or components of that equipment and can vary significantly from year to year. Certain manufacturing assets have long useful lives and therefore can last for many years before requiring replacement or significant repair.

Maintenance Capital Expenditures of $0.8 million made by the Manufacturing segment during the quarter reflect a decrease of $0.4 million from the comparative period. In the prior period, principal lease payments on finance leases were included in Maintenance Capital Expenditures. With the adoption of IFRS 16, the principal payment of all lease costs that fall under the standard are deducted in the reconciliation of Free Cash Flow. Without this change, Maintenance Capital Expenditures are flat to the prior period.

Growth Capital Expenditures of $3.3 million in this segment for the quarter is mainly due to Quest's US expansion, as the remaining equipment has been received and the plant began test production runs in the first quarter of 2019.

INVESTMENT IN WORKING CAPITAL

During the first quarter of 2019, the Corporation invested $12.1 million into working capital across several entities. The investment during the period relates primarily to the investment in Regional One's portfolio of parts and whole aircraft for resale.

The Corporation continued to invest in Regional One's inventory of parts and aircraft for resale as Regional One has demonstrated an ability to generate exceptional returns on investment. During the quarter, this included the investment in CRJ700 airframes that will be parted out and therefore have been recorded in inventory. Regional One's investment in inventory throughout 2018 supported a 35% increase in part sales in the first quarter of 2019.

Details of the investment in working capital are included in Note 15 and the Statement of Cash Flows in the Corporation's Interim Condensed Consolidated Financial Statements.

The overall net working capital position of the Corporation at March 31, 2019 included the March 2021 convertible debentures as a current liability as they were redeemed in April 2019. The Corporation's cash balance at March 31, 2019 included cash to redeem the debentures.

4. DIVIDENDS AND PAYOUT RATIOS

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

Dividends

			2019 Dividends			2018 Dividends
Month	**Record date**	**Per Share**	**Amount**	**Record date**	**Per Share**	**Amount**
January	January 31, 2019	**$ 0.1825**	**$ 5,719**	January 31, 2018	$ 0.175	$ 5,484
February	February 28, 2019	**0.1825**	**5,724**	February 28, 2018	0.175	5,517
March	March 29, 2019	**0.1825**	**5,744**	March 29, 2018	0.1825	5,732
Total		**$ 0.5475**	**$ 17,187**		$ 0.5325	$ 16,733

Dividends declared for the current period increased over the comparative period because of the increase in the dividend rate per month in the prior period. The Corporation increased the monthly dividend rate per share by $0.0075 during the first quarter of 2018 (4% increase).

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

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

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

The Corporation analyzes its payout ratios on a trailing twelve month basis when assessing its ability to pay and increase dividends. The use of a longer period reduces the impact of seasonality on the analysis. The first quarter of the fiscal year is always the most seasonally challenging for the Corporation. Winter roads into northern communities lessen the demand for the Corporation's air services. Therefore, a single quarter can be impacted by seasonal variations that do not impact the Corporation's ability to pay dividends over a longer period.

Payout Ratios

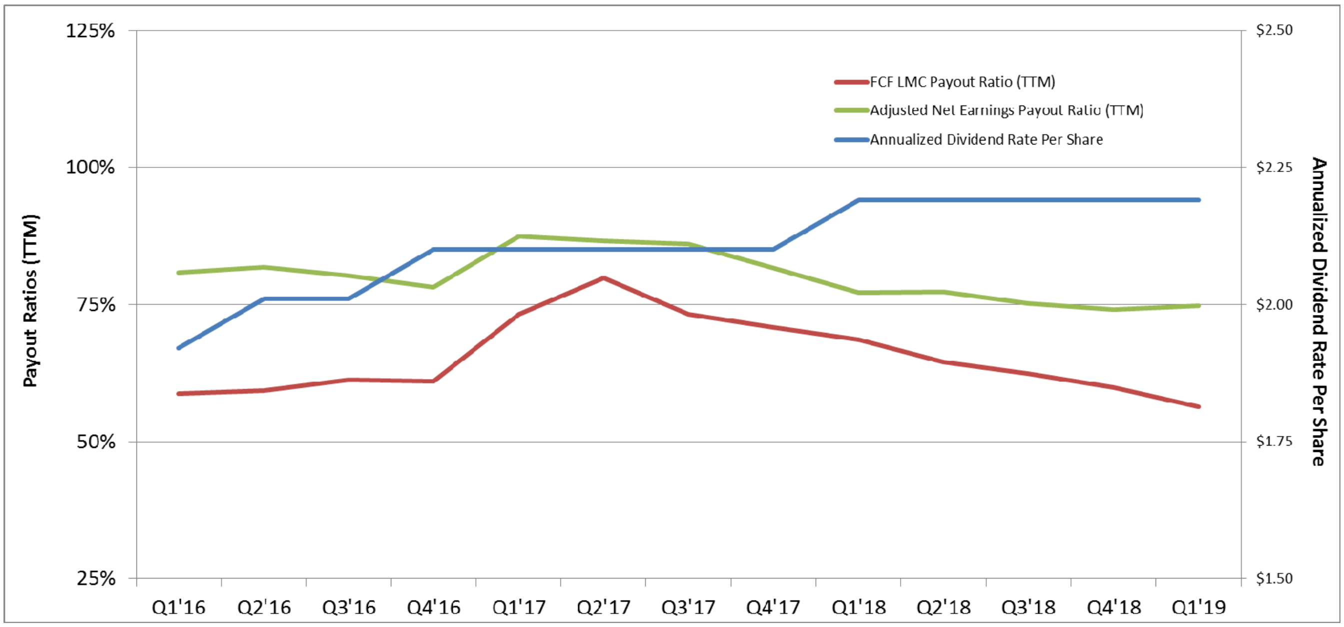
Basic per Share Payout Ratios for the Corporation	**2019**		2018	
Periods Ended March 31	**Three Months**	**Trailing Twelve Months**	Three Months	Trailing Twelve Months
Adjusted Net Earnings	***134%***	***75%***	*130%*	*77%*
Free Cash Flow less Maintenance Capital Expenditures	***96%***	***56%***	*172%*	*69%*

The Corporation's three month Free Cash Flow less Maintenance Capital Expenditures payout ratio improved materially over the prior period from 172% in 2018 to 96% in 2019. This improvement was driven by increased cash flow and lower Maintenance Capital

Expenditures. These factors resulted in a significant improvement in the trailing twelve month Free Cash Flow less Maintenance Capital Expenditures payout ratio from 69% in 2018 to 56% in 2019. The Corporation's three month Adjusted Net Earnings payout ratio increased marginally over the prior period to 134% because of the adoption of IFRS 16. Excluding the impact of IFRS 16, the Adjusted Net Earnings payout ratio for the first quarter improved slightly over the prior period. The trailing twelve month Adjusted Net Earnings payout ratio improved slightly over the prior period to 75%.

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

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



5. OUTLOOK

EIC invests for the long-term and makes decisions for the long-term, positioning us to deliver the best service and value for our customers. This was evident in the first quarter of 2019 within our Aerospace & Aviation segment as EIC won multiple RFP's and increased its service levels to its customers on many other fronts.

A highlight of the first quarter was the award of a long-term contract by the Government of Canada to continue the provision of aerial surveillance services for Canada's inland, coastal and offshore waters. The new five year contract takes effect in August 2020 with subsequent options to renew for up to five additional years. Under the new contract we will provide the Government with aircraft that have increased capacity, range, and the newest technology. This will increase the mission capabilities of these aircraft providing better service for Canada. We have already started the process of acquiring and extensively modifying the aircraft in our St John's, NL modification center. The higher level of service and scope of the contract will increase the revenue under the contract once it begins in August 2020. Until then we will continue to provide the service under our existing contract.

EIC also won an RFP with the Government of Manitoba to provide General Transportation services. This contract is to provide air travel service for the judicial system within northern Manitoba for the next five years. These services, which were previously provided on an uncontracted basis by other private carriers, will allow EIC to provide a more efficient and higher level of service to the Government of Manitoba. This will include increasing the quality, safety and reliability of the air travel. EIC is in the process of purchasing and upgrading six King Air 200 aircraft to provide this service which will become effective late summer of 2019.

We brought online an upgraded Citation Ultra Jet in the first quarter with another to follow in the second quarter for the Baffin Region medevac contract that was awarded in 2018. These two aircraft combined with the new base in Igloolik, NU, which was opened in the second quarter of 2019, will provide enhanced coverage and increase the scope of our work in this region.

In the first quarter of 2019 Calm Air submitted its proposal for the Government of Nunavut Medical Transfer RFP. Calm Air is the incumbent for the Kivalliq region of this contract, which expires in August 2019. There is competition for this opportunity but Calm Air is well positioned to be successful on this contract based on many years of successfully providing these services, as well as recent investments made in the ground handling operations and a new passenger lounge in Rankin Inlet in 2019 to support these operations and its customers.

The Canadian aviation industry faces a significant challenge with regard to the current and projected pilot shortage, as the need for experienced talent quickly outpaces the national supply. EIC has developed our **Life in Flight** program to meet this industry challenge head on. The program will provide unique and mutually beneficial pathways for future aviation talent and EIC air operators. Key to the strategy was the acquisition of Moncton Flight College with its strong and successful history in training the next generation of pilots. Moncton Flight College is the largest trainer of commercial pilots in Canada. The Life in Flight program addresses historical challenges of becoming a successful pilot by including strategies that offer diverse recruitment, high standards of training, access to funding, mentorship, a completion award, and most of all a rewarding career path with EIC's family of air operators. EIC offers a diverse, long-term career opportunity for pilots through its various business units and air operators. Across its business lines, EIC offers the unique opportunity for flight crew to develop their careers on various types of aircraft at bases of operations in Canada and around the world. This program is just one more way that EIC is laying the groundwork for continued long-term success of its Aviation and Aerospace operations. We are excited to offer this program and will provide additional information at our Annual General Meeting on May 8th where the program will be officially unveiled.

As our success on the three recent RFP's, our recent investments in the Kivalliq region and our Life in Flight program demonstrate, investing now for the long-term is fundamental to our business. We have invested in the people, technology, processes, and infrastructure to continue to deliver the best service and value to our customers. We are proud that our customers recognize this value and have chosen to partner with us on these long term contracts. We also continue to invest in other areas of our business to increase our service levels to our customers.

In 2018, we acquired an additional Dash 8 aircraft to better serve our northern customers in Manitoba. This additional capacity not only led to better service for our customer but also a new charter contract with a crown corporation in 2019. Likewise, EIC is beginning to modify a number of its Dash 8 aircraft that service Manitoba into combi-configuration to increase their effectiveness for our customers. In the Kivalliq region we are working collaboratively with a third party to improve the supply of cargo into Rankin Inlet when weather issues occur. In the second quarter, our rotary wing operations will be providing transportation during the thaw season in Wasagamack, MB for the first time as a result of the Wings over Kississing transaction in December 2018. While some of these examples seem small on the surface, they highlight the investment we make on an ongoing basis to increase our service levels for our customers long-term.

In the first quarter, Regional One furthered its relationship with SkyWest by entering into a joint venture arrangement. Partnering with world's leading operator of regional narrow body aircraft is a significant opportunity that was created because of Regional One's leading position in the CRJ aftermarket business. In May our Joint Venture with SkyWest reached an indicative agreement for a long-term lease contract. The lease arrangements are with North American operators and are subject to the finalization of their respective flying contract. It is anticipated that the leases for these assets will be phased in through 12 months commencing this summer. EIC anticipates making additional investments in this joint venture as we further our relationship and explore additional opportunities.

The development of Quest's new 330,000 square foot facility in Texas went as planned. Test runs began in March 2019 and continue into the second quarter. Subject to completion of these tests and quality assurance, the plant is anticipated to start production towards the end of the second quarter with production ramping up throughout the balance of 2019. The facility is highly anticipated and will help manage Quest's backlog that currently stands over $350 million. The new facility will lower the backlog enabling us to better serve our customers, as well as expand to new customers and new regions.

<u>Capital Expenditures</u>

Maintenance capital expenditures are necessary to maintain the earning power of our subsidiaries. EIC expects maintenance capital expenditures to increase in line with the overall growth of our business in 2019. Consistent with prior years, these expenditures will be skewed towards the first half of the year as EIC takes advantage of the seasonally lower utilization in the early part of the year to perform heavy maintenance. In the first quarter of 2019 Maintenance Capital Expenditures were lower than expected as several engine maintenance events moved out to later in the year which will result in a higher Maintenance Capital Expenditures for the balance of 2019.

The 2018 outlook stated that we expect 2019 growth capital expenditures to continue at the 2018 levels. As specified, this included growth capital expectations required for the SkyWest transaction but not for the multiple RFP's that were to be awarded in 2019. As EIC was awarded the RFP's for both the Government of Canada aerial surveillance contract and the Government of Manitoba general transportation services, the required level of growth capital expenditures will increase.

6. LIQUIDITY AND CAPITAL RESOURCES

The Corporation's working capital position, Free Cash Flow and capital resources remain strong and, after the redemption of the 2014 convertible debentures on April 26, 2019, we have no long-term debt coming due until December 2022. Our strong balance sheet combined with the recent changes to our credit facility and convertible debentures have enhanced our access to capital to make acquisitions and invest in our operating subsidiaries.

As at March 31, 2019, the Corporation had a cash position of $39.8 million (December 31, 2018 - $43.0 million) and a net working capital position of $263.3 million (December 31, 2018 - $301.1 million) which represents a current ratio of 1.90 to 1 (December 31, 2018 – 2.26 to 1). Working capital has been impacted by the adoption of IFRS 16 as a portion of the lease liability is presented as a current liability. Also, the Corporation called the March 2014 convertible debentures prior to March 31, 2019, resulting in the presentation of the outstanding debentures as a current liability, which reduced the working capital balance. A portion of the decrease in working capital from December 31, 2018 can be attributed to the impact of the strengthening Canadian dollar, resulting in a decrease in working capital due to the translation US functional currency based subsidiaries, and was offset by investments in working capital as discussed in *Section 3 – Investing Activities*. The Corporation's cash balance at March 31, 2019 included cash to fund the redemption of its 7 year 6.0% convertible debentures which were redeemed in April 2019. At the redemption date, $3.1 million of these debentures remained outstanding and were redeemed with cash on hand from the March 2019 convertible debenture offering.

The Corporation aims to maintain leverage ratios at consistent levels over time. There are points where leverage temporarily rises because of a significant acquisition where the associated EBITDA has not yet been realized. Our target leverage range, based on senior debt to EBITDA, is between 1.5 and 2.5. Our leverage covenant with our lenders allows for a senior leverage ratio maximum of 3.25. The Corporation's leverage ratio at March 31, 2019 as calculated under the terms of our credit facility, which is adjusted for the impact of the timing of acquisitions and is inclusive of outstanding letters of credit as of the balance sheet date, was 2.30 (December 31, 2018 – 2.46). Our leverage ratio at March 31, 2019 was impacted by the cash position that was subsequently used to redeem convertible debentures as noted above as the Corporation's outstanding cash is deducted from outstanding debt in the calculation.

Overview of Capital Structure

The Corporation's capital structure is summarized below.

	March 31 2019	December 31 2018
Total senior debt outstanding (principal value)	**$ 687,404**	$ 727,169
Convertible debentures outstanding (par value)(1)	**361,291**	277,335
Common shares(1)	**593,372**	588,498
Total capital	**$ 1,642,067**	$ 1,593,002

Note 1) Subsequent to the end of the quarter, the Corporation completed the redemption of the March 2014 convertible debentures. As a result, $22.5 million of this balance was converted into common shares before the April 26, 2019 redemption date. The remaining debentures in the principal amount of $3.1 million were redeemed with cash on hand on April 26, 2019.

Credit facility

On February 1, 2019, the Corporation amended its credit facility, which reduced the interest rate charged on utilized and unutilized portions of the facility and extended the maturity to May 7, 2023.

The size of the Corporation's credit facility as at March 31, 2019 is approximately $1 billion, with $945 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. As of March 31, 2019, the Corporation had drawn $175.0 million and US $383.5 million (December 31, 2018 - $229.1 million and US $365.1 million). During the period, the Corporation made draws on its credit facility to fund the investment in both inventory and capital assets at Regional One associated with its joint venture with SkyWest and growth capital expenditures associated with recent contract awards at Provincial and the Legacy Airlines. These draws were offset with a repayment made against the credit facility with the net proceeds of the March 2019 convertible debenture offering.

During the period, the Corporation used derivatives through several cross-currency basis swaps ("swap") with a member of the Corporation's lending syndicate. The swap requires that funds are exchanged back in one month at the same term unless both parties agree to extend the swap for an additional month. By entering into the swap, the Corporation can take advantage of lower interest rates. The swap mitigates the risk of changes in the value of the US Dollar borrowings as it will be exchanged for the same Canadian equivalent in one month. At March 31, 2019, US $186.5 million (December 31, 2018 – US $186.0 million) of the Corporation's US denominated borrowings are hedged with these swaps.

After the end of the first quarter, the Corporation entered a derivative whereby the Corporation has fixed a $190 million of credit facility debt for a period of four years.

Convertible Debentures

The following summarizes the convertible debentures outstanding as at March 31, 2019 and the changes in the amount of convertible debentures outstanding during the three months ended March 31, 2019:

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Unsecured Debentures - 2014(1)	EIF.DB.G	March 31, 2021	6.0%	$31.70
Unsecured Debentures - 2016	EIF.DB.H	June 30, 2023	5.25%	$44.75
Unsecured Debentures - 2017	EIF.DB.I	December 31, 2022	5.25%	$51.50
Unsecured Debentures - 2018	EIF.DB.J	June 30, 2025	5.35%	$49.00
Unsecured Debentures - 2019	EIF.DB.K	March 31, 2026	5.75%	$49.00

Par value	Balance, beginning of period	Issued	Converted	Redeemed / Matured	Balance, end of period
Unsecured Debentures - March 2014(1)	$ 27,860	$ -	$ (2,294)	$ -	$ 25,566
Unsecured Debentures - June 2016	68,975	-	-	-	68,975
Unsecured Debentures - December 2017	100,000	-	-	-	100,000
Unsecured Debentures - June 2018	80,500	-	-	-	80,500
Unsecured Debentures - March 2019	-	86,250	-	-	86,250
Total	$ 277,335	$ 86,250	$ (2,294)	$ -	$ 361,291

Note 1) Subsequent to quarter end, on April 26, 2019, the Corporation redeemed its 7 year 6.0% convertible debentures which were due March 31, 2021.

On March 26, 2019, the Corporation closed a bought deal offering of convertible debentures. At the closing of the offering, the Corporation issued $86.25 million principal amount of debentures including the exercise of the full $11.25 million over-allotment option that was granted to the underwriters. The debentures bear interest at 5.75% per annum, payable semi-annually. The debentures are convertible at the holder's option into common shares of the Corporation at a conversion price of $49.00 per share. The maturity of the debentures is March 31, 2026. Most of the proceeds were used to make a repayment on the credit facility.

On April 26, 2019, the Corporation exercised its right to call its 7 year 6.00% convertible debentures which were due on March 31, 2021. The redemption of the debentures was completed with cash on hand from the Corporation's issuance of its March 2019 5.75% convertible debenture offering. At March 31, 2019, $25.6 million principal amount was outstanding, which included $2.3 million of conversions before the end of the quarter. Prior to the redemption date, $22.5 million principal amount of debentures were converted into 707,749 common shares at a price of $31.70 per share. On April 26, 2019 the remaining outstanding debentures in the principal amount of $3.1 million were redeemed by the Corporation.

Share Capital

The following summarizes the changes in the shares outstanding of the Corporation during the three months ended March 31, 2019:

	Date issued (redeemed)	Number of shares
Shares outstanding, beginning of period		31,316,006
Issued upon conversion of convertible debentures	various	72,363
Issued under dividend reinvestment plan (DRIP)	various	65,161
Issued under employee share purchase plan	various	10,298
Issued under deferred share plan	March 1, 2019	9,263
Shares outstanding, end of period		31,473,091

The Corporation issued 65,161 shares under its dividend reinvestment plan ("DRIP") during the year ended December 31, 2018 and received $1.9 million for those shares in accordance with the DRIP.

During the first quarter, debentures with a face value of $2.3 million were converted into 72,363 shares of the Corporation. The Corporation issued a notice of redemption for its March 2014 convertible debenture series on March 26, 2019. After the end of the quarter, $22.5 million in principal value was converted into shares of the Corporation prior to the redemption date.

The weighted average shares outstanding during the three months ended March 31, 2019 decreased less than 1% from the comparative period. The decrease is attributable to the shares repurchased and cancelled under the Corporation's NCIB throughout 2018, mostly offset by shares issued in connection with the acquisition of Moncton Flight College and the investment in Wasaya.

Normal Course Issuers Bid

On February 8, 2019, the Corporation received approval from the TSX for the renewal of its NCIB to purchase up to an aggregate of 1,567,004 shares, representing 5% of the issued and outstanding shares as at January 31, 2019. Purchases of shares pursuant to the renewed NCIB could be made through the facilities of the TSX commencing on February 22, 2019 and ending on February 21, 2020. The maximum number of shares that can be purchased by the Corporation daily is limited to 21,522 shares, other than block purchase exemptions.

During the three months ended March 31, 2019, the Corporation did not make any purchases under its NCIB and therefore still has the full 1,567,004 shares available for repurchase.

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

7. RELATED PARTY TRANSACTIONS

The nature of related party transactions that the Corporation entered during the three months ended March 31, 2019 are consistent with those described in the Corporation's MD&A for the year ended December 31, 2018.

8. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. There were no changes to the Corporation's critical accounting estimates and judgments from those described in the MD&A of the Corporation for the year ended December 31, 2018, other than as noted below.

The Corporation's liabilities for contingent consideration associated with the earn out portion of its acquisitions is reassessed each period end after the related acquisition. The carrying value of the liability is based on an estimate of both the amount of the potential payment and probability that the earn out will be paid. In the first quarter, the estimated liability for additional purchase consideration associated with CarteNav was reduced to reflect expected earnings levels during the remaining earn out period. This resulted in a recovery of $2.2 million and is included within "Other" in the Statement of Income.

The application of IFRS 16 Leases requires assumptions and estimates in order to determine the value of the right of use assets and the lease liabilities which mainly relate to the incremental rates of borrowing. Judgement must also be applied as to whether renewal options are reasonably certain of being exercised.

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, 2019 that are discussed and analyzed in this report are described in detail in Note 3 of the Corporation's 2018 annual consolidated financial statements and Note 3 of the Corporation's interim condensed consolidated financial statements for the three months ended March 31, 2019.

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 2018 annual consolidated financial statements, except as discussed below.

Adoption of IFRS 16 *Leases*

The Corporation's adoption of IFRS 16 is effective January 1, 2019. Because of adopting this new standard, many of the Corporation's leases, that were previously accounted for as operating leases, have been accounted for by recognizing a right of use asset and a right of use lease liability on the balance sheet. The Corporation adopted the new standard using the modified retrospective method. Under this method, the right of use lease liabilities have been measured by discounting the remaining lease payments using the incremental borrowing rate. The Corporation chose on a lease-by-lease basis, to measure the right of use asset at either the carrying amount of the lease liability on transition date or its carrying amount as if the standard had been applied since the lease commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. Subsequently, the lease liability will be reduced by the lease payments made and interest expense will be recorded on the outstanding liability. Also, the right of use asset will be depreciated over the term of the lease. Lease payments will no longer be reflected as operating expenses in the Consolidated Statements of Income. Rather, interest expense related to the liability and depreciation related to the right of use asset have now been reflected as non-operating expenses. The impact of adoption is summarized in Note 3 – Significant Accounting Policies of the Corporation's interim financial statements.

Adoption of IFRIC 23 *Uncertainty over Income Tax Treatments*

IFRIC 23 is effective for years beginning on or after January 1, 2019. IFRIC 23 provides a framework to consider, recognize and measure the accounting impact of tax uncertainties and provides specific guidance in several areas where previously IAS 12 Income Taxes was silent. The Corporation has adopted the interpretation of IFRIC 23 and concluded that it has no impact on previously reported results.

10. CONTROLS AND PROCEDURES

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining internal controls over financial reporting 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, 2019 and has concluded that the design of internal controls over financial reporting is effective. There have been no material changes to the Corporation's internal controls during the 2019 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 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, 2019.

11. RISK FACTORS

The Corporation and its subsidiaries are subject to several 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, 2018.

12. NON-IFRS FINANCIAL MEASURES AND GLOSSARY

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

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

Adjusted Net Earnings: is defined as Net Earnings adjusted for acquisition costs, amortization of intangible assets that are purchased at the time of acquisition, interest accretion on acquisition contingent consideration and non-recurring items. Adjusted Net

Earnings is a performance measure, along with Free Cash Flow less Maintenance Capital Expenditures, which the Corporation uses to assess cash flow available for distribution to shareholders.

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

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

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

Regional One's purchases of operating aircraft within its lease portfolio are capital expenditures and the process used to classify those expenditures as either growth or maintenance is based on the depreciation of that portfolio. Aircraft that are leased to third parties are being consumed over time, therefore reinvestment is necessary to maintain the ability to generate future cash flows at existing levels. This depletion of the remaining green time of these aircraft is represented by depreciation. An amount equal to Regional One's depreciation is included in the Corporation's consolidated Maintenance Capital Expenditures. Only net capital expenditures more than depreciation are classified as Growth Capital Expenditures. If there were no purchases of capital assets during the period by Regional One, Maintenance Capital Expenditures would still be equal to depreciation recorded on its leased assets and Growth Capital Expenditures would be negative, representing the depletion of potential future earnings and cash flows. The aggregate of Maintenance and Growth Capital Expenditures always equals the actual cash spent on capital assets during the period. This ensures that our payout ratio reflects the necessary replacement of Regional One's leased assets.

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

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

13. QUARTERLY INFORMATION

The following summary reflects quarterly results of the Corporation:

	2019 (1)				2018				2017
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	**$ 297,016**	$ 315,737	$ 308,179	$ 313,449	$ 266,027	$ 263,910	$ 253,367	$ 273,145	$ 222,528
EBITDA	**63,826**	69,507	79,174	75,071	54,013	63,315	71,964	70,071	43,348
Net Earnings	**7,488**	18,446	24,162	19,547	8,614	16,920	23,902	25,779	5,559
Basic	**0.24**	0.59	0.77	0.62	0.27	0.55	0.78	0.83	0.18
Diluted	**0.23**	0.57	0.72	0.60	0.27	0.53	0.72	0.77	0.18
Adjusted Net Earnings	**12,724**	24,670	29,550	25,208	12,932	22,260	25,716	23,943	7,808
Basic	**0.41**	0.79	0.94	0.80	0.41	0.72	0.84	0.77	0.25
Diluted	**0.40**	0.75	0.86	0.76	0.40	0.68	0.77	0.72	0.25
Free Cash Flow ("FCF")	**44,246**	59,763	64,219	58,785	40,596	49,745	55,849	51,731	33,789
Basic	**1.41**	1.91	2.04	1.86	1.29	1.61	1.81	1.66	1.09
Diluted	**1.25**	1.66	1.76	1.66	1.15	1.45	1.58	1.46	0.98
FCF less Maintenance Capital Expenditures	**17,722**	33,743	41,103	29,679	9,842	27,748	35,976	21,842	6,380
Basic	**0.57**	1.08	1.31	0.94	0.31	0.90	1.17	0.70	0.21
Diluted	**0.55**	0.98	1.16	0.90	0.31	0.86	1.05	0.66	0.20
Maintenance Capital Expenditures	**26,524**	26,020	23,116	29,106	30,754	21,997	19,873	29,889	27,409
Growth Capital Expenditures	**41,082**	31,578	15,086	301	2,040	15,768	20,771	33,048	58,790

Note 1) On January 1, 2019, the Corporation adopted IFRS 16 using the modified retrospective method. Amounts prior to 2019 are not directly comparable to results after the adoption of IFRS 16.

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 2019	December 31 2018
ASSETS		
CURRENT		
Cash and cash equivalents	$ **39,803**	$ 42,970
Accounts receivable	**232,183**	232,910
Amounts due from customers on construction contracts	**20,803**	13,943
Inventory	**226,484**	216,150
Prepaid expenses and deposits	**35,007**	33,666
Income taxes receivable	**1,717**	641
	555,997	540,280
OTHER ASSETS (Note 6)	**69,914**	74,078
CAPITAL ASSETS	**904,252**	877,691
RIGHT OF USE ASSETS (Note 3)	**113,763**	-
INTANGIBLE ASSETS	**139,972**	144,571
GOODWILL	**319,387**	320,678
	$ **2,103,285**	$ 1,957,298
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ **207,131**	$ 199,256
Deferred revenue	**30,296**	26,546
Amounts due to customers on construction contracts	**10,694**	12,151
Current portion of long-term debt and finance leases (Note 7)	**-**	1,186
Current portion of convertible debentures (Note 8)	**24,976**	-
Current portion of right of use lease liability (Note 3)	**19,607**	-
	292,704	239,139
LONG-TERM DEBT AND FINANCE LEASES (Note 7)	**684,712**	726,325
OTHER LONG-TERM LIABILITIES	**28,539**	29,881
DEFERRED REVENUE	**2,569**	3,606
LONG-TERM RIGHT OF USE LEASE LIABILITY (Note 3)	**98,582**	-
CONVERTIBLE DEBENTURES (Note 8)	**306,443**	253,823
DEFERRED INCOME TAX LIABILITY	**85,075**	87,277
	1,498,624	1,340,051
EQUITY		
SHARE CAPITAL (Note 9)	**593,372**	588,498
CONVERTIBLE DEBENTURES - Equity Component (Note 8)	**14,317**	11,954
CONTRIBUTED SURPLUS	**9,693**	9,693
DEFERRED SHARE PLAN	**14,208**	13,525
RETAINED EARNINGS		
Cumulative Earnings	**395,421**	390,689
Cumulative Dividends	**(441,365)**	(424,178)
Cumulative impact of share cancellation under the NCIB	**(25,053)**	(25,053)
	(70,997)	(58,542)
ACCUMULATED OTHER COMPREHENSIVE INCOME	**44,068**	52,119
	604,661	617,247
	$ **2,103,285**	$ 1,957,298

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		2019		2018
REVENUE				
Aerospace & Aviation	$	**216,744**	$	189,823
Manufacturing		**80,272**		76,204
		297,016		266,027
EXPENSES				
Aerospace & Aviation expenses - excluding depreciation and amortization		**129,292**		115,268
Manufacturing expenses - excluding depreciation and amortization		**56,994**		55,261
General and administrative		**46,904**		41,485
		233,190		212,014
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER (Note 4)		**63,826**		54,013
Depreciation of capital assets		**30,691**		28,462
Amortization of intangible assets		**4,480**		4,754
Finance costs - interest		**13,359**		11,046
Depreciation of right of use assets		**5,398**		-
Interest expense on right of use lease liabilities		**1,161**		-
Acquisition costs		**2,200**		515
Other (Note 5)		**(2,182)**		(1,471)
EARNINGS BEFORE INCOME TAXES		**8,719**		10,707
INCOME TAX EXPENSE (RECOVERY)				
Current		**3,027**		4,475
Deferred		**(1,796)**		(2,382)
		1,231		2,093
NET EARNINGS	$	**7,488**	$	8,614
NET EARNINGS PER SHARE (Note 12)				
Basic	$	**0.24**	$	0.27
Diluted	$	**0.23**	$	0.27

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		2019		2018
NET EARNINGS	$	**7,488**	$	8,614
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that are or may be reclassified to the Statement of Income				
Cumulative translation adjustment, net of tax expense (recovery) of $(8) and $7, respectively.		**(12,232)**		15,354
Net gain (loss) on hedge of net investment in foreign operation, net of tax expense (recovery) of nil and $(769), respectively.		**4,194**		(5,537)
Net loss on hedge of restricted share plan, net of tax recovery of $(3) and nil, respectively.		**(13)**		-
		(8,051)		9,817
COMPREHENSIVE INCOME (LOSS)	$	**(563)**	$	18,431

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
(in thousands of Canadian dollars)

					Retained Earnings				
	Share Capital	Convertible Debentures - Equity Component	Contributed Surplus - Matured Debentures	Deferred Share Plan	Cumulative Earnings	Cumulative Dividends	Cumulative impact of share repurchases under NCIB	Accumulated Other Comprehensive Income (Loss)	**Total**
Balance, January 1, 2018	$ 576,471	$ 14,311	$ 3,478	$ 9,867	$ 319,920	$ (355,718)	$ (12,074)	$ 21,032	**$ 577,287**
Shares issued to acquisition vendors	5,998	-	-	-	-	-	-	-	**5,998**
Convertible debentures									
Converted into shares (Note 9)	97	(7)	-	-	-	-	-	-	**90**
Matured/Redeemed	-	(3,153)	3,153	-	-	-	-	-	**-**
Shares issued under dividend reinvestment plan	1,566	-	-	-	-	-	-	-	**1,566**
Shares issued under First Nations community partnership agreements	35	-	-	-	-	-	-	-	**35**
Deferred share plan vesting	-	-	-	800	-	-	-	-	**800**
Shares cancelled under NCIB	(2,535)	-	-	-	-	-	(1,952)	-	**(4,487)**
Comprehensive income	-	-	-	-	8,614	-	-	9,817	**18,431**
Dividends declared (Note 10)	-	-	-	-	-	(16,733)	-	-	**(16,733)**
Balance, March 31, 2018	**$ 581,632**	**$ 11,151**	**$ 6,631**	**$ 10,667**	**$ 328,534**	**$ (372,451)**	**$ (14,026)**	**$ 30,849**	**$ 582,987**
Balance, December 31, 2018	$ 588,498	$ 11,954	$ 9,693	$ 13,525	$ 390,689	$ (424,178)	$ (25,053)	$ 52,119	**$ 617,247**
Restatement (Note 3)	-	-	-	-	(2,756)	-	-	-	**(2,756)**
Balance, January 1, 2019 (Restated - Note 3)	$ 588,498	$ 11,954	$ 9,693	$ 13,525	$ 387,933	$ (424,178)	$ (25,053)	$ 52,119	**$ 614,491**
Convertible debentures									
Converted into shares (Note 9)	2,352	(134)	-	-	-	-	-	-	**2,218**
Issued (Note 9)	-	2,497	-	-	-	-	-	-	**2,497**
Shares issued under dividend reinvestment plan (Note 9)	1,913	-	-	-	-	-	-	-	**1,913**
Deferred share plan vesting (Note 13)	-	-	-	963	-	-	-	-	**963**
Deferred share plan issuance (Note 9)	280	-	-	(280)	-	-	-	-	**-**
Shares issued under ESPP (Note 9)	329	-	-	-	-	-	-	-	**329**
Comprehensive income	-	-	-	-	7,488	-	-	(8,051)	**(563)**
Dividends declared (Note 10)	-	-	-	-	-	(17,187)	-	-	**(17,187)**
Balance, March 31, 2019	**$ 593,372**	**$ 14,317**	**$ 9,693**	**$ 14,208**	**$ 395,421**	**$ (441,365)**	**$ (25,053)**	**$ 44,068**	**$ 604,661**

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	**2019**	2018
OPERATING ACTIVITIES		
Net earnings for the period	$ **7,488**	$ 8,614
Items not affecting cash:		
Depreciation of capital assets	**30,691**	28,462
Amortization of intangible assets	**4,480**	4,754
Depreciation of right of use assets	**5,398**	-
Non-cash interest	**1,692**	1,651
Long-term debt discount	**263**	(243)
Gain on disposal of capital assets	**(115)**	(104)
Deferred income tax expense	**(1,796)**	(2,382)
Deferred share program share-based vesting	**963**	800
Other (Note 5)	**(2,182)**	(1,471)
	46,882	40,081
Changes in non-cash current and long-term working capital items (Note 15)	**(12,144)**	(24,467)
	34,738	15,614
FINANCING ACTIVITIES		
Proceeds from long-term debt & finance leases, net of issuance costs (Note 7)	**43,346**	121,018
Repayment of long-term debt & finance leases (Note 7)	**(74,100)**	(57,572)
Principal payments on right of use lease liabilities (Note 3)	**(4,280)**	-
Proceeds from issuance of convertible debentures, net of issuance costs (Note 8)	**82,091**	-
Redemption of convertible debentures	**-**	(56,753)
Issuance of shares, net of issuance costs	**2,242**	1,600
Payment for repurchase of shares under NCIB	**-**	(4,487)
Cash dividends (Note 10)	**(17,187)**	(16,733)
	32,112	(12,927)
INVESTING ACTIVITIES		
Purchase of capital assets	**(73,591)**	(40,553)
Proceeds from disposal of capital assets	**6,584**	8,685
Purchase of intangible assets	**(599)**	(644)
Investment in other assets	**(866)**	(3,015)
Cash outflow for acquisitions, net of cash acquired	**-**	(23,912)
Finance lease receivable payments, net of reserves and other	**-**	(1,401)
	(68,472)	(60,840)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(1,622)**	(58,153)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**42,970**	72,315
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(1,545)**	232
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ **39,803**	$ 14,394
Supplementary cash flow information		
Interest paid	$ **7,721**	$ 6,420
Income taxes paid	$ **4,123**	$ 1,061

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 sectors. The business plan of the Corporation is to invest in profitable, well-established companies with strong cash flows operating in niche markets. The Corporation is incorporated in Canada and the address of the registered office is 1067 Sherwin Road, Winnipeg, Manitoba, Canada R3H 0T8.

As at March 31, 2019, the principal operating subsidiaries of the Corporation are Perimeter Aviation LP (including its operating division, Bearskin Airlines), Keewatin Air LP, Calm Air International LP, Custom Helicopters Ltd., Overlanders Manufacturing LP, Water Blast Manufacturing LP, WesTower Communications Ltd., R1 Canada LP, Provincial Aerospace Ltd., Ben Machine Products Company Inc., EIC Aircraft Leasing Ltd., Quest Window Systems Inc., CANLink Aviation Inc. ("Moncton Flight College") and EIIF Management USA Inc. Stainless Fabrication, Inc., Dallas Sailer Enterprises, Inc., Regional One Inc., and Quest USA Inc. are wholly owned subsidiaries of EIIF Management USA Inc. Through the Corporation's subsidiaries, products and services are provided in two business segments: Aerospace & Aviation and Manufacturing.

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

2. BASIS OF PREPARATION

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

In accordance with IFRS, these financial statements do not include all 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, 2018. 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.

These interim condensed consolidated financial statements were approved by the Board of Directors of the Corporation for issue on May 7, 2019.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and methods of computation used in the preparation of these interim condensed consolidated financial statements are the same as those followed in the most recent annual financial statements, except as noted below. Note 3 of the Corporation's 2018 audited financial statements includes a comprehensive listing of the Corporation's significant accounting policies.

Adoption of IFRS 16 *Leases*

The Corporation's adoption of IFRS 16 is effective January 1, 2019. Because of adopting this new standard, many of the Corporation's leases, that were previously accounted for as operating leases, have been accounted for by recognizing a right of use asset and a right of use lease liability on the balance sheet. The Corporation adopted the new standard using the modified retrospective method. Under this method, the right of use lease liabilities have been measured by discounting the remaining lease payments using the incremental borrowing rate. The Corporation chose on a lease-by-lease basis, to measure the right of use asset at either the carrying amount of the lease liability on transition date or its carrying amount as if the standard had been applied since the lease commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. Subsequently, the lease liability will be reduced by the lease payments made and interest expense will be recorded on the outstanding liability. Also, the right of use asset will be depreciated over the term of the lease. Lease payments will no longer be reflected as operating expenses in the Consolidated Statements of Income. Rather, interest expense related to the liability and depreciation related to the right of use asset have now been reflected as non-operating expenses.

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

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

					Three Months Ended March 31, 2019
Net Book Value	January 1, 2019 Opening	Additions	Disposals	Depreciation	Exchange Differences	Ending
Land	$ 21,470	$ -	$ -	$ (311)	$ -	$ 21,159
Building	65,325	-	-	(2,608)	(562)	62,155
Aircraft	25,878	-	-	(1,848)	-	24,030
Equipment	1,412	-	-	(83)	-	1,329
Other	5,504	138	-	(548)	(4)	5,090
Total	$ 119,589	$ 138	$ -	$ (5,398)	$ (566)	$ 113,763

Right of Use Lease Liability	Three Months Ended March 31, 2019
Opening balance on transition, January 1, 2019	$ 122,906
Additions to right of use lease liabilities	138
Principal payments on right of use lease liabilities	(4,280)
Exchange differences	(575)
Closing balance, March 31, 2019	$ 118,189

Right of Use Lease Liability - Maturity Analysis	January 1, 2019
Less than 1 year	$ 27,159
Between 1 year and 5 years	75,253
More than 5 years	48,871
Total operating lease commitments as at December 31, 2018	151,283
less: low value, variable, and short term leases	(5,160)
Total undiscounted lease liability commitment as at December 31, 2018	146,123
less: impact of discounting at weighted average incremental borrowing rate	(26,098)
add: finance leases	2,881
Total Right of Use Lease Liability as at January 1, 2019	$ 122,906
Of which are:	
Current	$ 20,050
Long-Term	$ 102,856

The change in accounting policy affected the following items in the balance sheet on January 1, 2019:

- Property, plant and equipment – decrease of $2,815
- Right of use assets – increase of $119,589
- Deferred tax liabilities – decrease of $1,004
- Long term debt (current and long term portion) – decrease of $2,881
- Lease liabilities (current and long term portion) – increase of $122,906

- Intangible assets – decrease of $509
- Cumulative earnings – decrease of $2,756

The Corporation used the following practical expedients when adopting IFRS 16 as permitted under the standard:

- The accounting for operating leases with a remaining lease term of less than 12 months as short-term leases, which results in these expenditures being recorded through operating expenses;
- The exclusion of initial direct costs for the measurement of the right of use asset at the date of initial application;
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- The exclusion of leases for which the underlying asset is of low value.

There were no onerous lease contracts that would have required an adjustment to the right of use assets at the date of initial application. The Corporation has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

Accounting Policy – Leases and Right of Use Assets

The Corporation leases various buildings, land, and equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leases are recognized as a right of use asset and corresponding liability at the date of which the leased asset is available for use by the Corporation.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payment that are based on an index or a rate;
- The exercise price of a purchase or extension option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Variable lease payments that are not based on an index or rate, such as those that are based on usage, have been excluded from the adoption of IFRS 16 and will continue to be recorded as an operating expense. Several of the Corporation's agreements included extensions options and the Corporation reviewed each option and included the extension option in the calculation of the right of use liability when appropriate. If the Corporation exercises an extension option in the future that was not assumed to be exercised on adoption, the Corporation will record a right of use asset and right of use lease liability at that time. The lease agreements do not impose any covenants and leased assets may not be used as security for borrowing purposes. Each lease payment is allocated between the liability and interest expense. The interest cost is charged to the consolidated statement of operations over the lease period to produce a constant rate of interest on the remaining balance of the liability for each period.

Right of use assets are accounted for under IAS 16 Property, Plant and Equipment. Right of use assets have the same accounting policies as directly owned assets, meaning the right of use assets are componentized and depreciated over the lease term, as applicable.

<u>Adoption of IFRIC 23 *Uncertainty over Income Tax Treatments*</u>

IFRIC 23 is effective for years beginning on or after January 1, 2019. IFRIC 23 provides a framework to consider, recognize and measure the accounting impact of tax uncertainties and provides specific guidance in several areas where previously IAS 12 Income Taxes was silent. The Corporation has adopted the interpretation of IFRIC 23 and concluded that it has no impact on previously reported results.

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

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

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

The Corporation's liabilities for contingent consideration associated with the earn out portion of its acquisitions is reassessed each period end after the related acquisition. The carrying value of the liability is based on an estimate of both the amount of the potential payment and probability that the earn out will be paid. In the first quarter, the estimated liability for additional purchase consideration associated with CarteNav was reduced to reflect expected earnings levels during the remaining earn out period. This resulted in a recovery of $2,182 and is included within "Other" of the Statement of Income.

The application of IFRS 16 Leases requires assumptions and estimates in order to determine the value of the right of use assets and the lease liabilities which mainly relate to the incremental rates of borrowing. Judgement must also be applied as to whether renewal options are reasonably certain of being exercised.

6. OTHER ASSETS

The other assets of the Corporation consist of the following:

		March 31 2019		December 31 2018
Long term prepaid expenses and security deposits	$	**1,669**	**$**	1,597
Long term receivables		**11,881**		13,155
Long term holdback receivables		**3,820**		4,609
Equity method investments		**32,195**		30,472
Other investments - Fair value through OCI		**3,759**		3,914
Cross currency basis swap - Fair value through profit and loss		**-**		3,741
Loan to Wasaya		**13,000**		13,000
Loan to NGC		**3,590**		3,590
Total other assets	$	**69,914**	**$**	74,078

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

7. LONG-TERM DEBT

The following summarizes the Corporation's long-term debt and finance leases as at March 31, 2019 and December 31, 2018:

		March 31 2019		December 31 2018
Revolving term facility:				
Canadian dollar amounts drawn	$	175,000	$	229,100
United States dollar amounts drawn (US$383,450 and US$365,100 respectively)		512,404		498,069
Total credit facility debt outstanding, principal value		687,404		727,169
less: unamortized transaction costs		(2,435)		(2,019)
less: unamortized discount on outstanding Banker's Acceptances		(257)		(520)
Net credit facility debt		684,712		724,630
Finance leases		-		2,881
Total net credit facility debt and finance leases		684,712		727,511
less: current portion of finance leases		-		(1,186)
Long-term debt and finance leases	$	684,712	$	726,325

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, 2019.

The Corporation amended its credit facility to obtain more favourable pricing and extend its term during the three months ended March 31, 2019. The credit facility includes improved pricing on both amounts borrowed under the facility and standby charges paid for the unutilized portion of the facility. The maturity of the facility has been extended to May 7, 2023.

Interest expense recorded by the Corporation during the three months ended March 31, 2019 for the long-term debt and finance leases was $8,220 (2018 – $6,055).

Credit Facility

The following is the continuity of long-term debt for the three months ended March 31, 2019:

	Three Months Ended March 31, 2019									
		Opening		Withdrawals		Repayments		Exchange Differences		Ending
Credit facility amounts drawn										
Canadian dollar amounts	$	229,100	$	20,000	$	(74,100)	$	-	$	175,000
United States dollar amounts		498,069		24,018		-		(9,683)		512,404
	$	727,169							$	687,404

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

8. CONVERTIBLE DEBENTURES

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Unsecured Debentures - 2014[1]	EIF.DB.G	March 31, 2021	6.0%	$ 31.70
Unsecured Debentures - 2016	EIF.DB.H	June 30, 2023	5.25%	$ 44.75
Unsecured Debentures - 2017	EIF.DB.I	December 31, 2022	5.25%	$ 51.50
Unsecured Debentures - 2018	EIF.DB.J	June 30, 2025	5.35%	$ 49.00
Unsecured Debentures - 2019	EIF.DB.K	March 31, 2026	5.75%	$ 49.00

Note 1) Subsequent to quarter end, on April 26, 2019, the Corporation redeemed its 7 year 6.0% convertible debentures which were due March 31, 2021 (Note 16).

Summary of the debt component of the convertible debentures:

	2019 Balance, Beginning of Period	Debentures Issued	Accretion Charges	Debentures Converted	Redeemed / Matured	2019 Balance, End of Period
Unsecured - 2014 (Note 16)	$ 27,143	$ -	$ 74	$ (2,241)	$ -	$ 24,976
Unsecured - 2016	65,657	-	161	-	-	65,818
Unsecured - 2017	95,659	-	240	-	-	95,899
Unsecured - 2018	75,251	-	164	-	-	75,415
Unsecured - 2019	-	82,658	7	-	-	82,665
						344,773
less: unamortized transaction costs						(13,354)
Convertible Debentures - Debt Component, end of period						$ 331,419
less: current portion						(24,976)
Convertible Debentures - Debt Component (long-term portion)						$ 306,443

During the three months ended March 31, 2019, convertible debentures totaling a face value of $2,294 were converted by the holders at various times into 72,363 shares of the Corporation (2018 – $90 face value into 2,445 shares).

On April 26, 2019, the Corporation redeemed its 7 year 6.0% convertible debentures which were to mature on March 31, 2021 (Note 16).

Interest expense recorded during the three months ended March 31, 2019 for the convertible debentures was $4,817 (2018 – $4,658).

March 2019 Unsecured Convertible Debenture Offering

The Corporation issued the $86,250 Seven Year 5.75% Convertible Unsecured Subordinated Debentures on March 26, 2019. These debentures bear interest at the rate of 5.75% per annum payable semi-annually in arrears, in cash, on March 31 and September 30 of each year. The maturity date of the debentures is March 31, 2026. Each debenture is convertible, at the debentureholder's option, into shares of the Corporation at any time prior to the close of business on the day prior to the maturity date at a conversion price of $49.00.

At the Corporation's option, on the maturity date, the debentures (or any portion thereof) shall be convertible into shares at the Corporation's forced conversion price equal to 95% of the weighted average trading price of the shares for the 20 trading days ending five days prior to the maturity date. The debentures are not redeemable until after March 31, 2022. After March 31, 2022, but prior to March 31, 2024, the Corporation has the option to redeem these debentures provided that certain thresholds are met surrounding the weighted average market price of the shares at that time. On and after March 31, 2024, but prior to the maturity date the Corporation has the option to redeem these debentures without any weighted average market price thresholds. If the Corporation elects to redeem the debentures, the debentureholders have the option to convert the debentures into shares of the Corporation at the conversion price.

Transaction costs of $4,159 were incurred in relation to the issuance of these debentures.

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

The March 2019 convertible unsecured debentures have $86,250 of principal outstanding as at March 31, 2019 and mature in March 2026.

Convertible Debentures Equity Component

Since all 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 2019	December 31 2018
Unsecured Debentures - 2014 (Note 16)	$ 1,103	$ 1,237
Unsecured Debentures - 2016	3,261	3,261
Unsecured Debentures - 2017	3,590	3,590
Unsecured Debentures - 2018	3,866	3,866
Unsecured Debentures - 2019	2,497	-
Convertible Debentures - Equity Component, end of period	$ 14,317	$ 11,954

All convertible debentures outstanding at March 31, 2019 represent direct unsecured debt obligations of the Corporation.

9. SHARE CAPITAL

Changes in the shares issued and outstanding during the three months ended March 31, 2019 are as follows:

	Number of Shares	2019 Amount
Share capital, beginning of period	31,316,006	$ 588,498
Issued upon conversion of convertible debentures	72,363	2,352
Issued under dividend reinvestment plan	65,161	1,913
Issued under employee share purchase plan	10,298	329
Issued under deferred share plan	9,263	280
Share capital, end of period	31,473,091	$ 593,372

On February 8, 2019, the Corporation received approval from the TSX for the renewal of its NCIB to purchase up to an aggregate of 1,567,004 shares, representing 5% of the issued and outstanding shares as at January 31, 2019. Purchases of shares pursuant to the renewed NCIB could be made through the facilities of the TSX commencing on February 22, 2019 and ending on February 21, 2020. The maximum number of shares that can be purchased by the Corporation daily is limited to 21,522 shares, other than block purchase exemptions.

During the three months ended March 31, 2019, the Corporation did not make any purchases under its NCIB and therefore still has the full 1,567,004 shares available for repurchase.

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

10. DIVIDENDS DECLARED

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

The amounts and record dates of the dividends during the three months ended March 31, 2019 and the comparative 2018 period are as follows:

			2019 Dividends			2018 Dividends
Month	**Record date**	**Per Share**	**Amount**	**Record date**	**Per Share**	**Amount**
January	January 31, 2019	**$ 0.1825**	**$ 5,719**	January 31, 2018	$ 0.175	$ 5,484
February	February 28, 2019	**0.1825**	**5,724**	February 28, 2018	0.175	5,517
March	March 29, 2019	**0.1825**	**5,744**	March 29, 2018	0.1825	5,732
Total		**$ 0.5475**	**$ 17,187**		$ 0.5325	$ 16,733

After March 31, 2019 and before these interim condensed consolidated financial statements were authorized, the Corporation declared a monthly dividend of $0.1825 per share for April 2019.

11. SEGMENTED AND SUPPLEMENTAL INFORMATION

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

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

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

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

Notes to the Interim Condensed Consolidated Financial Statements

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

	Three Months Ended March 31, 2019			
	Aerospace & Aviation	**Manufacturing**	**Head Office**	**Consolidated**
Revenue	**$ 216,744**	**$ 80,272**	**$ -**	**$ 297,016**
Expenses	**159,118**	**67,259**	**6,813**	**233,190**
EBITDA	**57,626**	**13,013**	**(6,813)**	**63,826**
Depreciation of capital assets				**30,691**
Amortization of intangible assets				**4,480**
Finance costs - interest				**13,359**
Depreciation of right of use assets				**5,398**
Interest expense on right of use lease liabilities				**1,161**
Acquisition costs				**2,200**
Other (Note 5)				**(2,182)**
Earnings before income tax				**8,719**
Current income tax expense				**3,027**
Deferred income tax recovery				**(1,796)**
Net Earnings				**$ 7,488**

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

	For the period ended March 31, 2019			
	Aerospace & Aviation	**Manufacturing**	**Head Office[(1)]**	**Consolidated**
Total assets	**$ 1,663,434**	**$ 364,910**	**$ 74,941**	**$ 2,103,285**
Net capital asset additions	**63,000**	**3,965**	**42**	**67,007**

	For the year ended December 31, 2018			
	Aerospace & Aviation	Manufacturing	Head Office[(1)]	Consolidated
Total assets	$ 1,565,964	$ 341,202	$ 50,132	$ 1,957,298
Net capital asset additions, excluding finance leases	131,880	19,931	440	152,251

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.

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

Revenues

The following table provides disaggregated information about revenue from contracts with customers. We believe that disaggregation by type of sale is most appropriate. The purpose of this disclosure is to provide information about the nature of our contracts and about the timing, amount and uncertainties associated with customer contracts.

Revenue Streams		March 31 2019		March 31 2018
Aerospace & Aviation Segment				
Sale of goods - point in time	$	57,852	$	40,455
Sales of services - point in time		157,576		147,634
Sale of goods and services - over time		1,316		1,734
Manufacturing Segment				
Sale of goods - point in time		46,105		43,452
Sale of goods and services - over time		34,167		32,752
Total revenue	$	297,016	$	266,027

12. EARNINGS PER SHARE

Basic Net Earnings per share is calculated by dividing the Net Earnings attributable to owners of the Corporation by the weighted average number of common shares outstanding during the period.

Diluted Net 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 Earnings is adjusted to eliminate the interest expense from the convertible debentures less the tax effect.

The computation for basic and diluted Net Earnings per share for the three months ended March 31, 2019 and comparative period in 2018 are as follows:

Three Months Ended March 31		2019		2018
Net Earnings	$	7,488	$	8,614
Effect of dilutive securities				
Convertible debenture interest		-		-
Diluted Net Earnings	$	7,488	$	8,614
Basic weighted average number of shares		31,363,603		31,382,120
Effect of dilutive securities				
Deferred shares		838,602		790,622
Convertible debentures		-		-
Diluted basis weighted average number of shares		32,202,205		32,172,742
Net Earnings per share:				
Basic	$	0.24	$	0.27
Diluted	$	0.23	$	0.27

13. EMPLOYEE BENEFITS

Deferred Share Plan

During the three months ended March 31, 2019, the Corporation granted deferred shares to certain personnel. The fair value of the deferred shares granted was $510 (2018 - $4,138) 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, 2019, the Corporation recorded compensation expense of $963 for the Corporation's Deferred Share Plan within the general and administrative expenses of head office (2018 - $800).

Employee Share Purchase Plan

Certain employees of the Corporation participate in an Employee Share Purchase Plan ("ESPP"). Under the ESPP, employees make contributions of up to 5% of their base salaries to purchase Corporation shares out of Treasury, and upon the employees remaining employed with the Corporation or its subsidiaries during an 18-month vesting period, they are entitled to receive an additional number of shares ("additional shares") equal to 33.3% of the number of shares they purchased and dividends declared on those additional shares over the vesting period. The cost of the award is recognized in head-office expenses of the Corporation over the 18 month vesting period.

At the decision of the employee, any dividends paid on the additional shares over the vesting period are either paid to the employee upon the shares vesting or shares are purchased using these dividend funds.

During the three months ended March 31, 2019, employees acquired 10,298 shares from Treasury at a weighted average price of $31.92 per share, effective March 18, 2019 for the 2019 program that will vest in 18 months. The grant date fair value of the shares that will be awarded upon the vesting conditions of the plan being attained is estimated at $100 based on the share price and monthly dividend rate as at that time.

Restricted Share Plan

During the three months ended March 31, 2019, the Corporation granted restricted shares to certain personnel. The fair value of the deferred shares granted was $3,506 (2018 - nil) 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, 2019, the Corporation recorded compensation expense of $95 for the Corporation's Deferred Share Plan within the general and administrative expenses of head office (2018 - nil).

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation's activities expose it to a variety of financial risks: market risk (primarily currency risk and interest rate risk), credit risk and liquidity risk. Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary. The following describes the risk management areas that have significantly changed from those described in the audited December 31, 2018 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 $383,450 or $512,404 (December 31, 2018 - US $365,100 or $498,069) 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 $26,350 (December 31, 2018 - US $23,500) 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 $170,550 (December 31, 2018 - US $155,550) 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 three months ended March 31, 2019, 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 can take advantage of lower interest rates. The swap mitigates the risk of changes in the value of the Corporation's US dollar LIBOR borrowings as they will be exchanged for the same Canadian equivalent in 30 days. The swap is designated as a hedge of the underlying debt instrument and no ineffectiveness was recognized. The fair value of the swaps at March 31, 2019 was a loss of $780 (December 31, 2018 - gain of $3,741). At March 31, 2019, the notional value of the swaps outstanding is US $186,500 (December 31, 2018 - US $186,000).

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

Interest Rates

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

The terms of the credit facility allow for the Corporation to choose the base interest rate between Prime, Bankers Acceptances or the London Inter Bank Offer Rate ("LIBOR"). At March 31, 2019:

- US $383,450 (December 31, 2018 – US $365,100) was outstanding under US LIBOR, and
- $175,000 (December 31, 2018 – $229,100) was outstanding under Banker's Acceptances.

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

After the end of the first quarter, the Corporation entered a derivative whereby the Corporation has fixed a $190,000 of credit facility debt for a period of four years.

Other Price Risk

The Corporation's Restricted Share Plan, under which restricted shares were granted for the first time in the first quarter of 2019, is a cash settled plan. Participants are awarded restricted shares and the payment to the participants at the end of the vesting period fluctuates based on the change in the Corporation's share price from the grant date to the vesting date.

To mitigate the income statement impact of a change in the Corporation's share price, the Corporation entered a derivative instrument in the first quarter which fixes the cost of the plan for the Corporation. Any changes in fair value will either be paid to the counterparty or be paid to the Corporation by the counterparty at the vesting date. This derivative fixes the cost to the Corporation and does not impact the variability of the award received by the participant.

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, 2019**	**Quoted prices in an active market Level 1**	**Significant other observable inputs Level 2**	**Significant unobservable inputs Level 3**
Financial Assets				
Other assets - Fair value through OCI	$ 3,759	$ -	$ -	$ 3,759
Financial Liabilities				
Consideration liabilities - Financial liability at fair value through profit and loss	(29,313)	-	-	(29,313)
Other long term liabilities - Cross currency basis swap - Financial liability at fair value through profit and loss	(780)	-	(780)	-
Other long term liabilities - Restricted Share Plan Derivative - Financial liability at fair value through profit and loss	(13)	-	(13)	-
Fair Value Disclosures				
Other assets - Amortized cost	33,960	-	33,960	-
Long term debt - Amortized cost	(684,712)	-	-	(687,404)
Convertible debt - Amortized cost	(331,419)	(353,393)	-	-

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

Recurring fair value measurements	Carrying Value December 31, 2018	Fair Value: Quoted prices in an active market Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Financial Assets				
Other long term assets - Cross currency basis swap - Financial asset at fair value through profit and loss	$ 3,741	$ -	$ 3,741	$ -
Other assets - Fair value through OCI	3,914	-	-	3,914
Financial Liabilities				
Consideration liabilities - Financial liability at fair value through profit and loss	(31,173)	-	-	(31,173)
Fair Value Disclosures				
Other assets - Amortized cost	35,951	-	35,951	-
Long term debt - Amortized cost	(724,630)	-	-	(727,169)
Convertible debt - Amortized cost	(253,823)	(269,332)	-	-

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

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

Consideration Liability Summary For the periods ended	**March 31 2019**	December 31 2018
Opening	**$ 31,173**	$ 17,410
Accretion	**322**	2,569
Settled during the period	**-**	(108)
Change in estimate (Note 5)	**(2,182)**	(4,616)
Acquisition of Moncton Flight College	**-**	15,902
Acquisition of Wings Over Kississing	**-**	16
Ending	**$ 29,313**	$ 31,173

The earn out liability recorded as part of the acquisitions are included in Other Long-Term Liabilities in the Statement of Financial Position except for the earn out for Quest, as it is expected to be paid within 12 months and is recorded within Accounts Payable and Accrued Liabilities. The remaining consideration liabilities, primarily consisting of estimated working capital settlements, are recorded within Accounts Payable and Accrued Expenses in the Statement of Financial Position. The fair value of each earn out liability is determined at the time of the acquisition and uses several estimates. At the end of each reporting period, the Corporation reviews these estimates for reasonableness and makes any required adjustments to the carrying value of the liability.

Included in the $29,313 above are the earn out liabilities for Quest and Moncton Flight College and an estimated working capital settlement for Wings Over Kississing.

Financial Instrument Fair Value Disclosures

The fair values of cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued expenses approximate their carrying values due to their short term nature.

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

As at March 31, 2019, 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 4.00%. 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, 2019, management estimated the fair value of the convertible debentures based on trading values. The estimated fair value of its convertible debentures is $353,393 (December 31, 2018 - $269,332) with a carrying value of $331,419 (December 31, 2018 - $253,823).

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

15. CHANGES IN WORKING CAPITAL ITEMS

The changes in non-cash operating working capital items during the three months ended March 31, 2019 and the comparative period in 2018 are as follows:

Three Months Ended March 31		**2019**		2018
Accounts receivable, including long-term portion	**$**	**141**	$	(4,058)
Amounts due from customers on construction contracts		**(6,893)**		(4,446)
Inventory		**(13,061)**		(5,755)
Prepaid expenses and deposits, including long-term portion		**(1,575)**		(1,621)
Accounts payable and accrued expenses		**8,916**		(7,230)
Income taxes receivable/payable		**(1,123)**		3,415
Deferred revenue, including long-term portion		**2,716**		(702)
Amounts due to customers on construction contracts		**(1,265)**		(4,070)
Net change in working capital items	**$**	**(12,144)**	$	(24,467)

16. SUBSEQUENT EVENTS

Early Redemption of Convertible Debentures

On April 26, 2019, the Corporation exercised its right to call its 7 year 6.00% convertible debentures which were due on March 31, 2021. The redemption of the debentures was completed with cash on hand from the Corporation's issuance of its March 2019 5.75% convertible debenture offering. At March 31, 2019, $25,566 principal amount was outstanding. Prior to the redemption date, $22,436 principal amount of debentures were converted into 707,749 common shares at a price of $31.70 per share. On April 26, 2019 the remaining outstanding debentures in the principal amount of $3,130 were redeemed by the Corporation.