Exchange
Income
Corporation

First Quarter Report

For the three months ended

March 31, 2020

CEO’s Message

Like all others, including our public service officials and those in private enterprise, both large and small, we find ourselves in uncharted waters. The COVID-19 pandemic has, and will continue to test our people and our business model. It is often said adversity reveals your true character. That could not be more true of our subsidiaries’ exceptional leaders and employees who have all risen to the challenge. Based on the nature of EIC’s operations, we provide essential services and our employees are often front line workers. Whether it’s flying a medical patient from a remote area, transporting food into a community with air access only, monitoring international borders with ISR aircraft, or manufacturing a vast assortment of products for consumers, industry and governments, our products and services are critical. This is a responsibility that we take seriously and will continue to every day to ensure we are in the best position to provide our services.

Before I discuss the impact of, and our response to, the COVID-19 pandemic, I will spend a moment on our first quarter results. As I discussed in our press release on March 18, 2020, where we withdrew our guidance for 2020, the first quarter is made up of two remarkably different periods. Our results for the months of January and February were ahead of our 2020 plan, particularly in our Aerospace & Aviation segment where strong demand, and effective cost control generated seasonally strong results, while the Manufacturing segment was in line with expectation. In mid-March the impact of the pandemic was felt and load factors fell dramatically as remote communities began to isolate themselves to the extent possible and the decline in travel around the globe slowed Regional One’s revenues in both parts sales and leasing. Sales of whole aircraft and engines stopped entirely as transactions scheduled for March were postponed or cancelled.

Revenue for the quarter was essentially flat, up 3% over last year as declines in the Aerospace & Aviation segment were offset by growth in the Manufacturing segment. The Manufacturing segment growth was driven by the additions of LV Control and AWI in late 2019 together with the ramp up of the Quest Texas facility. EBITDA fell by 10% to $57.3 million. Net Earnings fell by $12.8 million to a loss of $5.3 million. This loss was the result of the decline in EBITDA in the last half of March and our decision to write off $6.1 million of intangible assets in our Alberta Operations as they have been hit not only by COVID-19 but by exceptionally low oil prices.

The first order of response to the pandemic was safety. This was critical for our people, for our customers, and for our ability to continue to deliver essential services. Our people are essential workers and are often on the front lines. Many of our airline customers live in isolated communities that are especially vulnerable to a potential outbreak. Furthermore, our ability to continue to deliver essential services would be compromised if our operations needed to be stopped for safety reasons. For all these reasons, our responsibility to ensure safety was paramount to our initial response and is a continued focus of our decision-making process.

Our subsidiaries were proactive and were often the first movers in their industries to implement safety measures. Crisis teams were established and daily online meetings with all our subsidiaries’ presidents resulted in the sharing of best safety practices. We erred on the side of caution when presented with our daily decisions. This enabled EIC to fashion a formidable response to the crisis as EIC companies were out in front responding to these challenges. A few examples will highlight this proactive response.

In aviation, the measures were many, thorough, and implemented quickly. From the very early stages we implemented extra processes and procedures and were quick to access the supply chain for sanitization products, personal protective equipment (“PPE”) and other medical equipment. This started with enhanced pre-board screening of passengers, including a mandatory questionnaire. This process led to passengers being denied boarding to our northern communities, which although was initially met with questions, was later followed by thank you letters. At the same time, enhanced cleaning and fogging of the aircraft and terminals was performed, thanks to the procurement of FDA approved sanitization fluid from Alberta Operations’ president. We installed plexiglass barriers at customer check-ins and provided our employees with face shields manufactured by Ben Machine. In addition, protective masks, gloves, gowns and hand sanitizer have been provided. We acquired temperature guns and now all customers’ temperatures are taken at check-in. After, customers are provided with surgical masks to wear and physical distancing is maintained on the aircraft where possible. We continue to take every reasonable precaution to ensure the safety of our employees and customers. As a result, our regional aviation companies are in an enviable position amongst our peers, often operating at a level of safety greater than large international operators.

In the Manufacturing segment, early measures were taken to limit the potential for the virus to spread. Manufacturing facilities were temporarily closed in order to be properly reconfigured and processes redesigned to maintain physical distance and to compartmentalize employees. We implemented stringent health and safety procedures in terms of hygiene, cleaning and physical distancing, while improving the efficiency of operations under the new working conditions. Additionally, the plants were treated with a chemical/solution that limits the time the virus can live on surfaces. All measures were implemented to provide a safe environment for our employees while enabling them to still provide essential services.

In both of our segments, our approach from the very beginning was to take all necessary measures to limit the possibility of positive COVID-19 cases, but plan as though they are inevitable. This approach was key not only for the safety of our employees, but also to ensure that our operations could continue to provide our essential services even if we had a suspected positive case of COVID-19 at a subsidiary. Immediately, work from home policies were implemented for employees who could work from home, however this is not possible for many of our employees who are often on the front line. Instead, it was necessary to separate and compartmentalize employees to every extent possible. Flight crews were organized into teams that would stay together throughout the pandemic instead of their normal rotation, shifts were changed to prevent cross over of employees, cells were formed to limit employee contact on the floor, access to the building was restricted and lunchrooms were closed. These measures were all designed to limit the potential number of contacts an employee could have.

To date, we are thankful the safety measures implemented have been effective as we have only had a handful of positive COVID-19 cases throughout all our companies. Within our Canadian aviation operations, we have only had one positive COVID-19 case, who was a back-office employee. We have had no front line aviation employees test positive and most importantly, to our knowledge, there have been no positive COVID-19 cases in any of the remote northern communities where we regularly provide service. When we became aware of two positive cases in one of our manufacturing facilities, we immediately shut down that plant, sanitized it thoroughly, and all employees that could have been in contact were required to stay home for 14 days. We will continue to take this measured, conservative approach in order to protect our employees and ensure we can continue to operate safely.

The second order of focus was cost control measures where our action was equally swift. Given the magnitude of the potential challenges and the uncertainty about the near-term future, at our March 24th Board Meeting EIC executives announced they would take a pay cut of 30% and the Board reduced its retainer by 25%. Additionally, all head office employees have taken a pay cut, were put on a workshare program or were laid off. Our subsidiaries moved just as quickly, as executives have taken salary reductions and employees have been laid off in both our segments. The layoffs in our aviation companies have been significant as more than a third of their workforce were impacted. These difficult decisions have been made across our companies to respond to the changing operations as quickly as possible. We have also been persistent in accessing government support programs such as Canadian Emergency Wage Subsidy to rehire as many employees as possible.

The significant decline in the number of flights per day has reduced the number of hours being flown, which in turn has dramatically reduced the required level of Maintenance Capital Expenditures. We have also deferred or cancelled discretionary Growth Capital Expenditures until after operations normalize. The exception to this strategy is investments in programs which will generate new contracted revenue such as the assets for the contract with the Canadian Government Department of Fisheries which was scheduled to begin later this year. I should point out that these expenditures were at normal budgeted levels through most of the first quarter when operations were strong.

A pillar of EIC's strategy since inception has been a conservative balance sheet, specifically limited leverage and access to liquidity. It was precisely this strategy that enabled EIC to acquire Calm Air in the height of the 2008/2009 financial crisis, approximately doubling our size at a time when others were struggling for survival. A strong liquid balance sheet will serve us well in the next number of quarters. Our leverage will increase in terms of the ratio to EBITDA, however we are confident that we have sufficient liquidity to manage through the crisis. While we believe we will not need any covenant relief from our lending syndicate, we are working with them to temporarily adjust our covenant calculations to take into consideration the current world events. Our lenders approached us and have been eager to work with us through this crisis.

All of our operations have been impacted to varying degrees by the current crisis. This has hurt performance and will continue to in the near term. Fortunately, all our businesses, with the exception of Moncton Flight College, were deemed to be essential by their respective governments. As such, we have continued to operate with enhanced safety and cost control measures. Most are expected to rebound quickly when the stay in place/quarantine requirements are relaxed and subsequently lifted.

Within the aviation operations, passenger demand has experienced a dramatic decrease. Passenger demand is down by up to 90% on certain routes. Freight volumes have remained relatively consistent as increased demand for staple goods has offset declines in demand for discretionary purchases. Demand for medevacs is also down during the pandemic, which is somewhat counter intuitive. Fortunately, there has not been an outbreak of COVID-19 cases in the north requiring medevacs, but at the same time discretionary patient transfers for testing and elective surgery have been postponed. The declines in demand are expected to continue until the limitations on travel into and from the north are relaxed and First Nations are able to leave their home communities. We expect that volumes will return to near historical levels fairly rapidly when travel is deemed safe and appropriate. The need for medical appointments, diagnostic testing, and elective surgery has not gone away during the pandemic, but rather has simply been deferred and as such demand should improve much more quickly than traditional southern carriers where less of the travel is essential in nature.

The demand for our scheduled services has been hit hard by the virus outbreak, however it is critical for us to maintain service into these communities as we are often the only transportation for people, medical patients, and cargo, including food and medical supplies into these communities. We have a moral commitment to the communities to continue to fly even as we experience losses from many routes. The federal, provincial and territorial governments have all been quick to respond and realize the essential nature of our aviation operations. Government support has already been received in certain areas to help minimize losses as we continue to provide this essential service. We continue to work with all levels of government to ensure this essential service can be maintained.

Moncton Flight College is a prime example of demonstrating our readiness to resume operations as the government begins to ease restrictions. This was our only business not deemed essential. As a result, we moved to online courses but could not perform the necessary on-wing training. During this time, we also redesigned safety procedures for the on-wing training, including strict adherence to our students staying at the dorms, daily temperature readings, supplying PPE and physical distancing where appropriate. The New Brunswick provincial government announced on April 24th that they would be loosening some of the public health restrictions, including post-secondary education where students require access to campus to fulfill their course requirements. While it will take time to return to full capacity, as a result of our preparation our students were on campus and in the air the next day to continue their pilot education. In fact, we reached out to the government to ensure they could return enough air traffic controllers on duty to meet our need.

Our maritime surveillance work has been steady as most of it is tied to long-term contracts. These operations have continued as normal after we implemented additional safety measures. Not surprisingly, bids and projects have been delayed as governments focus their attention on responding to the virus. Prior to COVID-19, we were actively working with multiple governments for the deployment of the Force Multiplier aircraft. These governments' attention has been turned to managing the pandemic and procuring this aircraft to meet their surveillance needs is temporarily not a priority. The new contract for the Department of Fisheries and Oceans, which was scheduled to start in September, will be delayed as the government's focus is on COVID-19. We will continue to work under the old contract until the new contract begins. Governments around the world are focused on the pandemic and as a result other significant projects we are bidding on have also been delayed. These projects are essential in nature and will still proceed, but will have to wait until the governments have time to focus on items other than the pandemic.

All aspects of Regional One's business have been significantly impacted. Flying operations throughout the world have been slashed resulting in a decrease in demand for parts, engines and aircraft. Customers are only ordering the bare minimum for parts as they attempt to manage their own cash flow. This has resulted in significantly lower parts, engines and aircraft sales for Regional One beginning in March. Leasing agreements are being amended to accommodate individual client circumstances as we work to help our customers. Regional One does benefit from a low customer concentration and diversity of customers both geographically and in type of operation. Therefore, they are still experiencing demand in certain markets. Regional One, unlike most of our other Aerospace & Aviation segment operations, is a low overhead business. As a result, they have been able to manage their cash flow effectively through this time period.

The aviation industry as a whole will take longer to return to normal as compared to our niche aviation operators who are essential to the areas they serve. As such, we expect demand to take longer to return to normal for Regional One than for our other Aerospace & Aviation segment companies. However, the crisis in worldwide aviation will also create significant opportunities for well capitalized companies like EIC. Regional One is starting to see opportunities in the marketplace as some of their competitors are struggling and need to offload assets to generate cash flow. We are standing by patiently and ready to acquire assets when they can be purchased at an appropriate discount. In fact, we have already capitalized on one small opportunity, where we have been able to acquire highly desirable engines on a strong lease at a profitable price. This transaction in and of itself is not material to Regional One and simply serves as an example of what is possible. Regional One has always been a shrewd buyer of assets in aircraft types where it has expertise. The state of the aviation industry means that we will need to be very patient and highly selective in purchasing distressed assets, but if that is done well it will drive profitability for years to come. In the near term, the need for investment in Maintenance Capital Expenditures at Regional One has declined with lease revenue. The aircraft we lease are not being flown at nearly the rate they were in normal times, and as such the capacity being used up does not need to be replaced. Cash outflows, other than for opportunistic buying which may occur in the future, are minimal.

Overall, our Manufacturing segment has not experienced a decrease in demand, although the timing of certain projects have been adjusted. The only area experiencing a significant decline in demand is Alberta Operations, however this won't have a significant impact on EIC as it only accounts for about 1% of our consolidated EBITDA on an annual basis. The biggest impact the COVID-19 crisis is having on our Manufacturing segment is efficiency. As discussed, we have implemented stringent measures to ensure the safety of our employees and to limit the impact of any positive cases. As would be expected, this has reduced our efficiencies across the board. Our team is working diligently to increase our efficiencies and manage capacity to enable us to still meet the demand and schedules of our customers. This is especially true at Quest, where we have not only been impacted in our manufacturing facilities but also on construction sites where we have glaziers installing windows.

To date, our normal supply chain has been holding up well as we have not had any supply issues that have impacted production. We will continue to work with our suppliers and closely monitor the changing landscape so we can meet our customer commitments. As a result of the pandemic, we also needed to create a new supply chain for sanitization products, PPE and other medical equipment. Realizing early on that this equipment was paramount to the safe functioning of our operations for our staff and customers, our team was quick to act, forming a group committed to securing these products. Utilizing the collective strength of all our companies, we have been able to stay in front of the curve for PPE and other safety equipment. Not only have our subsidiaries been procuring product from third parties around the globe, but when supplies were unavailable, they utilized their own engineering, design, and manufacturing capabilities to produce their own.

Fortunately, our operations are essential services and we are able to continue to operate. We are doing everything we can to keep our people and our customers safe. We are managing our costs to preserve cash flow and most importantly to ensure that our employees have a stronger company to come back to as we begin to emerge from our current situation. Our businesses are niche, and often essential and we are confident demand will be there as restrictions are eased. Demand for many of our businesses, such as our aviation flying operations, will turn back on more quickly, while others such as the Regional One business will take a bit longer.

We are also proud of our companies' response to their civic duty in a time of need. They did this on their own, working with EIC, coming together collectively to deliver solutions. There are many, many examples of this across all our companies.

The sudden increase in demand for PPE as a result of the pandemic has left the health care professionals and others with critical shortages. To respond, Ben Machine collaborated with one of its major customers to design a protective face shield that Ben Machine could manufacture in its facility. With their expertise they designed a reusable face shield that exceeded the specs required. We have received orders for over 100,000 face shields from health authorities in multiple provinces. Additionally, we are shipping face shields to our sister companies, both for our front line workers at the airlines and for our glaziers on construction sites.

There has been a shortage of other medical equipment in hospitals. EIC reached out to both the government and health authorities to see where we could help. Our operators redirected their resources to design, engineer, and manufacture various prototypes, including reusable protective face shields and intravenous stands. In addition, our companies are currently developing prototypes of intravenous pumps and a reusable respirator. These products are all well outside of their normal expertise, however our companies were able to react quickly and not only create the prototypes but move into production of the face shields and intravenous stands within a matter of weeks. This response was especially impressive, as leaders from across different entities worked collaboratively and shared their company's relevant expertise to create a singular solution.

Keewatin also moved early in March to secure four patient isolation pods, which are essentially adult incubators. These devices will enable the transfer of a COVID-19 positive patient on one of our medevac aircraft and enable our staff to safely provide medical care in flight. This was especially important for us to procure given the critical nature of our medevac services in northern isolated communities. We are one of only two companies in Canada with this equipment and capability of moving these patients. PAL Aerospace has also designed compartment isolation blankets, which are drape-like devices that can be used to isolate an area of the cabin for medevac, passenger, or cargo aircraft if required.

Our leaders have been presented with an unprecedented situation. Their resolve has been unwavering: You meet the challenge. You make the right decisions at the time. You make some mistakes, but you learn, and you come out better. Our business model, including our diversification, our conservative leverage, and our access to capital affords us the ability to manage through this pandemic. The crisis will pass, but its stages and length are unknown. Again, our business model allows us to deal with this uncertainty. We know the situation is changing by the day and every one of our leaders realizes that. To date they have been proactive, measured and swift in their responses. This will continue as we monitor and adapt to the changing landscape.

I want to thank the team across all of EIC and its subsidiaries. This is a challenging time and many of our people have had to make sacrifices with reduced hours and wages, or difficult work environments. You have exceeded the very high expectations we have of you. Thank you for your commitment to doing the right thing.

Before I close, I want to take a moment to talk about social responsibility. ESG has become a very important topic with investors in the last couple of years and many companies are scrambling to demonstrate their commitment and policies. I believe that this is a very good thing as companies need to form part of the social fabric and do our part to make our society safe, equitable, and sustainable. Social responsibility, however, is not something that suddenly becomes important to a company when people are watching. It needs to be embedded in your core values. A professor who taught ethics when I was completing my Masters degree said something that has stuck with me my entire career when he said, "you are always right when you do the right thing, even if others do not agree with you". Social responsibility has been part of our DNA at EIC since our inception in 2002. It is a core part of our decision making when the decisions are easy and when they are very hard. We have chosen to continue with flying routes that are not profitable because we are a lifeline to the people in those communities. They have been the core of our business for decades and we will stand with them now. We will invest all of our efforts in the design and manufacture of items our governments are looking for, even if this is not our core competency. In times of difficulty we stand shoulder to shoulder together. That is what social responsibility is, and I am glad to say it's who we are at EIC.

Finally, on behalf of our employees and our Board of Directors, I want to say a massive thank you to all of the people who are putting themselves at great risk to look after the rest of us. From medical professionals, to truck drivers, to grocery store employees, you are keeping us safe and fed while putting yourself at risk. Thank you for what you do.

We have built a model at EIC that was designed to be resilient in the face of changing economies. There is no doubt that we have been hit hard with the COVID-19 pandemic, but I am pleased to say that we believe that the same attributes that have made us successful for the last 15 years will get us through this as well. We are well capitalized to get through the short-term with the necessary liquidity to operate while we deal with the pandemic. We have strong subsidiaries, most of which are expected to bounce back quickly when restrictions are lifted off of our economy. I want to thank all of our stakeholders for their support during this very challenging time and I look forward to reporting to you in August when we report our second quarter results. Stay safe.

Mike Pyle
Chief Executive Officer

May 12, 2020

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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, 2020 ("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, 2020, its annual financial statements for the year ended December 31, 2019, and its annual MD&A for the year ended December 31, 2019. The interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements.

FORWARD-LOOKING STATEMENTS

This report and the documents incorporated by reference herein contain forward–looking statements. All statements other than statements of historical fact contained in this report and the documents incorporated by reference herein are forward–looking statements, including, without limitation, statements regarding future financial position, business strategy, completed and potential acquisitions and the potential impact of such completed and/or potential acquisitions on the operations, financial condition, capital resources and business of the Corporation and/or its subsidiaries, the Corporation's policy with respect to the amount and/or frequency of dividends, budgets, litigation, projected costs and plans and objectives of or involving the Corporation or its subsidiaries or any businesses to potentially be acquired by the Corporation. Prospective investors can identify many of these statements by looking for words such as "believes", "expects", "will", "may", "intends", "projects", "anticipates", "plans", "estimates", "continues" and similar words or the negative thereof.

Forward-looking statements are necessarily based upon a number of expectations or assumptions that, while considered reasonable by management at the time the statements are made, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Readers are cautioned to not place undue reliance on forward–looking statements which only speak as to the date they are made. Although management believes that the expectations and assumptions underlying such forward–looking statements are reasonable, there can be no assurance that such expectations or assumptions will prove to be correct. A number of factors could cause actual future results, performance, achievements and developments of the Corporation and/or its subsidiaries to differ materially from anticipated results, performance, achievements and developments expressed or implied by such forward–looking statements. Such factors include, but are not limited to: economic and geopolitical conditions; competition; government funding for First Nations health care; access to capital; market trends and innovation; general uninsured loss; climate; acts of terrorism; pandemic and COVID-19; level and timing of defence spending; government funded defence and security programs; significant contracts and customers; operational performance and growth; laws, regulations and standards; acquisition risk; concentration and diversification risk; maintenance costs; access to parts and relationships with key suppliers; casualty losses; environmental liability risks; dependence on information systems and technology; international operations risks; fluctuations in sales prices of aviation related assets; fluctuations in purchase prices of aviation related acquisitions price volatility; warranty risk; global offset risk; intellectual property risk; availability of future financing; income tax matters; commodity risk; foreign exchange; interest rates; current credit facility and the trust indentures; dividends; unpredictability and volatility of prices of securities; dilution risk; credit risk; reliance on key personnel; employees and labour relations; and conflicts of interest. A further discussion of these risks is included in *Section 11 – Risk Factors* of the MD&A.

The information contained or incorporated by reference in this report identifies additional factors that could affect the operating results and performance of the Corporation and its subsidiaries. Assumptions about the performance of the businesses of the Corporation and its subsidiaries are considered in setting the business plan for the Corporation and its subsidiaries and in setting financial targets. Should one or more of the risks materialize or the assumptions prove incorrect, actual results, performance or achievements of the Corporation and its subsidiaries may vary materially from those described in forward–looking statements.

The forward–looking statements contained herein or contained in a document incorporated by reference herein are expressly qualified in their entirety by this cautionary statement. The forward–looking statements included or incorporated by reference in this report are made as of the date of this report or such other date specified in such statement. Except as required by law, the Corporation disclaims any obligation to update any forward-looking information, estimates or opinions, future events or results or otherwise.

EXCHANGE INCOME CORPORATION

The Corporation is a diversified, acquisition-oriented corporation focused on opportunities in aerospace, aviation, 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 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**, the 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, the equity investment in Air Borealis, 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 the provision of technical services. **Ben Machine** is a manufacturer of precision parts and components primarily used in the aerospace and defence sector. **Stainless** manufactures specialized stainless steel tanks, vessels, and processing equipment. **LV Control** is an electrical and control systems integrator focused on the agricultural material handling segment. The **Alberta Operations** manufactures specialized heavy-duty pressure washing and steam systems, commercial water recycling systems, and custom tanks for the transportation of various products, primarily oil, gasoline, and water. **Overlanders** manufactures precision sheet metal and tubular products.

Management of the Corporation continuously monitors and provides support to 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	2020	per share basic	per share fully diluted	2019	per share basic	per share fully diluted
For the three months ended March 31						
Revenue	$ 306,976			$ 297,016		
EBITDA[(1)]	57,254			63,826		
Net Earnings (Loss)	(5,298)	$ (0.15)	$ (0.15)	7,488	$ 0.24	$ 0.23
Adjusted Net Earnings[(1)]	2,058	0.06	0.06	12,724	0.41	0.40
Adjusted Net Earnings payout ratio[(1)]		950%	950%		134%	137%
Free Cash Flow[(1)]	38,749	1.12	1.01	44,246	1.41	1.25
Free Cash Flow less Maintenance Capital Expenditures[(1)]	2,299	0.07	0.06	17,722	0.57	0.55
Free Cash Flow less Maintenance Capital Expenditures payout ratio[(1)]		814%	950%		96%	100%
Dividends declared	19,801	0.57		17,187	0.5475	
FINANCIAL POSITION	**March 31, 2020**			December 31, 2019		
Working capital	$ 418,989			$ 307,912		
Capital assets	1,015,243			965,018		
Total assets	2,452,519			2,266,557		
Senior debt	894,943			719,559		
Equity	740,254			729,843		
SHARE INFORMATION	**March 31, 2020**			December 31, 2019		
Common shares outstanding	34,768,271			34,703,237		
	March 31, 2020			March 31, 2019		
Weighted average shares outstanding during the period - basic	34,729,360			31,363,603		

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

SIGNIFICANT EVENTS

Normal Course Issuers Bid ("NCIB")

On February 19, 2020, the Corporation renewed its NCIB. Under the renewed NCIB, purchases can be made during the period commencing on February 22, 2020, and ending on February 21, 2021. The Corporation can purchase a maximum of 1,736,542 shares and daily purchases will be limited to 27,411 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. During the uncertain times created by the COVID-19 pandemic, the Corporation has chosen to conservatively manage its liquidity and not make purchases under the NCIB despite the volatility in the Corporation's common shares.

SARS-CoV-2 ("COVID-19")

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, which has resulted in governments around the world imposing severe travel restrictions and social distancing measures to limit the spread of the virus. The travel restrictions have materially impacted the subsidiaries within the Aerospace & Aviation segment and the social distancing requirements have negatively impacted the efficiency of the subsidiaries in the Manufacturing segment. Additional information on the impacts of COVID-19 can be found in *Section 5 – Outlook* of the MD&A.

Government Financial Aid

Governments around the world have announced significant financial support for businesses in light of the COVID-19 pandemic. The Corporation is reviewing all programs in each jurisdiction in which it operates and expects to avail itself of all programs for which it qualifies. Most notably, the Corporation expects several of its subsidiaries to qualify for the Canada Emergency Wage Subsidy.

Moncton Flight College

On March 16, 2020, the government of New Brunswick ordered the shutdown of all non-essential businesses including educational facilities effective March 17, 2020, due to the COVID-19 pandemic. As a result, Moncton Flight College was forced to close its facilities and switch to online only learning, where possible. On April 24, 2020, New Brunswick relaxed its state of emergency allowing Moncton Flight College to resume phased in flight operations on April 25, 2020, with additional precautionary measures in place.

2. RESULTS OF OPERATIONS

The following section analyzes the financial results of the Corporation for the three months ended March 31, 2020, and the comparative 2019 period.

	Three Months Ended March 31, 2020			
	Aerospace & Aviation	Manufacturing	Head Office(2)	Consolidated
Revenue	$ 200,693	$ 106,283	$ -	$ 306,976
Expenses(1)	152,055	92,158	5,509	249,722
EBITDA	48,638	14,125	(5,509)	57,254
Depreciation of capital assets				35,028
Amortization of intangible assets				3,836
Finance costs - interest				13,093
Depreciation of right of use assets				6,341
Interest expense on right of use lease liabilities				1,032
Acquisition costs				15
Impairment loss				6,117
Other				(177)
Loss before income taxes				(8,031)
Current income tax recovery				(218)
Deferred income tax recovery				(2,515)
Net Loss				$ (5,298)
Net Loss per share (basic)				$ (0.15)
Adjusted Net Earnings				$ 2,058
Adjusted Net Earnings per share (basic)				$ 0.06

	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 taxes				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

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 $307.0 million, an increase of $10.0 million or 3% over the comparative period. The Aerospace & Aviation segment revenue decreased $16.0 million and the Manufacturing segment revenue increased $26.0 million.

EBITDA of $57.3 million was generated by the Corporation during the period, a decrease of $6.6 million from the comparative period. The decrease in EBITDA is attributed to the impact of COVID-19, which impacted both the Aerospace & Aviation and Manufacturing segments and is discussed in more detail below.

During the period, the Corporation's head office costs decreased $1.3 million from the prior period largely due to decreased performance-based compensation.

Aerospace & Aviation Segment

Revenue generated by the Aerospace & Aviation segment decreased by $16.0 million to $200.7 million.

Revenue in the Legacy Airlines and Provincial increased by $3.0 million or 2% over the comparative year. Passenger volumes in the airlines were higher than in the comparative period for the first two and a half months of 2020 but were offset by a severe drop in traffic in the second half of March due to travel restrictions imposed by governments to stop the spread of COVID-19. Cargo volumes increased over the prior period and remained relatively strong after the onset of COVID-19 with communities continuing to receive essential goods and supplies. The segment also benefitted from revenue associated with the long-term contract to provide general transportation services to the judicial system within northern Manitoba that commenced in the first quarter of 2019. These improvements were partially offset by reductions in revenue generated by Provincial due to a severe blizzard in Newfoundland and Labrador in January, which resulted in the issuance of a state of emergency for more than a week. This resulted in lost revenue as the airport was shut down and no revenue was earned during this time. In addition, Moncton Flight College was shut down for the second half of March due to government ordered closures of educational facilities in New Brunswick due to the COVID-19 pandemic.

Regional One's revenues for the current period decreased by $19.1 million or 27%. As seen in the table below, this was driven by a decrease in sales and service revenue from the comparative period.

Regional One Revenue	Three Months Ended March 31,		**2020**		2019
Sales and service revenue		$	**34,861**	$	53,158
Lease revenue			**16,015**		16,773
		$	**50,876**	$	69,931

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

Within the sales and service revenue stream, parts revenue is the most predictable and stable from both sales and margin perspectives. The sale of parts generally comprises the biggest portion of this revenue stream and margins on parts sales are relatively consistent. Sales of aircraft engines and entire aircraft vary on a period to period basis, both in volume and in price, but are generally higher dollar transactions. Margins on these transactions vary by the type of aircraft or engine, its amount of available green time, and overall market demand and are typically lower than margins on part sales. Regional One also provides asset management services to clients who own aircraft and who require asset management expertise such as managing return conditions and remarketing. This line of business levers the core competencies of the company and is relatively new, therefore third-party asset management revenues are still comparatively minor but growing. Margins are high because there are few incremental direct costs associated with the sales and capital investment is not required.

Sales and service revenue decreased by 34% from the comparative period. A $3.8 million increase in part sales was more than offset by a $22.1 million decrease in whole aircraft and engine sales. The sales of whole aircraft and engines were materially impacted during the quarter due to COVID-19. There were a number of transactions pending in March that have now either been postponed or cancelled altogether due to the impact of COVID-19. Revenue from part sales, while relatively strong for the quarter, also started experiencing downward pressure in late February which continued into March as airlines started to plan for reduced flying due to COVID-19.

Lease revenue decreased by $0.8 million or 5% in the current period. The leasing portfolio experienced lower utilization of aircraft by customers in the month of March as the impacts of COVID-19 reduced hours flown by lessees. In addition, a customer bankruptcy in the third quarter of 2019 left several large assets not leased which were on lease in the comparative period. Regional One is in the process of redeploying these assets, but the process will take longer than anticipated due to the COVID-19 pandemic.

In the Aerospace & Aviation segment, EBITDA decreased $9.0 million or 16% to $48.6 million.

EBITDA contributed by the Legacy Airlines and Provincial decreased by $3.6 million or 11%. Growth in scheduled services positively impacted EBITDA in comparison to the prior period throughout the first two and a half months of 2020 when air travel restrictions were mandated by the federal government due to the COVID-19 pandemic. Passenger, charter, and medevac volumes were materially impacted immediately after air travel restrictions were implemented, negatively impacting EBITDA and more than offsetting the gains in the first two and a half months. The Corporation quickly adapted its operations to mitigate the impacts of the COVID-19 travel restrictions and implemented cost reduction measures through scheduled frequency reductions, labour rationalization, and other cost reduction strategies. The Corporation provides an essential service to the communities it serves, as the only way that people and goods can get to or from these communities is by air, so it is imperative that the Corporation maintains regular, albeit reduced, scheduled flights to these areas. Completely shutting down our service to these communities is deemed by the Corporation to not be an option. Even with these strategies, continuing service with the passenger levels experienced after the onset of COVID-19 was not profitable and decreased EBITDA. Additionally, enhanced safety protocols have been put in place to ensure the health and safety of customers, employees, and communities resulting in higher costs. These protocols include, but are not limited to, enhanced passenger screening processes, personal protective equipment ("PPE") for front line employees and customers, increased sanitation and deep cleaning of aircraft, other assets and facilities, and the purchase of additional equipment and supplies. The blizzard in Newfoundland and Labrador resulted in more than a week of no revenue generated for Provincial, while still incurring all of its fixed costs in addition to increased costs to get its operations up and running again. And finally, the closure of Moncton Flight College due to COVID-19 restrictions put in place in New Brunswick for the second half of March reduced EBITDA. Reduced fuel costs benefitted EBITDA compared to the prior period.

Regional One's EBITDA decreased $5.4 million or 22% from the prior period. Regional One experienced a significant reduction in engine and aircraft sales during the quarter due to the impacts of COVID-19, resulting in lower EBITDA. In addition, high margin lease revenues decreased from the prior period as discussed above, resulting in decreased EBITDA. EBITDA was also reduced from an increased allowance for doubtful accounts recorded by Regional One due to general uncertainty in the airline industry.

Manufacturing Segment

The Manufacturing segment revenue increased by $26.0 million or 32% to $106.3 million and EBITDA increased by $1.1 million or 9% to $14.1 million over the prior period.

All of the Corporation's subsidiaries within the Manufacturing segment have been deemed essential businesses during the COVID-19 pandemic and have been operating. Social distancing has reduced the efficiency and throughput in the short term despite robust demand. Temporary shutdowns of plants out of an abundance of caution for the safety of employees when appropriate, increased employee screening, and increased frequency of cleaning and sanitization of the facilities are all realities the manufacturing subsidiaries are facing in light of COVID-19 that will impact efficiency for an unknown period of time. Several of the subsidiaries within the segment have heeded the government's call to manufacturers and began producing PPE and medical supplies required by medical professionals during the pandemic.

EBITDA at Quest was higher than the prior period reflecting the acquisition of AWI in the fourth quarter of 2019 and the continued ramp-up of the Texas facility. This was partially offset by the impact of COVID-19 during the first quarter which included a temporary shutdown in the Toronto facility for a week to allow for a thorough cleaning and sanitizing as well as to realign the work groups and processes to enhance social distancing.

The balance of the segment collectively experienced an increase in EBITDA due to the acquisition of LV Control in the fourth quarter of 2019. The contribution of LV Control was partially offset by headwinds experienced by the remaining subsidiaries. In Alberta, many companies have delayed or cancelled their large capital projects due to record low oil prices, which together with the impact of COVID-19 has negatively impacted the EBITDA of the Alberta Operations. As a result, the Corporation has taken a write down of intangible assets against the Alberta Operations as discussed further in *Section 8 – Critical Accounting Estimates and Judgments.* In addition, the impact of inefficiencies caused by COVID-19 had a negative impact on EBITDA across the segment.

NET EARNINGS (LOSS)

Three Months Ended March 31,		2020		2019
Net Earnings (Loss)	$	**(5,298)**	$	7,488
Net Earnings (Loss) per share	$	**(0.15)**	$	0.24

Net Loss was $5.3 million, a decrease of $12.8 million from the prior period. The Corporation generated lower EBITDA compared to the prior period as discussed above, which contributed to the variance to the prior period. In addition, increased depreciation on assets purchased through acquisition and Growth Capital Expenditures resulted in a $4.3 million increase in depreciation expense.

An impairment loss of $6.1 million was recorded at the Corporation's Alberta Operations during the first quarter of 2020 due to the impacts of the current state of the oil and gas industry and COVID-19 (*Section 8 – Critical Accounting Estimates and Judgments)*.

Income tax expense has decreased by $4.0 million. Pre-tax earnings generated in lower rate jurisdictions were more than offset by pre-tax losses in higher rate jurisdictions, resulting in an effective tax recovery rate of 34.0% compared to a tax rate of 14.1% in the prior period.

Net Earnings per share decreased from $0.24 per share in the prior period to a Net Loss per share of $0.15 in the current period. The weighted average shares outstanding increased by 11% over the prior period. 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,		2020		2019
Net Earnings (Loss)	$	**(5,298)**	$	7,488
Acquisition costs, net of tax		**15**		1,644
Amortization of intangible assets, net of tax		**2,800**		3,270
Interest accretion on acquisition contingent consideration		**68**		322
Impairment loss, net of tax		**4,473**		-
Adjusted Net Earnings	$	**2,058**	$	12,724
per share - Basic	$	**0.06**	$	0.41
per share - Diluted	$	**0.06**	$	0.40

Adjusted Net Earnings decreased by $10.7 million from the prior period. Adjusted Net Earnings includes the add-back of acquisition-related costs, which are comprised of $2.8 million in intangible asset amortization and $0.1 million in interest accretion on contingent consideration (all net of tax). In addition, Adjusted Net Earnings included a $4.5 million net of tax add-back of an impairment loss (*Section 8 – Critical Accounting Estimates and Judgments*).

Adjusted Net Earnings per share decreased to $0.06 from $0.41 in the prior period. Adjusted Net Earnings per share was also impacted by the 11% increase in the weighted average number of shares outstanding compared to the prior period. 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)*

Three Months Ended March 31,		2020		2019
Cash flows from operations	**$**	**45,739**	$	34,738
Change in non-cash working capital items		**(1,175)**		12,144
Acquisition costs, net of tax		**15**		1,644
Principal payments on right of use liabilities		**(5,830)**		(4,280)
	$	**38,749**	$	44,246
per share - Basic	**$**	**1.12**	$	1.41
per share - Fully Diluted	**$**	**1.01**	$	1.25

The Free Cash Flow generated by the Corporation during the period was $38.7 million, a decrease of $5.5 million or 12% from the comparative period. The main reasons for this decrease are the $6.6 million decrease in EBITDA and increased principal payments on right of use lease liabilities, partially offset by a decrease in current tax expense. Free Cash Flow is discussed further in *Section 12 – Non-IFRS Financial Measures and Glossary*.

Because of the decrease in Free Cash Flow described above, Free Cash Flow per share decreased by 21% to $1.12. Free Cash Flow per share was also impacted by the 11% increase in the weighted average shares outstanding in the current period compared to the prior period. Details around the increase in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

Changes in non-cash working capital are included in cash flow from operations per the Statement of Cash Flow and are removed in the reconciliation to Free Cash Flow. As a result, it has no impact on the calculation of Free Cash Flow. A discussion of changes in working capital is included in *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 the existing portfolio of subsidiaries is a primary objective of the Corporation.

CAPITAL EXPENDITURES

	Three Months Ended March 31, 2020			
CAPITAL EXPENDITURES	**Aerospace & Aviation**	**Manufacturing**	**Head Office**	**Total**
Maintenance Capital Expenditures	**$ 35,253**	**$ 450**	**$ 747**	**$ 36,450**
Growth Capital Expenditures	**13,480**	**901**	**-**	**14,381**
	$ 48,733	**$ 1,351**	**$ 747**	**$ 50,831**

	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

Maintenance Capital Expenditures increased by 37% over the prior period, which is consistent with the guidance provided with the 2019 year end results. The first quarter of 2019 was impacted by the timing of maintenance events and was lower than normally would be expected in the first quarter of the year. Maintenance Capital Expenditures are generally weighted more towards the first quarter as heavy overhauls and engine maintenance events are scheduled at a time when demand is lowest in the airline subsidiaries. 2020 was no different, with several heavy overhauls and engine maintenance events scheduled for the first quarter. Once the impacts of COVID-19 became apparent, the Corporation began to defer capital spending where appropriate, but this came after more than two months of scheduled maintenance had been completed. The first quarter of 2020 was impacted by a weaker Canadian dollar, which increased Maintenance Capital Expenditures as the majority of these investments are in US dollars.

Aerospace & Aviation Segment

Maintenance Capital Expenditures for the Legacy Airlines and Provincial for the three months ended March 31, 2020, was $24.2 million, an increase of 50% from 2019. The fleet of aircraft operated by the airlines has increased, resulting in increased Maintenance Capital Expenditures to maintain the growing fleet of aircraft. In addition, in 2019 the proportion of Maintenance Capital Expenditures incurred in the first quarter of the year was low, and as a result the current period has a higher number of heavy overhaul and engine maintenance events comparatively. During the three months ended March 31, 2020, the Legacy Airlines and Provincial invested $12.5 million in Growth Capital Expenditures. The vast majority of these expenditures related to the Department of Fisheries and Oceans contract for Provincial and a small increase in capacity in the Legacy Airlines.

Regional One's Maintenance Capital Expenditures for three months ended March 31, 2020, was $11.1 million, an increase of 16% over the prior year because of investments in the lease portfolio during 2019. The increase in the number of assets and the replacement of lower value assets with higher value assets in the last two years increased depreciation expense. Consistent with historical practice, depreciation expense has been used as a proxy for Maintenance Capital Expenditures at Regional One, which approximates the reinvestment required to maintain the earning capacity within the lease portfolio during the first quarter where the aircraft were still flying and the impacts of COVID-19 were just starting to be felt. Historically, the Corporation has used depreciation as a proxy for Maintenance Capital Expenditures because the assets are being depleted as they are being flown by lessees and therefore depreciation reflects the required ongoing investment to maintain Free Cash Flow at current levels. Going forward, the actual expenditures on assets already owned will be used as the costs of maintaining the fleet until such time the impact of COVID-19 wanes and the fleet utilization again warrants the use of depreciation as a proxy for Maintenance Capital Expenditures. All purchases of new assets will be reflected as Growth Capital Expenditures during this time.

The table below provides a summary of the fleet of assets in Regional One's lease portfolio.

Regional One Lease Portfolio	March 31, 2020		December 31, 2019	
	Aircraft	**Engines**	Aircraft	Engines
Lease portfolio	**60** (1)	**50**	58	46

Note 1) The aircraft total above includes 9 airframes that do not have engines and will be leased out in conjunction with engines owned by Aero Engines LLC, the joint venture between the Corporation and SkyWest.

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, it is not expected 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.

The investments made during the first quarter were largely made early in the quarter when operations were normal and were immediately reduced after the impact of COVID-19 became apparent. The Corporation will continue to diligently manage ongoing capital expenditures at Regional One during these uncertain times while at the same time looking for opportunities that may arise from distressed sellers. More information on future capital expenditures is available in *Section 5 – Outlook.*

During the three months ended March 31, 2020, the Corporation invested $5.2 million in excess of Maintenance Capital Expenditures into Regional One. This investment includes both investments in inventory and Growth Capital Expenditures. Investment in inventory was $4.2 million, which is discussed further below in *Investment in Working Capital*. For the three months ended March 31, 2020, Regional One invested $1.0 million in Growth Capital Expenditures, which was primarily the investment in additional assets for its ERJ platform.

Manufacturing Segment

Maintenance Capital Expenditures in the Manufacturing segment primarily relate to the 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.

For the three months ended March 31, 2020, Maintenance Capital Expenditures of $0.5 million were made by the Manufacturing segment, a decrease of $0.3 million from the prior period. The variance over the prior period relates primarily to investments made at Quest's Canadian plant in the prior period.

During the three months ended March 31, 2020, Growth Capital Expenditures of $0.9 million were made by the Manufacturing segment. Most of the investments were made in Quest's new US plant.

INVESTMENT IN WORKING CAPITAL

During the three months ended March 31, 2020, the Corporation generated $1.2 million in cash from working capital. Details of the investment in working capital are included in Note 16 and the Statement of Cash Flows in the Corporation's Consolidated Financial Statements.

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. The investment during the first quarter was $4.2 million, which will support increased part sales in the future. Regional One's past investment in inventory has consistently provided accretive growth from increased parts revenue.

During the first quarter, the Corporation benefitted from significant collection of government receivables. During the fourth quarter of 2019, the Corporation experienced slow payment of receivables from a significant government customer. Due to a cybersecurity breach at the customer, the customer was unable to process payments for an extended period of time, which was rectified during the first quarter of 2020.

In the Manufacturing segment, the Corporation invested working capital to support Quest's US expansion as the plant continues to ramp-up. The Corporation expects to continue to invest working capital in this expansion throughout 2020.

4. DIVIDENDS AND PAYOUT RATIOS

The payment of stable and growing dividends to shareholders is a cornerstone goal of the Corporation which is achieved through the consistent execution of its core strategy of diversification, disciplined investment in its subsidiaries, and disciplined acquisition of companies with defensible and steady cash flows.

Dividends

			2020 Dividends			2019 Dividends
Month	**Record date**	**Per Share**	**Amount**	**Record date**	**Per Share**	**Amount**
January	January 31, 2020	**$ 0.19**	**$ 6,596**	January 31, 2019	$ 0.1825	$ 5,719
February	February 28, 2020	**0.19**	**6,599**	February 28, 2019	0.1825	5,724
March	March 31, 2020	**0.19**	**6,606**	March 29, 2019	0.1825	5,744
Total		**$ 0.57**	**$ 19,801**		$ 0.5475	$ 17,187

Dividends declared for the three months ended March 31, 2020, increased over the comparative period because of the increase in the dividend rate per month in the current period. The Corporation increased the monthly dividend rate per share by $0.0075 during the third quarter of 2019 (4% increase) to $2.28 per annum.

The Corporation's Board of Directors have put in place enhanced processes to review the Corporation's dividend payments during the uncertain times brought on by the COVID-19 pandemic. On a monthly basis, the Board of Directors is reviewing both short and long term cash flow and financial forecasts to assess the Corporation's ability to pay its monthly dividends and fulfill the Corporation's legal requirements with respect to paying dividends. The Corporation is focussed on optimizing cash flow while continuing to pay a dividend to shareholders where it is appropriate to do so.

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 and include acquisition costs and 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. The Adjusted Net Earnings payout ratio is negatively impacted starting in 2019 as a result of the adoption of IFRS 16 and the comparability to ratios before the 2019 period is impacted.

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 in excess of current cash flows. The adoption of IFRS 16 on January 1, 2019, has no impact on this payout ratio and therefore results in 2019 and beyond are directly comparable to prior periods.

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.

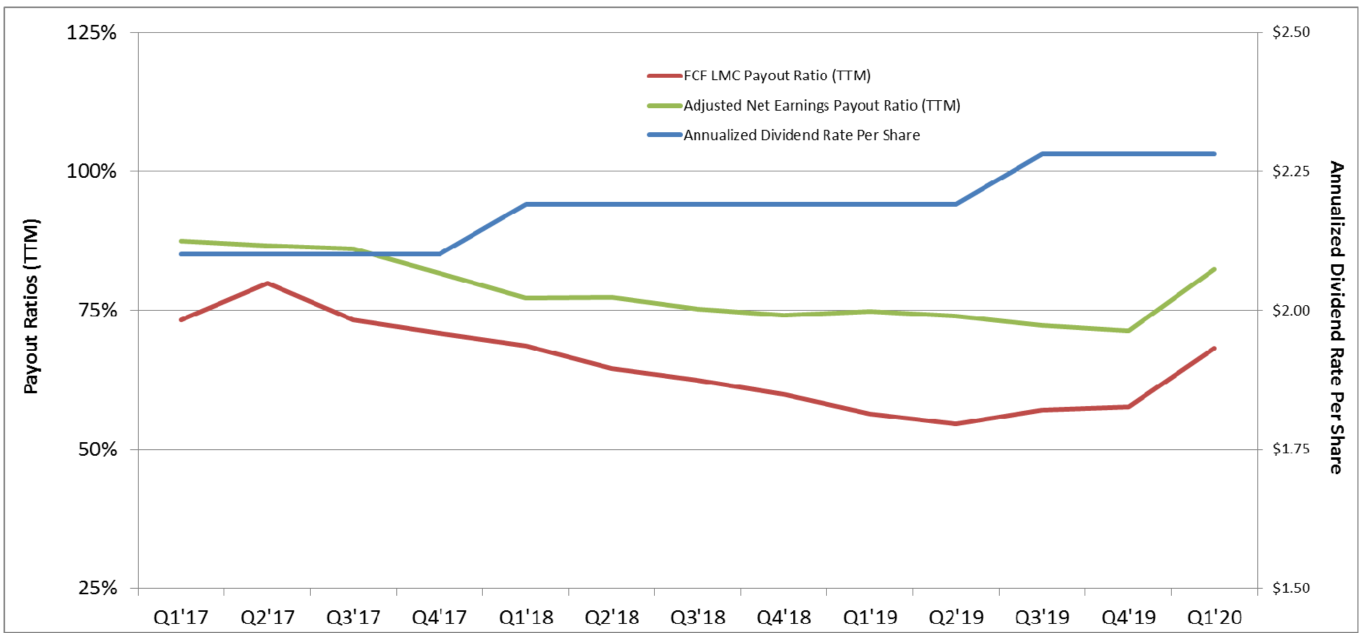
Payout Ratios

Basic per Share Payout Ratios for the Corporation	**2020**		2019	
Periods Ended March 31	**Three Months**	**Trailing Twelve Months**	Three Months	Trailing Twelve Months
Adjusted Net Earnings	***950%***	***82%***	*134%*	*75%*
Free Cash Flow less Maintenance Capital Expenditures	***814%***	***68%***	*96%*	*56%*

The Corporation's payout ratios were both impacted by COVID-19, which resulted in both trailing twelve-month payout ratios increasing at March 31, 2020. The Free Cash Flow less Maintenance Capital Expenditures payout ratio increased to 68% at March 31, 2020, from 56% at March 31, 2019. The Adjusted Net Earnings payout ratio increased over the prior period to 82% from 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-month payout ratio and Adjusted Net Earnings trailing twelve-month payout ratio on the left axis. On the right axis, the annualized dividend rate per share is shown.



5. OUTLOOK

All EIC operations have been impacted to varying degrees as a result of the pandemic. In some areas, demand has fallen dramatically, while in others, strong demand continues. What is consistent throughout our company is that we have changed the way we operate. Our leaders reacted fast to implement safety measures to ensure that we could continue to safely operate. All our operations with the exception of our flight school, which has now reopened, are essential and it's important they are in a position to continue to operate. Additionally, our leaders immediately implemented cost control measures to quickly adapt their organizations to the realities of operating during a pandemic and to position them to emerge from this crisis as strong as possible.

Our air operators were impacted the most by the pandemic. Demand in the north is largely not impacted by overall economic factors, however communities were quick to recognize the potential impact of this virus on their communities and restricted travel immediately. Medical appointments, dental appointments, and other needs are being deferred. Other than essential medical personnel, people from outside the communities are not allowed to enter the communities. As a result, demand for our services are down substantially. Scheduled passenger travel has been impacted the most as travel is down by 90% on certain routes. Likewise, demand for charters and medevacs have fallen while community travel restrictions are in place. The decrease in medevacs is due to a decrease in non-critical medical transfers from the cancelation of elective medical procedures. Demand for freight continues as air transportation is often the only method to get essential goods, such as food and medical supplies, into these communities.

To respond to the reduced demand, our operators immediately implemented cost saving measures. They significantly reduced operating costs, by adjusting the frequency of scheduled flights and significantly reducing our labour costs. It is important to note that our services are essential to these communities so we must continue to fly. It is our moral duty to continue to make sure these communities are safely serviced, therefore we are not afforded the ability to simply stop flying. Our governments have been quick to realize this as well and are working to provide us support to minimize our losses while providing these essential services.

Once COVID-19 restrictions are eased, the deferred need to travel will result in a rebound in demand. Unlike the major carriers, the need for travel has not gone away in the communities we serve, it has just been postponed. We will be ready to respond when demand increases and most importantly to ensure our customer base has the confidence that we are leading the industry in appropriate health and safety measures to protect them and their communities.

The pandemic has had a significant impact on the demand for Regional One's services. As flying has decreased, the need for parts, engines, aircraft, and leases have all decreased significantly. The airline industry as a whole will not rebound at the same pace as our niche northern operators. As such, we expect the demand for Regional One's services to take longer to return. While Regional One's performance will suffer, there are two positive aspects that will help them. First, unlike air operators, Regional One has a much lower fixed cost structure and has been able to adjust their operations quickly to manage their cash flow. Second, throughout Regional One's history, they have shown themselves to be an astute purchaser in the market. This downturn will undoubtedly create opportunities for them to procure assets when the time is right. It's their ability to do this, combined with EIC's financial backing, that will enable them to drive further success in the future.

Our intelligence surveillance and reconnaissance (ISR) operations, largely tied to maritime surveillance, are essential and supported by long-term contracts. So, while we have implemented new safety procedures, our operations continue at a relatively normal cadence. We are preparing for the start of the new Department of Fisheries and Oceans contract, with its expanded scope. The anticipated start date, however, has now been postponed past September for some of the new assets being deployed as the government has turned their attention to managing their response to COVID-19. Similarly, around the world, while surveillance is imperative some new proposals have been delayed. As a result, we expect Force Multiplier projects and other new bids to be pushed out.

Similar to our ISR operations, the demand has continued in our Manufacturing segment. Many of our operators benefit from strong order books and their products are such that demand has continued. The exception is Alberta Operations, which has been impacted by both COVID-19 and the weakness in the oil and gas industry in Western Canada. Our exposure to this market is small, however, at approximately 1% of consolidated EBITDA. Health and safety measures have been implemented across the board at our manufacturing operations to keep our staff safe, while still delivering our essential products. As a result, the main financial impact on our operations are reduced efficiencies. This is especially true for Quest, as they are impacted at multiple plants, as well as their glazing operations on site. Our team continues to look for opportunities to increase efficiencies not only to improve financial performance but also to meet our customers' demand.

We are currently in the first stage of the COVID-19 pandemic. Our leaders have reacted quickly to change our operations to implement safety measures and reduce costs. Fortunately, these safety measures, combined with the fact the businesses are essential, has enabled them to continue to operate. As a result, our overall expectations are to be EBITDA positive and cash flow neutral during this first stage of COVID-19.

When we enter the second phase, meaning restrictions are eased in a meaningful way, our EBITDA and cash flow will increase, as aviation demand in the north will return faster than the airline industry as a whole, given the uniqueness of the market. In this second phase, our operations will still experience challenges, as our companies will continue to operate with additional safety measures throughout their operations, resulting in decreased efficiencies. Regional One's revenue will return slower. There will be challenges. However, our team will continue to be diligent, reacting to changing market dynamics swiftly and with a long-term perspective. Our diversity and strong liquidity afford us the opportunity to manage through this challenge and look for opportunities so that all of our companies can emerge even stronger.

Throughout EIC's history we have always focused on a strong balance sheet. This continued in 2019, as we called a convertible debenture that was in the money, issued a new convertible debenture with better terms, performed an equity offering, and renegotiated our debt facility to increase its size and receive better terms and conditions. These have positioned us well to manage through the current crisis. As at March 31, 2020 we have liquidity of $800 million through cash on hand, our credit facility and accordion feature. This combined with no material cash burn puts us in a very strong liquidity position.

Our key financial covenant for our credit facility is our senior leverage ratio, which is under 2.5 at the end of the quarter and our facility allows for a maximum of 4.0. Our leverage ratio will increase as a result of the anticipated reduction in EBITDA compared to 2019, however we don't expect to require any covenant relief. Regardless, our lending syndicate proactively has been working with us to favourably adjust certain covenants of our credit facility to account for the impacts of the pandemic. This will further strengthen our ability to manage through this crisis, while ensuring we can continue to take advantage of opportunities to deploy capital.

Capital Expenditures

Maintenance Capital Expenditures are necessary to maintain the earning power of our subsidiaries. Maintenance Capital Expenditures have increased in line with the increase scope of our operations over the last number of years. As we have begun to experience a decrease in our flight hours as a result of COVID-19, we will also reduce capital expenditures to match the level of flying. Additionally, we will defer non-essential capital expenditures as we currently have surplus capacity in our aviation operations.

Growth Capital Expenditures that have not been previously committed to have been deferred. The major Growth Capital Expenditures in the second quarter will be for the Department of Fisheries and Oceans contract aircraft and modifications to increase the scope of the contract.

Consistent with historical practice, depreciation expense has been used as a proxy for Maintenance Capital Expenditures at Regional One, which approximates the reinvestment required to maintain the earning capacity within the lease portfolio during the first quarter where the aircraft were still flying and the impacts of COVID-19 were just starting to be felt. The Corporation has used depreciation as a proxy for Maintenance Capital Expenditures because the assets are being depleted as they are being flown by lessees and therefore depreciation reflects the required ongoing investment to maintain Free Cash Flow at current levels. However, as a result of COVID-19, the aircraft are not flying as much and therefore the green time is not being consumed at the same level. As a result, going forward, the actual capital expenditures on assets already owned will be used as the costs of maintaining the fleet until such time as the impact of COVID-19 wanes and the fleet utilization again warrants the use of depreciation as a proxy for Maintenance Capital Expenditures.

6. LIQUIDITY AND CAPITAL RESOURCES

The Corporation's working capital position, Free Cash Flow, and capital resources remain strong and the Corporation has no long-term debt coming due until December 2022. A strong balance sheet, recently enhanced with the Corporation's equity offering during the fourth quarter of 2019, combined with the recent changes to the credit facility and convertible debentures, have increased the Corporation's access to capital to make acquisitions, invest in its operating subsidiaries and provides the ability to weather economic downturns.

The Corporation took several steps to ensure it had the liquidity required during the uncertain economic times created by the COVID-19 pandemic. In a period of worldwide uncertainty, like many other large corporations, EIC made a draw on its credit facility to ensure access to capital should it be required without an imminent need for the cash. The Corporation does not expect a material cash burn and the draw was simply a precautionary measure. This explains the Corporation's abnormally high cash balance at March 31, 2020. In addition, as discussed earlier in the MD&A, the Corporation took several steps to help manage its liquidity during the COVID-19 pandemic. These actions have included layoffs, salary reductions, delays in non-essential capital expenditures, and the Corporation availing itself of all aid programs for which it qualifies.

Our key financial covenant for our credit facility is our senior leverage ratio, which is under 2.5 at the end of the quarter and our facility allows for a maximum of 4.0. Our leverage ratio will increase as a result of the anticipated reduction in EBITDA compared to 2019 due to the impact of COVID-19. The Corporation has been in discussions with members of its lending syndicate since it became evident COVID-19 would have an impact on its operations. The Corporation does not, at this time, expect to require covenant relief but may seek some temporary waivers as a precautionary measure.

At March 31, 2020, the Corporation has liquidity of more than $800 million through cash on hand, its credit facility, and the credit facility accordion feature. This combined with no material cash burn puts the Corporation in a very strong liquidity position.

As at March 31, 2020, the Corporation had a cash position of $118.2 million (December 31, 2019 - $22.1 million) and a net working capital position of $419.0 million (December 31, 2019 - $307.9 million) which represents a current ratio of 2.47 to 1 (December 31, 2019 – 2.10 to 1). Working capital increased as a result of funds drawn on the Corporation's credit facility to hold in cash during these uncertain economic times and the impact of foreign exchange. The Canadian dollar weakened during the first quarter, increasing in the translated net working capital of the Corporation's US subsidiaries.

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 in the Statement of Income. The target leverage range, based on senior debt to EBITDA normalized for the full year contribution of recent acquisitions, is between 1.5 and 2.5, which the Corporation is currently within. Under the Corporation's credit facility, the leverage covenant with its lenders allows for a senior leverage ratio maximum of 4.0, including an adjustment for subsidiaries acquired partway through a given year.

Overview of Capital Structure

The Corporation's capital structure is summarized below.

	March 31 2020	December 31 2019
Total senior debt outstanding (principal value)	$ 898,256	$ 723,049
Convertible debentures outstanding (par value)	335,725	335,725
Common shares	712,083	709,546
Total capital	$ 1,946,064	$ 1,768,320

Credit facility

The size of the Corporation's credit facility as at March 31, 2020, is approximately $1.3 billion, with $1.1 billion allocated to the Corporation's Canadian head office and US $150 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, 2020, the Corporation had drawn $271.9 million and US $441.5 million (December 31, 2019 - $211.9 million and US $393.6 million).

The Corporation's long-term debt balance was impacted most significantly during the quarter by two items. First, as discussed above, the Corporation made a draw on its facility as a precautionary measure due to the COVID-19 pandemic without an imminent use for the funds. The Corporation has $118.2 million in cash at March 31, 2020 as a result of this draw. Second, the weakening of the Canadian dollar throughout the quarter increased the Canadian converted amount of its US dollar long-term debt outstanding. Other actions that impacted long-term debt during the quarter were draws on its credit facility to fund Growth Capital Expenditures associated with the Department of Fisheries and Oceans contract and an earn out payment to the vendors of Moncton Flight College.

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, 2020, US $225.3 million (December 31, 2019 – US $187.8 million) of the Corporation's US denominated borrowings are hedged with these swaps.

Subsequent to March 31, 2020, the Corporation amended its interest rate swap with members of its lending syndicate. The amendment reduced the effective fixed interest rate under the swap and extended the maturity of the swap to May 15, 2024.

Convertible Debentures

The following summarizes the convertible debentures outstanding as at March 31, 2020, and changes in the amounts of convertible debentures outstanding during the three months ended March 31, 2020:

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
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 - 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	$ 335,725	$ -	$ -	$ -	$ 335,725

Share Capital

The following summarizes the changes in the shares outstanding of the Corporation during the three months ended March 31, 2020:

	Date issued	Number of shares
Shares outstanding, beginning of period		34,703,237
Issued under dividend reinvestment plan (DRIP)	various	48,271
Issued under employee share purchase plan	various	16,763
Shares outstanding, end of period		34,768,271

The Corporation issued 48,271 shares under its dividend reinvestment plan during the period and received $1.9 million for those shares in accordance with the dividend reinvestment plan.

The Corporation issued 16,763 shares under its Employee Share Purchase Plan during the period and received $0.6 million for those shares in accordance with the Employee Share Purchase Plan.

The weighted average shares outstanding during the three months ended March 31, 2020, increased by 11% compared to the prior period. The increase is attributable to debentures that have converted into shares during the first half of 2019, shares issued for the Corporation's October 2019 common share offering, and shares issued in connection with the purchase of LV Control and AWI. The increase is partially offset by shares repurchased and cancelled under the Corporation's NCIB throughout 2019.

Normal Course Issuers Bid

On February 19, 2020, the Corporation received approval from the TSX for the renewal of its NCIB to purchase up to an aggregate of 1,736,542 shares, representing 5% of the issued and outstanding shares as at February 14, 2020. Purchases of shares pursuant to the renewed NCIB can be made through the facilities of the TSX during the period commencing on February 22, 2020, and ending on February 21, 2021. The maximum number of shares that can be purchased by the Corporation daily is limited to 27,411 shares, other than block purchase exemptions.

During the three months ended March 31, 2020, the Corporation did not make any purchases under its NCIB and therefore still has the full 1,736,542 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. During the uncertain times created by the COVID-19 pandemic, the Corporation has chosen to conservatively manage its liquidity and not make purchases under the NCIB despite the volatility in the Corporation's common shares.

7. RELATED PARTY TRANSACTIONS

The nature of related party transactions that the Corporation entered during the three months ended March 31, 2020, are consistent with those described in the Corporation's MD&A for the year ended December 31, 2019, except as noted below.

The Corporation's head offices relocated in December 2019 to premises not controlled by a director of the Corporation. Therefore, there will be no related party lease costs for the head office of the Corporation in 2020.

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, 2019, other than as noted below.

Contingent Consideration

The Corporation's liabilities for contingent consideration associated with the earn out portion of its acquisitions are 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 Moncton Flight College was reduced to reflect expected earnings levels during the remaining earn out period. This resulted in a recovery of $0.2 million and is included within "Other" of the Statement of Income.

Impairment Considerations on Long-lived Assets

Goodwill

An assessment of goodwill was performed due to the outbreak of COVID-19 at period end. The Corporation updated the forecasted future cash flows for its two operating segments based on available information to determine recoverable amounts and no impairment was recorded.

Intangible Assets

In light of the COVID-19 pandemic and the current state of the oil and gas industry, management used a discounted cash flow model to assess the recoverability of the indefinite lived intangible assets at the Corporation's subsidiaries exposed to this sector. The unprecedented drop in oil prices exacerbated by a decrease in demand due to the COVID-19 pandemic has caused many companies to delay or cancel large capital projects. Therefore, the demand for products provided by the Corporation's Alberta Operations is expected to be depressed for an extended period of time. As a result of the assessment, the Corporation recorded a $6.1 million impairment charge against intangible assets at March 31, 2020.

An assessment of the recoverable amount of the Corporation's other cash generating units ("CGUs") compared to their carrying values was performed based on updated cash flow projections in light of the current COVID-19 pandemic. The cash flows are management's best projections based on current and anticipated market conditions covering a five-year period. However, these projections are inherently uncertain due to the evolving impact of the COVID-19 pandemic which has only recently begun to unfold. It is possible that long term underperformance of these projections could occur if the negative impacts of COVID-19 continue to prevail, with the duration and impact greater than currently anticipated. Reasonably possible changes in projections have been considered in this evaluation, but they do not indicate that the carrying amounts exceed recoverable amounts.

The COVID-19 pandemic and its impact on the economy is constantly evolving and presents many variables and contingencies for modeling. In future periods, the effects of the pandemic may have material impacts on the Corporation's anticipated revenue levels and the recoverable amount of the CGUs.

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, 2020, that are discussed and analyzed in this report are described in detail in Note 3 of the Corporation's 2019 annual consolidated financial statements and Note 3 of the Corporation's interim condensed consolidated financial statements for the three months ended March 31, 2020.

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, 2020, and has concluded that the design of internal controls over financial reporting is effective.

LV Control was acquired on October 4, 2019, and AWI was acquired on October 17, 2019. In accordance with section 3.3(1)(b) of National Instrument 52-109, management has limited the scope of its design of internal controls over financial reporting to exclude the controls at LV Control and AWI. These entities had revenue of $18.7 million included in the consolidated results of the Corporation for the period ended March 31, 2020. As at March 31, 2020, these entities had current assets of $34.5 million, non-current assets of $79.0 million, current liabilities of $21.7 million, and non-current liabilities of $12.9 million.

There have been no material changes to the Corporation's internal controls during the 2020 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, 2020.

11. RISK FACTORS

The Corporation and its subsidiaries are subject to several business risks. These risks relate to the structure of the Corporation and 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, 2019 except as noted below.

In late 2019, a novel strain of coronavirus known as COVID-19 emerged in China, further spreading around the world, disrupting economic, social and political landscapes. COVID-19 was declared a worldwide pandemic by the World Health Organization on March 11, 2020. Both the duration of this pandemic and the continued extent of its impact are currently unknown on both the world at large and the Corporation's operations. Several restrictive measures have been taken by governments and organizations around the world in an effort to mitigate the spread and slow the speed of transmission of COVID-19. These measures have had a direct impact on the Corporation by disrupting or suspending certain of its operations. Due to the speed and potential severity of this risk, rather than having one leader in charge of managing the COVID-19 risk to the Corporation, the Corporation has formed a team comprised of head office and subsidiary executives who meet (virtually, rather than in-person, to the greatest extent possible) daily to assess this risk, its impacts on operations and the Corporation's risk mitigation strategies. One of the responsibilities of the Corporation's COVID-19 team is to ensure that the best COVID-19 risk mitigation strategies, methods, procedures and practices developed by the Corporation or any subsidiary are shared with all of the other subsidiaries as quickly and efficiently as possible.

Access to Capital & Availability of Future Financing

The recent outbreak of the COVID-19 pandemic has severely and negatively impacted capital markets, which may impact the ability of the Corporation to raise funds through either new equity or debt financing at least in the short-term.

Pandemic and COVID-19

The spread of contagious disease could have a significant impact on passenger demand for air travel, cause shortages of employees to staff the Corporation's facilities, interrupt supplies from third parties upon which the Corporation relies and ultimately, its ability to continue full operations. The spread of contagious disease, depending on the severity, could also impact supply chains around the world and could negatively impact the Corporation's ability to access inputs required for its operations. The Corporation can never predict the likelihood of a pandemic event occurring nor the impact it could have on operations. A pandemic could have a significant impact on the Corporation's business, results from operations and financial condition.

With the recent outbreak of the COVID-19 pandemic, the Corporation, much like the rest of the world, continues to enter uncharted territory. Both the duration of this pandemic and the extent of its impact are currently unknown on both the world at large and the Corporation's operations. While management of the Corporation believes that it is well capitalized with access to capital, the situation continues to bring about uncertainty, which can continue to affect its ability to sustain its economic position. This uncertainty has already materialized with falling global GDP growth, causing a global financial market shock which has directly impacted the Corporation's share price. Additionally, restrictive measures to slow the spread of the COVID-19 outbreak that have been implemented or recommended by various federal, provincial, state and local governmental authorities have had and may continue to have a direct impact on the Corporation by disrupting or suspending certain of its operations. There is no guarantee that the Corporation will have adequate reserves in place should the COVID-19 pandemic continue for an extended period of time, nor what continued impact the situation will have on the Corporation's market position, its ability to raise capital, or its ongoing operations. A mitigating factor for the Corporation is that the COVID-19 pandemic could increase the demand for the Corporation's medical travel services provided by its aviation subsidiaries.

Operational Performance and Growth

The Corporation's principal source of funds is cash generated from its subsidiaries and other investments. It is expected that funds from these sources will provide it with sufficient liquidity and capital resources to meet its current and future financial obligations at existing performance levels taking into account cost reduction measures the Corporation has implemented in connection with the recent COVID-19 pandemic. However, should the COVID-19 pandemic continue for an extended period of time, there is no guarantee of the Corporation's continued ability to meet these financial obligations from its internal sources. In the event that additional capital and operating expenditures depend on increased cash flow or additional financing in the future, lack of those funds could limit or delay the future growth of the subsidiaries and their cash flow. Furthermore, the underperformance of a material subsidiary and/or combination thereof could have an adverse effect by also limiting or delaying future growth of the subsidiaries and their cash flow, while also potentially impacting the amount of cash available for dividends to the shareholders.

Laws, Regulations, and Standards

The current COVID-19 pandemic has resulted in varying level of rules, restrictions and emergency response measures across multiple jurisdictions and industries in which the Corporation and its subsidiaries operate. Compliance with these rules, restrictions and measures by the Corporation and its subsidiaries and the Corporation’s customers and suppliers has created a disruption in certain of the Corporation’s operations and in the demand for certain of the Corporation’s products and services.

While management believes that affected subsidiaries are currently in compliance with all applicable government standards and regulations, including those imposed as a result of the COVID-19 pandemic, there can be no assurance that the subsidiaries will be able to continue to do so. A failure to comply with applicable standards and regulations could result in the revocation of the operating certificate of the applicable subsidiary and a temporary or permanent cessation of flight operations, the inability to sell its products and carry on business in the case of Regional One or, the inability to continue manufacturing operations and the provision of related services in the case of the Corporation’s manufacturing subsidiaries.

Unpredictability and Volatility of Prices of Securities

The market price of the common shares and convertible debentures could be subject to significant fluctuations in response to variations in operating results, monthly dividends, and other factors. In addition, industry specific fluctuations in the stock market may adversely affect the market price of common shares and convertible debentures regardless of the operating performance of the Corporation. There can be no assurance of the price at which the common shares and convertible debentures will trade. The annual dividend yield on the common shares as compared to the annual yield on other financial instruments may also influence the price of common shares in the public trading markets. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. Recently, the outbreak of the COVID-19 pandemic has resulted in substantially increased volatility in the public trading markets. These broad fluctuations have already, and may continue to, adversely affect the market price of the common shares and convertible debentures.

Reliance on Key Personnel

The success of the Corporation is dependent on a number of key senior employees both at the Corporation’s head office level and at the subsidiary level. The loss of any one of these key employees would impair the Corporation’s ability to operate at its optimum level of performance and could have an adverse effect on the Corporation’s business, results from operations and financial condition. While the Corporation is taking precautions and maintains robust succession plans, the recent outbreak of the COVID-19 pandemic has the ability to impact key personnel and their ability to continue to work, whether it be through contracting the illness itself or by observing mandatory emergency response measures that would hinder their ability to work at full capacity. There can be no assurance that the Corporation will be able to retain its existing senior management, attract additional qualified executives or adequately fill new senior management positions or vacancies created by expansion, turnover or pandemic related impacts at either its head office or a subsidiary.

Employees and Labour Relations

The restrictive measures to slow the spread of the COVID-19 outbreak that have been implemented or recommended by various federal, provincial, state and local governmental authorities could have a direct impact these employees’ continued ability to work, which could further impact the Corporation by disrupting or suspending certain of its operations.

There can be no assurance that there will not be a labour conflict, including one resulting from the current COVID-19 pandemic, that could lead to an interruption or stoppage in the Corporation’s service or otherwise adversely affect the ability of the Corporation to conduct its operations, all of which could have a material adverse effect on its business, results from operations and financial condition.

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. For the first quarter of 2020, and in the comparative periods, 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 the payout ratio reflects the necessary replacement of Regional One's leased assets.

Historically, the Corporation has used depreciation as a proxy for Maintenance Capital Expenditures because the assets are being depleted as they are being flown by lessees and therefore depreciation reflects the required ongoing investment to maintain Free Cash Flow at current levels. Going forward, the actual expenditures on assets already owned will be used as the costs of maintaining the fleet until such time the impact of COVID-19 wanes and the fleet utilization again warrants the use of depreciation as a proxy for Maintenance Capital Expenditures. All purchases of new assets will be reflected as Growth Capital Expenditures during this time.

Purchases of inventory are not reflected in either Growth or Maintenance Capital Expenditures. Aircraft purchased for part out or resale 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:

	2020				2019 (1)				2018
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	$ **306,976**	$ 363,287	$ 355,164	$ 325,907	$ 297,016	$ 315,737	$ 308,179	$ 313,449	$ 266,027
EBITDA	**57,254**	88,748	89,002	87,237	63,826	69,507	79,174	75,071	54,013
Net Earnings	**(5,298)**	25,283	28,990	21,875	7,488	18,446	24,162	19,547	8,614
Basic	**(0.15)**	0.74	0.90	0.68	0.24	0.59	0.77	0.62	0.27
Diluted	**(0.15)**	0.71	0.83	0.65	0.23	0.57	0.72	0.60	0.27
Adjusted Net Earnings	**2,058**	29,757	33,073	26,573	12,724	24,670	29,550	25,208	12,932
Basic	**0.06**	0.88	1.03	0.83	0.41	0.79	0.94	0.80	0.41
Diluted	**0.06**	0.81	0.93	0.78	0.40	0.75	0.86	0.76	0.40
Free Cash Flow ("FCF")	**38,749**	68,631	67,166	65,729	44,246	59,763	64,219	58,785	40,596
Basic	**1.12**	2.02	2.08	2.05	1.41	1.91	2.04	1.86	1.29
Diluted	**1.01**	1.75	1.78	1.75	1.25	1.66	1.76	1.66	1.15
FCF less Maintenance Capital Expenditures	**2,299**	36,935	36,885	34,533	17,722	33,743	41,103	29,679	9,842
Basic	**0.07**	1.09	1.14	1.08	0.57	1.08	1.31	0.94	0.31
Diluted	**0.06**	0.99	1.03	0.97	0.55	0.98	1.16	0.90	0.31
Maintenance Capital Expenditures	**36,450**	31,696	30,281	31,196	26,524	26,020	23,116	29,106	30,754
Growth Capital Expenditures	**14,381**	29,790	32,060	16,392	41,082	31,578	15,086	301	2,040

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 2020	December 31 2019
ASSETS		
CURRENT		
Cash and cash equivalents	$ **118,220**	$ 22,055
Accounts receivable	**267,223**	281,856
Amounts due from customers on construction contracts	**31,111**	26,698
Inventory	**249,408**	224,876
Prepaid expenses and deposits	**30,812**	31,185
Income taxes receivable	**7,114**	1,569
	703,888	588,239
OTHER ASSETS (Note 6)	**101,665**	80,201
CAPITAL ASSETS	**1,015,243**	965,018
RIGHT OF USE ASSETS	**106,761**	108,677
INTANGIBLE ASSETS	**158,193**	164,658
GOODWILL	**366,769**	359,764
	$ **2,452,519**	$ 2,266,557
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ **220,326**	$ 210,496
Deferred revenue	**29,510**	31,704
Amounts due to customers on construction contracts	**11,114**	14,847
Current portion of right of use lease liability	**23,949**	23,280
	284,899	280,327
LONG-TERM DEBT (Note 7)	**894,943**	719,559
OTHER LONG-TERM LIABILITIES	**32,380**	33,173
LONG-TERM RIGHT OF USE LEASE LIABILITY	**88,745**	90,575
CONVERTIBLE DEBENTURES (Note 8)	**311,880**	310,598
DEFERRED INCOME TAX LIABILITY	**99,418**	102,482
	1,712,265	1,536,714
EQUITY		
SHARE CAPITAL (Note 9)	**712,083**	709,546
CONVERTIBLE DEBENTURES - Equity Component (Note 8)	**13,214**	13,214
CONTRIBUTED SURPLUS	**9,837**	9,837
DEFERRED SHARE PLAN	**16,295**	15,854
RETAINED EARNINGS		
Cumulative Earnings	**466,271**	471,569
Cumulative Dividends	**(516,721)**	(496,920)
Cumulative impact of share cancellation under the NCIB	**(26,122)**	(26,122)
	(76,572)	(51,473)
ACCUMULATED OTHER COMPREHENSIVE INCOME	**65,397**	32,865
	740,254	729,843
	$ **2,452,519**	$ 2,266,557

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		**2020**		2019
REVENUE				
Aerospace & Aviation	$	**200,693**	$	216,744
Manufacturing		**106,283**		80,272
		306,976		297,016
EXPENSES				
Aerospace & Aviation expenses - excluding depreciation and amortization		**118,311**		129,292
Manufacturing expenses - excluding depreciation and amortization		**78,221**		56,994
General and administrative		**53,190**		46,904
		249,722		233,190
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER (Note 4)		**57,254**		63,826
Depreciation of capital assets		**35,028**		30,691
Amortization of intangible assets		**3,836**		4,480
Finance costs - interest		**13,093**		13,359
Depreciation of right of use assets		**6,341**		5,398
Interest expense on right of use lease liabilities		**1,032**		1,161
Acquisition costs		**15**		2,200
Impairment loss (Note 5)		**6,117**		-
Other (Note 5)		**(177)**		(2,182)
EARNINGS (LOSS) BEFORE INCOME TAXES		**(8,031)**		8,719
INCOME TAX EXPENSE (RECOVERY)				
Current		**(218)**		3,027
Deferred		**(2,515)**		(1,796)
		(2,733)		1,231
NET EARNINGS (LOSS)	$	**(5,298)**	$	7,488
NET EARNINGS (LOSS) PER SHARE (Note 12)				
Basic	$	**(0.15)**	$	0.24
Diluted	$	**(0.15)**	$	0.23

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands of Canadian dollars)

Attributable to common shareholders **For the periods ended March 31**		**2020**		2019
NET EARNINGS (LOSS)	$	**(5,298)**	$	7,488
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 $34 and $(8), respectively.		**56,802**		(12,232)
Net gain (loss) on hedge of net investment in foreign operations, net of tax expense of nil and nil, respectively.		**(17,577)**		4,194
Net loss on hedge of restricted share plan, net of tax recovery of $(1,127) and $(3), respectively.		**(3,047)**		(13)
Net loss on interest rate swap, net of tax recovery of $(1,349) and nil, respectively.		**(3,646)**		-
		32,532		(8,051)
COMPREHENSIVE INCOME (LOSS)	$	**27,234**	$	(563)

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited, in thousands of Canadian dollars)

					Retained Earnings				
	Share Capital	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, 2019	$ 588,498	$ 11,954	$ 9,693	$ 13,525	$ 387,933	$ (424,178)	$ (25,053)	$ 52,119	**$ 614,491**
Convertible debentures									
Converted into shares	2,352	(134)	-	-	-	-	-	-	**2,218**
Issued	-	2,497	-	-	-	-	-	-	**2,497**
Shares issued under dividend reinvestment plan	1,913	-	-	-	-	-	-	-	**1,913**
Deferred share plan vesting (Note 13)	-	-	-	963	-	-	-	-	**963**
Deferred share plan issuance	280	-	-	(280)	-	-	-	-	**-**
Shares issued under ESPP	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**
Balance, January 1, 2020	$ 709,546	$ 13,214	$ 9,837	$ 15,854	$ 471,569	$ (496,920)	$ (26,122)	$ 32,865	**$ 729,843**
Shares issued under dividend reinvestment plan (Note 9)	1,928	-	-	-	-	-	-	-	**1,928**
Deferred share plan vesting (Note 13)	-	-	-	441	-	-	-	-	**441**
Shares issued under ESPP (Note 9)	609	-	-	-	-	-	-	-	**609**
Comprehensive income	-	-	-	-	(5,298)	-	-	32,532	**27,234**
Dividends declared (Note 10)	-	-	-	-	-	(19,801)	-	-	**(19,801)**
Balance, March 31, 2020	**$ 712,083**	**$ 13,214**	**$ 9,837**	**$ 16,295**	**$ 466,271**	**$ (516,721)**	**$ (26,122)**	**$ 65,397**	**$ 740,254**

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		**2020**		2019
OPERATING ACTIVITIES				
Net earnings (loss) for the period	$	**(5,298)**	$	7,488
Items not affecting cash:				
Depreciation of capital assets		**35,028**		30,691
Amortization of intangible assets		**3,836**		4,480
Depreciation of right of use assets		**6,341**		5,398
Accretion of interest		**1,511**		1,692
Long-term debt discount		**(90)**		263
Impairment loss (Note 5)		**6,117**		-
Gain on disposal of capital assets		**(630)**		(115)
Deferred income tax expense		**(2,515)**		(1,796)
Deferred share program share-based vesting		**441**		963
Other		**(177)**		(2,182)
		44,564		46,882
Changes in non-cash current and long-term working capital items (Note 16)		**1,175**		(12,144)
		45,739		34,738
FINANCING ACTIVITIES				
Proceeds from long-term debt, net of issuance costs (Note 7)		**128,168**		43,346
Repayment of long-term debt (Note 7)		**(1,550)**		(74,100)
Principal payments on right of use lease liabilities		**(5,830)**		(4,280)
Proceeds from issuance of convertible debentures, net of issuance costs (Note 8)		**-**		82,091
Issuance of shares, net of issuance costs		**2,537**		2,242
Cash dividends (Note 10)		**(19,801)**		(17,187)
		103,524		32,112
INVESTING ACTIVITIES				
Purchase of capital assets		**(51,916)**		(73,591)
Proceeds from disposal of capital assets		**2,283**		6,584
Purchase of intangible assets		**(1,198)**		(599)
Investment in other assets		**(2,620)**		(866)
Payment of contingent acquisition consideration and working capital settlements		**(5,737)**		-
		(59,188)		(68,472)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**90,075**		(1,622)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		**22,055**		42,970
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**6,090**		(1,545)
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	**118,220**	$	39,803
Supplementary cash flow information				
Interest paid	$	**8,180**	$	7,721
Income taxes paid	$	**5,321**	$	4,123

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, 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 101 – 990 Lorimer Boulevard, Winnipeg, Manitoba, Canada R3P 0Z9.

As at March 31, 2020, the principal operating subsidiaries of the Corporation are Calm Air International LP, Perimeter Aviation LP (including its operating division, Bearskin Airlines), Keewatin Air LP, Custom Helicopters Ltd., Regional One Inc., EIC Aircraft Leasing Limited, Provincial Aerospace Ltd., CANLink Aviation Inc. ("Moncton Flight College"), Quest Window Systems Inc., Quest USA Inc., WesTower Communications Ltd., Ben Machine Products Company Incorporated, Stainless Fabrication, Inc., LV Control Mfg. Ltd., Water Blast Manufacturing LP, and Overlanders Manufacturing LP. Regional One Inc., Quest USA Inc., and Stainless Fabrication, 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.

SARS-CoV-2 ("COVID-19")

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, which has resulted in governments around the world imposing severe travel restrictions and social distancing measures to limit the spread of the virus. The travel restrictions have materially impacted the subsidiaries within the Aerospace & Aviation segment and the social distancing requirements have negatively impacted the efficiency of the subsidiaries in the Manufacturing segment.

The Corporation is unable to predict with accuracy the duration of the virus, actions governments will take, and customer sentiment during and after the pandemic with any certainty at this point. The Corporation has made varying assumptions as discussed further in Note 5.

In the Aerospace & Aviation segment, travel restrictions have had a material impact on passenger traffic and demand for the Corporation's aircraft and aftermarket parts at Regional One, Inc. and EIC Aircraft Leasing Limited has lessened as the pandemic has spread throughout the world. Moncton Flight College was forced to shut down on March 17, 2020, when the government in New Brunswick ordered non-essential businesses to close their facilities, including educational facilities. In the Manufacturing segment, social distancing and additional actions to keep our employees safe have reduced manufacturing efficiency and reduced throughput in the production facilities. These impacts, among others as a result of COVID-19, reduced Revenue, Cash Flows from Operations, and Net Earnings during the first quarter of 2020, which is expected to continue as the impact of the pandemic continues to be felt by the Corporation's subsidiaries.

The Corporation took several steps to ensure it had the liquidity required during the uncertain economic times created by the COVID-19 pandemic as discussed in Note 15.

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, 2019. 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 12, 2020.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and methods of computation used in the preparation of these interim condensed consolidated financial statements are the same as those followed in the most recent annual financial statements. Note 3 of the Corporation's 2019 audited financial statements includes a comprehensive listing of the Corporation's significant accounting policies.

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

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Contingent Consideration

The Corporation's liabilities for contingent consideration associated with the earn out portion of its acquisitions are 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 Moncton Flight College was reduced to reflect expected earnings levels during the remaining earn out period. This resulted in a recovery of $177 and is included within "Other" of the Statement of Income.

Impairment Considerations on Long-lived Assets

Goodwill

An assessment of goodwill was performed due to the outbreak of COVID-19 at period end. The Corporation updated the forecasted future cash flows for its two operating segments based on available information to determine recoverable amounts and no impairment was recorded.

Intangible Assets

In light of the COVID-19 pandemic and the current state of the oil and gas industry, management used a discounted cash flow model to assess the recoverability of the indefinite lived intangible assets at the Corporation's subsidiaries exposed to this sector. The unprecedented drop in oil prices exacerbated by a decrease in demand due to the COVID-19 pandemic has caused many companies to delay or cancel large capital projects. Therefore, the demand for products provided by the Corporation's Alberta Operations is expected to be depressed for an extended period of time. As a result of the assessment, the Corporation recorded a $6,117 impairment charge against intangible assets at March 31, 2020.

An assessment of the recoverable amount of the Corporation's other cash generating units ("CGUs") compared to their carrying values was performed based on updated cash flow projections in light of the current COVID-19 pandemic. The cash flows are management's best projections based on current and anticipated market conditions covering a five-year period. However, these projections are inherently uncertain due to the evolving impact of the COVID-19 pandemic which has only recently begun to unfold. It is possible that long term underperformance of these projections could occur if the negative impacts of COVID-19 continue to prevail, with the duration and impact greater than currently anticipated. Reasonably possible changes in projections have been considered in this evaluation, but they do not indicate that the carrying amounts exceed recoverable amounts.

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

The COVID-19 pandemic and its impact on the economy is constantly evolving and presents many variables and contingencies for modeling. In future periods, the effects of the pandemic may have material impacts on the Corporation's anticipated revenue levels and the recoverable amount of the CGUs.

6. OTHER ASSETS

The other assets of the Corporation consist of the following:

		March 31 2020		December 31 2019
Long-term prepaid expenses and security deposits	$	**2,057**	$	1,700
Long-term receivables		**14,098**		13,653
Long-term holdback receivables		**5,676**		5,687
Equity method investments		**39,081**		36,483
Other investments - Fair value through OCI (Note 15)		**7,452**		5,889
Derivative financial instruments - Fair value through profit and loss (Note 15)		**17,733**		1,221
Loan to Wasaya		**13,000**		13,000
Loan to Nunatsiavut Group of Companies		**2,568**		2,568
Total other assets	$	**101,665**	$	80,201

7. LONG-TERM DEBT

The following summarizes the Corporation's long-term debt as at March 31, 2020, and December 31, 2019:

		March 31 2020		December 31 2019
Revolving term facility:				
Canadian dollar amounts drawn	$	**271,900**	$	211,900
United States dollar amounts drawn (US$441,500 and US$393,555, respectively)		**626,356**		511,149
Total credit facility debt outstanding, principal value		**898,256**		723,049
less: unamortized transaction costs		**(2,923)**		(3,190)
less: unamortized discount on outstanding Banker's Acceptances		**(390)**		(300)
Long-term debt	$	**894,943**	$	719,559

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, 2020.

Interest expense recorded by the Corporation during the three months ended March 31, 2020, for long-term debt was $7,216 (2019 – $8,220).

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

Credit Facility

The following is the continuity of long-term debt for the three months ended March 31, 2020:

	Three Months Ended March 31, 2020				
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar amounts	$ 211,900	$ 60,000	$ -	$ -	$ 271,900
United States dollar amounts	511,149	68,168	(1,550)	48,589	626,356
	$ 723,049				$ 898,256

8. CONVERTIBLE DEBENTURES

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
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

Summary of the debt component of the convertible debentures:

	2020 Balance, Beginning of Period	Debentures Issued	Accretion Charges	Debentures Converted	Redeemed / Matured	2020 Balance, End of Period
Unsecured - 2016	**$ 66,314**	**$ -**	**$ 172**	**$ -**	**$ -**	**$ 66,486**
Unsecured - 2017	**96,643**	**-**	**258**	**-**	**-**	**96,901**
Unsecured - 2018	**75,922**	**-**	**176**	**-**	**-**	**76,098**
Unsecured - 2019	**82,972**	**-**	**106**	**-**	**-**	**83,078**
						322,563
less: unamortized transaction costs						**(10,683)**
Convertible Debentures - Debt Component, end of period						**$ 311,880**

Interest expense recorded during the three months ended March 31, 2020, for the convertible debentures was $5,809 (2019 – $4,817).

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 applied 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.

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

Summary of the equity component of the convertible debentures:

		March 31 2020		December 31 2019
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		2,497
Convertible Debentures - Equity Component, end of period	$	13,214	$	13,214

All convertible debentures outstanding at March 31, 2020, 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, 2020, are as follows:

	Number of Shares		2020 Amount
Share capital, beginning of period	34,703,237	$	709,546
Issued under dividend reinvestment plan	48,271		1,928
Issued under employee share purchase plan	16,763		609
Share capital, end of period	34,768,271	$	712,083

On February 19, 2020, the Corporation received approval from the TSX for the renewal of its Normal Course Issuers Bid ("NCIB") to purchase up to an aggregate of 1,736,542 shares, representing 5% of the issued and outstanding shares as at February 14, 2020. Purchases of shares pursuant to the renewed NCIB can be made through the facilities of the TSX during the period commencing on February 22, 2020, and ending on February 21, 2021. The maximum number of shares that can be purchased by the Corporation daily is limited to 27,411 shares, other than block purchase exemptions.

During the three months ended March 31, 2020, the Corporation did not make any purchases under its NCIB and therefore still has the full 1,736,542 shares available for repurchase.

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, 2020, and the comparative 2019 period are as follows:

					2020 Dividends					2019 Dividends
Month	**Record date**		**Per Share**		**Amount**	**Record date**		**Per Share**		**Amount**
January	January 31, 2020	$	0.19	$	6,596	January 31, 2019	$	0.1825	$	5,719
February	February 28, 2020		0.19		6,599	February 28, 2019		0.1825		5,724
March	March 31, 2020		0.19		6,606	March 29, 2019		0.1825		5,744
Total		$	0.57	$	19,801		$	0.5475	$	17,187

After March 31, 2020, and before these interim condensed consolidated financial statements were authorized, the Corporation declared a monthly dividend of $0.19 per share for April 2020.

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

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 the 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.

	Three Months Ended March 31, 2020			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 200,693	$ 106,283	$ -	$ 306,976
Expenses	152,055	92,158	5,509	249,722
EBITDA	48,638	14,125	(5,509)	57,254
Depreciation of capital assets				35,028
Amortization of intangible assets				3,836
Finance costs - interest				13,093
Depreciation of right of use assets				6,341
Interest expense on right of use lease liabilities				1,032
Acquisition costs				15
Impairment loss				6,117
Other				(177)
Loss before income taxes				(8,031)
Current income tax recovery				(218)
Deferred income tax recovery				(2,515)
Net Loss				$ (5,298)

(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				(2,182)
Earnings before income taxes				8,719
Current income tax expense				3,027
Deferred income tax recovery				(1,796)
Net Earnings				$ 7,488

	For the period ended March 31, 2020			
	Aerospace & Aviation	**Manufacturing**	**Head Office[(1)]**	**Consolidated**
Total assets	**$ 1,745,979**	**$ 469,729**	**$ 236,811**	**$ 2,452,519**
Net capital asset additions	**47,892**	**1,194**	**547**	**49,633**

	For the year ended December 31, 2019			
	Aerospace & Aviation	Manufacturing	Head Office[(1)]	Consolidated
Total assets	$ 1,693,854	$ 465,825	$ 106,878	$ 2,266,557
Net capital asset additions	222,102	11,908	701	234,711

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.

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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 the Corporation's contracts and the timing, amount, and uncertainties associated with customer contracts.

Revenue Streams		March 31 2020		March 31 2019
Aerospace & Aviation Segment				
Sale of goods - point in time	$	38,381	$	57,852
Sales of services - point in time		161,585		157,576
Sale of goods and services - over time		727		1,316
Manufacturing Segment				
Sale of goods - point in time		22,321		19,605
Sale of goods and services - over time		83,962		60,667
Total revenue	$	306,976	$	297,016

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, 2020, and comparative period in 2019 are as follows:

Three Months Ended March 31		2020		2019
Net Earnings (Loss)	$	(5,298)	$	7,488
Effect of dilutive securities				
Convertible debenture interest		-		-
Diluted Net Earnings (Loss)	$	(5,298)	$	7,488
Basic weighted average number of shares		34,729,360		31,363,603
Effect of dilutive securities				
Deferred shares		-		838,602
Convertible debentures		-		-
Diluted basis weighted average number of shares		34,729,360		32,202,205
Net Earnings (Loss) per share:				
Basic	$	(0.15)	$	0.24
Diluted	$	(0.15)	$	0.23

13. EMPLOYEE BENEFITS

Deferred Share Plan

During the three months ended March 31, 2020, the Corporation granted 18,749 (2019 – 15,862) deferred shares to certain personnel. The fair value of the deferred shares granted was $811 (2019 - $510) 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, 2020, the Corporation recorded a compensation expense of $441 for the Corporation's Deferred Share Plan within the general and administrative expenses of head office (2019 - $963).

Restricted Share Plan

During the three months ended March 31, 2020, the Corporation granted 104,543 (2019 – 105,588) restricted shares to certain personnel. The fair value of the restricted share units granted was $4,236 (2019 - $3,506) 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, 2020, the Corporation recorded compensation expense of $256 for the Corporation's Restricted Share Plan within the general and administrative expenses of head office (2019 - $95), with a corresponding liability recorded in Accounts Payable and Accrued Expenses.

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 in cash upon the shares vesting or shares are purchased using these dividend funds.

During the three months ended March 31, 2020, employees acquired 16,763 shares from Treasury at a weighted average price of $36.33 per share. The grant date fair value of the shares that will be awarded upon the vesting conditions of the plan being attained is estimated at $213 based on the share price and monthly dividend rate as at that time.

14. RELATED PARTY TRANSACTIONS

The nature of related party transactions that the Corporation entered during the three months ended March 31, 2020, are consistent with those described in the Corporation's most recent annual financial statements for the year ended December 31, 2019, except as noted below.

The Corporation's head offices relocated in December 2019 to premises not controlled by a director of the Corporation. Therefore, there will be no related party lease costs for the head office of the Corporation in 2020.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation's activities expose it to a variety of financial risks: market risk (primarily currency risk, interest rate risk, and other price 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, 2019, consolidated financial statements.

The Corporation strengthened its access to capital and balance sheet through several transactions in 2019 and the Corporation has no long-term debt coming due until December 2022. In 2019, the Corporation's equity offering, its new credit facility, and its March 2019 convertible debenture offering all provided the Corporation with the access to capital required during the uncertain times caused by COVID-19. The Corporation drew on its credit facility in March 2020 to ensure access to capital should it be required, while not having an imminent need for the cash. This explains the abnormally high cash balance at March 31, 2020.

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 $441,500 or $626,356 (December 31, 2019 - US $393,555 or $511,149) outstanding on its credit facility. The outstanding funds in US dollar result in currency risk that the future cash flows will fluctuate with the changes in market currency rates. The exposure for the US dollar portion of its credit facility outstanding is offset by the cash generated through the operations of its US based subsidiaries. Of the total US dollar credit facility drawn, US $58,000 (December 31, 2019 - US $59,155) is drawn by EIIF Management USA, Inc., 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 US dollar functional currencies are hedged partially by US $146,600 (December 31, 2019 - US $146,600) of credit facility draws, which mitigates the foreign currency translation risk arising from the subsidiary`s net assets. The loan is designated as a net investment hedge and no ineffectiveness was recognized from the net investment hedge.

During the quarter, the Corporation continued the use of derivatives through several cross-currency basis swaps ("swap") with a member of the Corporation's lending syndicate. The swap requires that funds are exchanged back in one month at the same terms unless both parties agree to extend the swap for an additional month. By borrowing in US dollars, the Corporation is able to take advantage of lower interest rates. The swap mitigates the risk of changes in the value of the Corporation's US dollar LIBOR borrowings as they will be exchanged for the same Canadian equivalent in one month. 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, 2020, was a financial asset of $17,733 (2019 - financial liability of $6,085). At March 31, 2020, the notional value of the swaps outstanding is US $225,300 (2019 - US $187,800). Hedging gains and losses are reclassified from other comprehensive income to the consolidated statement of income to the extent effective. Accordingly, $17,733 was reclassified from other comprehensive income (2019 - $6,085). No hedge ineffectiveness was recorded during the period**.**

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, 2020:

- US $441,500 (December 31, 2019 – US $393,100) was outstanding under US LIBOR,
- nil (December 31, 2019 – $455) was outstanding under US Prime, and
- $271,900 (December 31, 2019 – $211,900) was outstanding under Banker's Acceptances.

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

The Corporation continued the use of its interest rate swap with certain members of its lending syndicate whereby the Corporation has fixed interest rates on $190,000 of its Canadian credit facility debt for a period of four years. The derivative financial instrument hedges the exposure to variability in cash flow associated with the future payment of interest on Bankers' Acceptance debt that would impact profit or loss and therefore qualifies as a cash flow hedge. The interest rate swap is classified as a long-term financial liability of $4,987 (2019 - other long-term financial assets of $8) is recorded as a separate line within other comprehensive income.

Subsequent to March 31, 2020, the Corporation amended its interest rate swap with members of its lending syndicate. The amendment reduced the effective fixed interest rate under the swap and extended the maturity of the swap to May 15, 2024.

Other Price Risk

The Corporation's Restricted Share Plan 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 into a derivative instrument for each of the 2019 and 2020 Restricted Share Plan grants, 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. These derivative instruments fix the cost to the Corporation and do not impact the variability of the award received by the participant. The derivative financial instruments hedge the exposure to variability in cash flow associated with the future settlement of restricted shares issued under the Restricted Share Plan that would impact profit or loss and therefore qualifies as a cash flow hedge. The instruments are classified as a long-term financial liability of $4,012 (2019 - other long-term financial assets of $1,213) and are recorded as a separate line within other comprehensive income.

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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, 2020**	**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 (Note 6)	**$ 17,733**	**$ -**	**$ 17,733**	**$ -**
Other assets - Fair value through OCI (Note 6)	**7,452**	**-**	**-**	**7,452**
Financial Liabilities				
Consideration liabilities - Financial liability at fair value through profit and loss	**(7,028)**	**-**	**-**	**(7,028)**
Other long term liabilities - Restricted Share hedge - Financial liability at fair value through profit and loss	**(4,012)**	**-**	**(4,012)**	**-**
Other long-term liabilities - Interest Rate Swap - Financial liability at fair value through OCI	**(4,987)**	**-**	**(4,987)**	**-**
Fair Value Disclosures				
Other assets - Amortized cost	**37,399**	**-**	**37,399**	**-**
Long-term debt - Amortized cost	**(894,943)**	**-**	**-**	**(898,256)**
Convertible debt - Amortized cost	**(311,880)**	**(238,724)**	**-**	**-**

		Fair Value		
Recurring fair value measurements	Carrying Value December 31, 2019	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 - Restricted Share hedge - Financial asset at fair value through profit and loss	$ 1,213	$ -	$ 1,213	$ -
Other long-term assets - Interest Rate Swap - Financial asset at fair value through OCI	8	-	8	-
Other assets - Fair value through OCI	5,889	-	-	5,889
Financial Liabilities				
Consideration liabilities - Financial liability at fair value through profit and loss	(12,411)	-	-	(12,411)
Other long-term liabilities - Cross currency basis swap - Financial liability at fair value through profit and loss	(6,085)	-	(6,085)	-
Fair Value Disclosures				
Other assets - Amortized cost	36,608	-	36,608	-
Long-term debt - Amortized cost	(719,559)	-	-	(723,049)
Convertible debt - Amortized cost	(310,598)	(350,918)	-	-

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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 CarteNav, Quest, Moncton Flight College, Wings Over Kississing, LV Control, and AWI, including any changes for settlements, changes in fair value and changes due to foreign currency fluctuations:

Consideration Liability Summary		**March 31**		December 31
For the periods ended		**2020**		2019
Opening	**$**	**12,411**	$	31,173
Accretion		**68**		1,068
Settled during the period		**(5,737)**		(15,000)
Change in estimate (Note 5)		**(177)**		(10,624)
Acquisition of LV Control		**-**		5,523
Acquisition of Advanced Window, including change in estimate		**422**		271
Translation (gain) / loss		**41**		-
Ending	**$**	**7,028**	$	12,411

The earn out liability recorded as part of the acquisitions are included in Other Long-Term Liabilities in the Statement of Financial Position unless they are expected to be settled within a year. 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 $7,028 above are the earn out liabilities for Moncton Flight College and LV Control, and an estimated working capital settlement for LV Control. During the period the Corporation settled $5,000 of the earn out liability associated with Moncton Flight College with the balance to be settled during the second quarter. The Corporation also settled $16 and US $525 for working capital amounts associated with Wings Over Kississing and AWI, respectively.

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.

As at March 31, 2020, 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 1.95%. 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, 2020, management estimated the fair value of the convertible debentures based on trading values. The estimated fair value of its convertible debentures is $238,724 (December 31, 2019 - $350,918) with a carrying value of $311,880 (December 31, 2019 - $310,598).

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.

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16. CHANGES IN WORKING CAPITAL ITEMS

The changes in non-cash operating working capital items during the three months ended March 31, 2020, and the comparative period in 2019 are as follows:

Three Months Ended March 31		2020		2019
Accounts receivable, including long-term portion	$	24,187	$	141
Amounts due from customers on construction contracts		(4,185)		(6,893)
Inventory		(11,307)		(13,061)
Prepaid expenses and deposits, including long-term portion		543		(1,575)
Accounts payable and accrued expenses, including long-term portion		4,282		8,916
Income taxes receivable/payable		(5,615)		(1,123)
Deferred revenue, including long-term portion		(2,252)		2,716
Amounts due to customers on construction contracts		(4,478)		(1,265)
Net change in working capital items	$	1,175	$	(12,144)

17. SUBSEQUENT EVENTS

Government Financial Aid

Governments around the world have announced significant financial support for businesses in light of the COVID-19 pandemic. The Corporation is reviewing all programs in each jurisdiction in which it operates and expects to avail itself of all programs for which it qualifies. Most notably, the Corporation expects several of its subsidiaries to qualify for the Canada Emergency Wage Subsidy.

Moncton Flight College

On March 16, 2020, the government of New Brunswick ordered the shutdown of all non-essential businesses including educational facilities effective March 17, 2020, due to the COVID-19 pandemic. As a result, Moncton Flight College was forced to close its facilities and switch to online only learning, where possible. On April 24, 2020, New Brunswick relaxed its state of emergency allowing Moncton Flight College to resume phased in flight operations on April 25, 2020, with additional precautionary measures in place.