Exchange
Income
Corporation

First Quarter Report

For the three months ended

March 31, 2021

CEO's Message

As Canada and the world continue to struggle through the COVID-19 pandemic, our results through the first quarter of 2021 are once again defined by our ability to manage through uncertain times, mitigate challenges to our operation, and position the company to capture opportunities we believe to be close on the horizon.

In that respect, our ability to post solid results for the period is encouraging, with EIC's performance for the quarter surpassing in many respects our Q1 2020 results. The Company's ability to deliver during uncertain times once again validates our belief in empowering strong management teams throughout our operations and confirms EIC's ability to internalize lessons learned during the pandemic, and to leverage them to inform decision-making going forward.

Highlights from EIC's first quarter financial performance include:

- EBITDA of $64 million, an increase of 12% over the prior period
- Revenue of $301 million, a decrease of 2% from the prior period
- Adjusted Net Earnings of $11 million or $0.30 per basic share, an increase of 413% and 400%, respectively, over the prior period
- Free Cash Flow of $42 million or $1.17 per basic share, an increase of 7% and 4%, respectively, over the prior period
- Free Cash Flow less Maintenance Capital expenditures improved to $0.55 per basic share, from $0.07 in the prior period
- Free Cash Flow less Maintenance Capital Expenditures payout ratio strengthens to 62% on a trailing twelve-month basis, improving from 68% at March 31, 2020

EIC's payout ratio on a Free Cash Flow less Maintenance Capital Expenditures basis is a strong indicator of our ability to navigate the pandemic and manage cash flow. The Company has maintained a healthy 62% payout ratio, stronger than the 68% recorded in the twelve months ending March 31, 2020, despite a full year of operation in the pandemic environment. This resilience is a direct credit to the strength of our subsidiary management teams and a testament to their collective ability to adapt to the challenges of the pandemic while keeping our people and customers safe. Our collective proficiency providing essential services and remaining responsive to the needs of our customers while actively managing the costs of our operation have been key to ensuring the viability of our dividend and the continued strength of our balance sheet.

Traditionally, the first quarter of the year is the weakest for EIC, as winter roads compete with our northern aviation operations. This seasonality, in combination with elevated Maintenance Capital Expenditures requirements, typically drives significant cash utilization in the period. Over the last ten years, our average net debt rose by approximately $40 million in the first quarter. By contrast, our persistent focus on cash flow management and reduced Maintenance Capital Expenditures almost eliminated this elevated cash utilization in the first quarter of 2021, as net debt rose by only $4 million. This achievement again demonstrates the exceptional flexibility of the EIC business model and highlights our proven ability to rapidly adapt in response to unforeseen challenges.

While scheduled airline services remain challenged by regional travel restrictions and concurrent declines in passenger traffic, there are encouraging signs in the segment. Where restrictions ease even temporarily, EIC continues to see strong evidence of pent-up demand with bookings returning quickly when travel is practical. We believe that the essential nature of our services positions EIC air carriers for a rapid return to normal traffic levels, and that additional opportunity exists for our airlines given the emphasis on regional connectivity in Canada's post-pandemic recovery.

In our aerospace operations, we've continued to achieve consistent results by emphasizing dependable delivery of long-term contracts and by successfully mitigating pandemic impacts on our operation. Our management teams have successfully drawn on lessons learned early in the pandemic to ensure we are managing internal resources, navigating challenges in external supply chains, and ultimately meeting customer expectations.

At Regional One, we're starting to see the accelerated pace of vaccine distribution in the United States translate to increased activity in the regional aviation market. We're encouraged that the pent-up demand we had identified is solidifying and we remain firm in our belief that the global regional jet market will rebound strongly as the pandemic abates.

EIC's Manufacturing segment also continues to experience strong demand, despite operational challenges and some order dislocation associated with the COVID-19 pandemic. Our emphasis on communication with customers along with proactive management of supply chains and delivery schedules has preserved the strength of our order book. We remain encouraged for a strong post-pandemic recovery in the segment and have made a series of investments and acquisitions in the space to ensure we are properly positioned to capitalize as business returns to a new normal.

The positive signs we are seeing across our existing businesses are also guiding our preparation for growth and investment moving forward. As vaccine distribution ramps up, we can see a return to normalcy is coming. We have a proven track record of successfully growing our business through accretive acquisitions, and we need to be ready to move when we identify opportunities.

This thinking underpins the recent completion of our $80 million bought deal public offering of common shares. We expect to grow, and our acquisition team is actively assessing potential opportunities. We also understand the imperative of maintaining a strong balance sheet. This infusion of liquidity will help us meet both objectives.

So, while management remains cautious in the face of a pandemic that continues to prove unpredictable in domestic and international markets, EIC is also extremely confident moving forward. Our business model has met the tests of the last year and has demonstrated its inherent resiliency. We have strong management teams whose planning is informed by experiences and difficult lessons learned through the pandemic, we're seeing the early signs of recovery and pent-up demand across our businesses, we have secured the additional liquidity we need to take advantage of imminent opportunity, and we have a demonstrated ability to complete accretive acquisitions that build our enterprise.

As always, we're committed to continuing to generate value for our investors while paying our dividend. We have put in place a strategy that will support those goals, and while we recognize the pandemic will continue to create challenges, we are equally optimistic the pandemic recovery in 2021 will reward EIC for the results we have achieved and preparations we have made.

Mike Pyle
Chief Executive Officer

May 13, 2021

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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, 2021 ("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, 2021, its annual financial statements for the year ended December 31, 2020, and its annual MD&A for the year ended December 31, 2020. The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of the 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 the 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: COVID-19 related risks; 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; 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*.

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 ongoing 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 and installer 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	2021	per share basic	per share fully diluted	2020	per share basic	per share fully diluted
For the three months ended March 31						
Revenue	$ 300,746			$ 306,976		
EBITDA(1)	64,122			57,254		
Net Earnings (Loss)	7,127	$ 0.20	$ 0.20	(5,298)	$ (0.15)	$ (0.15)
Adjusted Net Earnings(1)	10,551	0.30	0.29	2,058	0.06	0.06
Adjusted Net Earnings payout ratio(1)		190%	197%		950%	950%
Free Cash Flow(1)	41,642	1.17	1.06	38,749	1.12	1.01
Free Cash Flow less Maintenance Capital Expenditures(1)	19,578	0.55	0.54	2,299	0.07	0.06
Free Cash Flow less Maintenance Capital Expenditures payout ratio(1)		104%	106%		814%	950%
Dividends declared	20,247	0.57		19,801	0.57	
FINANCIAL POSITION	**March 31, 2021**			December 31, 2020		
Working capital	$ 312,161			$ 323,625		
Capital assets	959,356			950,037		
Total assets	2,319,135			2,294,184		
Senior debt	812,224			794,194		
Equity	673,072			685,946		
SHARE INFORMATION	**March 31, 2021**			December 31, 2020		
Common shares outstanding	35,556,203			35,471,758		
	March 31, 2021			March 31, 2020		
Weighted average shares outstanding during the period - basic	35,508,213			34,729,360		

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

SIGNIFICANT EVENTS

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 both social distancing requirements and required employee absenteeism 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 2 – Results of Operations* and *Section 5 – Outlook* of the MD&A.

Normal Course Issuers Bid ("NCIB")

On February 22, 2021, the Corporation renewed its NCIB for common shares and received approval for a new NCIB for certain series of convertible debentures. Under the renewed NCIB for common shares, purchases can be made during the period commencing on February 24, 2021, and ending on February 23, 2022. The Corporation can purchase a maximum of 3,253,765 shares and daily purchases will be limited to 27,845 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.

Under the new NCIB for certain series of convertible debentures, purchases can be made during the period commencing on February 24, 2021, and ending on February 23, 2022. The Corporation can purchase a maximum of $6,897,500 principal amount of 7 year 5.25% convertible unsecured subordinated debentures, $10,000,000 principal amount of 5 year 5.25% convertible unsecured subordinated debentures, $8,050,000 principal amount of 7 year 5.35% convertible unsecured subordinated debentures, and $8,625,000 principal amount of 7 year 5.75% convertible unsecured subordinated debentures, with daily purchases of principal amount, other than block purchase exceptions, limited to $10,207, $11,001, $19,392, and $19,338, respectively. The Corporation sought the NCIB for debentures to permit repurchase and cancellation of these securities during times of market instability where management believes the market price does not reflect the value of the debentures.

Government Financial Aid

The Corporation continued to qualify for the Canada Emergency Wage Subsidy ("CEWS") in 2021. The amounts received under the program continues to decline quarter over quarter and is expected to continue to do so. In addition, certain of the Corporation's airlines have received support from Federal, Provincial and Territorial governments to ensure critical routes into remote communities to continue operation. Consistent with the CEWS, it is expected the support will decrease sequentially each quarter during 2021.

Subsequent Event – Bought Deal Financing of Common Shares

On April 26, 2021, the Corporation closed a bought deal financing of common shares, resulting in the issuance of 2,031,000 shares of the Corporation at $39.40 per share, for gross proceeds of approximately $80 million. The Corporation has also granted the underwriters an option to purchase up to an additional 304,650 shares, representing 15% of the size of the offering, on the same terms and conditions, exercisable at any time, in whole or in part, up to 30 days after the closing of the offering. The net proceeds of the offering, excluding any possible funds to be received under the over-allotment, were used to repay debt under the Corporation's credit facility during the second quarter and will create further availability under the credit facility until required for future acquisitions or other growth opportunities. The Corporation is experiencing increased acquisition opportunities and wishes to be able to move quickly to take advantage of opportunities should the situation warrant.

2. RESULTS OF OPERATIONS

The following section analyzes the financial results of the Corporation for the three months ended March 31, 2021, and the comparative 2020 period.

	Three Months Ended March 31, 2021			
	Aerospace & Aviation	**Manufacturing**	**Head Office (2)**	**Consolidated**
Revenue	**$ 183,143**	**$ 117,603**	**$ -**	**$ 300,746**
Expenses (1)	**130,321**	**99,509**	**6,794**	**236,624**
EBITDA	**52,822**	**18,094**	**(6,794)**	**64,122**
Depreciation of capital assets				**30,743**
Amortization of intangible assets				**4,451**
Finance costs - interest				**11,391**
Depreciation of right of use assets				**6,124**
Interest expense on right of use liabilities				**873**
Acquisition costs				**104**
Earnings before taxes				**10,436**
Current income tax expense				**6,094**
Deferred income tax recovery				**(2,785)**
Net Earnings				**$ 7,127**
Net Earnings per share (basic)				**$ 0.20**
Adjusted Net Earnings				**$ 10,551**
Adjusted Net Earnings per share (basic)				**$ 0.30**

	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 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

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 $300.7 million, a decrease of $6.2 million, or 2% from the comparative period. A decrease of $17.5 million in the Aerospace & Aviation segment was partially offset by an increase of $11.3 million in the Manufacturing segment. The Corporation's operations were impacted by COVID-19 throughout the first quarter, as compared to only two weeks in the prior period with the sudden but immediate onset of the pandemic in the second half of March 2020.

EBITDA of $64.1 million was generated by the Corporation during the quarter, an increase of $6.9 million or 12% over the comparative period. The increase was attributable to both the Aerospace & Aviation and Manufacturing segments, partially offset by an increase in head office costs.

The Corporation's results were materially impacted by the COVID-19 pandemic during the three months ended March 31, 2021. Travel restrictions and required quarantine periods reduced the demand for some of the Aerospace & Aviation segment's products and services. The Manufacturing segment experienced a reduction in manufacturing efficiency as employees were responsibly spaced further apart to ensure their health and safety and required employee absenteeism disrupted production. In both the Aerospace & Aviation segment and the Manufacturing segment, increased costs associated with keeping our employees and customers safe negatively impacted margins in the current period. The financial impact in our airline operations was partially offset with the announcement of support from the Manitoba and Ontario Provincial governments during the quarter and the continued support of the Government of Nunavut. During the first quarter of 2021, the Provincial governments in Manitoba and Ontario announced they had reached agreements with the Government of Canada to support essential air access into remote communities for the period of July 2020 to December 2020. This support ensures continued service to remote communities that otherwise would not be economical. Revenue for the period includes an estimate of the amounts the Corporation expects to receive under these Provincial government programs, which is less than the maximum available under the programs. The Provincial Governments have subsequently announced an extension of the support for 2021. Our portion of the program has not been determined but is expected to be sequentially less. Any amounts received will be recorded in subsequent periods.

The Corporation was eligible for the CEWS offered by the Government of Canada and received $9.0 million under this program during the period. The Corporation continued to use the proceeds from the CEWS to offset salary costs that would have otherwise been reduced without the CEWS program, and to help offset increased health and safety costs across both segments and costs associated with inefficiencies in the Manufacturing segment.

Aerospace & Aviation Segment

Revenue generated by the Aerospace & Aviation segment decreased by $17.5 million to $183.1 million.

Revenue in the Legacy Airlines and Provincial decreased by $1.7 million or 1% from the comparative period. The decrease was primarily attributable to reduced demand for scheduled travel caused by COVID-19 throughout the quarter whereas in the comparative period we experienced strong revenues in the first two months of the quarter before COVID-19 impacted our operations in the second half of March. Decreases across the subsidiaries' scheduled passenger operations were largely offset by improvements in cargo, charter, rotary EMS operations and greater utilization of Provincial's on demand ISR aircraft. Government financial assistance supporting continued essential service into the remote communities also partly mitigated the decreases.

Regional One's revenue for the current period decreased by $15.9 million or 31%. The decrease was driven by declines in both sales and service revenue and lease revenue from the prior period as seen in the table below.

Regional One Revenue	Three Months Ended March 31,		**2021**		2020
Sales and service revenue		**$**	**27,643**	$	34,861
Lease revenue			**7,379**		16,015
		$	**35,022**	$	50,876

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.

Regional One's operations have been significantly impacted by COVID-19. Regional One's business is dependent on the volume of passengers at traditional regional air carriers and therefore lower travel throughout the world has put pressure on all of its lines of business, including part sales, aircraft and engine sales, and lease revenues. The overall industry has improved from its lows and travel in certain jurisdictions has started to resume. This has resulted in a sequential improvement compared to the fourth quarter of 2020 in parts sales and lease revenue, which was partially offset by a reduction in transactional sales of larger assets quarter over quarter.

Sales and service revenue decreased by $7.2 million or 21% from the comparative period. Part sales and lease revenue declined compared to the prior period as the impact of COVID-19 was felt for the full quarter in 2021. These decreases were partially offset by an increase in sales of larger assets compared to the first quarter of 2020 as airlines around the world are either resuming flights or are preparing their fleets to resume operations. In the comparative period, large asset sales that were expected during March were delayed or cancelled entirely due to the onset of COVID-19.

Lease revenue decreased by $8.6 million or 54% in the current period due to a significant drop in customer demand and utilization of the Corporation's lease assets. The Corporation has no lease revenue recorded for deferred lease payments during the period and therefore has not seen lease receivables grow from these types of deferrals since the onset of COVID-19. Regional One has been working with lease customers during the pandemic and continues to look for lease opportunities.

In the Aerospace & Aviation segment, EBITDA increased by $4.2 million or 9% to $52.8 million.

EBITDA contributed by the Legacy Airlines and Provincial increased by $16.4 million or 57%. While scheduled passenger operations remained lower due to the impact of COVID-19, strong cargo, charter and rotary wing operations, and improvements in the aerospace operations, helped mitigate these reductions. Provincial's aerospace operations benefitted from contract pricing and scope escalators and increased on demand ISR aircraft utilization. Additionally, cost reduction measures through scheduled frequency reductions, labour rationalization, and various other strategies that took some time to implement in 2020 were meaningfully realized in the first quarter of 2021. The Corporation provides essential services to the communities it serves as air transportation is the only way that people and goods can get to or from many of these remote regions. Therefore, it is imperative the Corporation maintains regular, albeit reduced, scheduled flights to these communities during the pandemic. Complete termination of our service to these communities is deemed by the Corporation not to be an option. As such, the Corporation worked collaboratively with the Government of Nunavut and the Federal and Provincial governments of Manitoba and Ontario to help support the scheduled passenger operation to ensure continued regular essential services to the remote communities in these regions. The Corporation was also able to access funds under the CEWS program which helped offset higher health and safety costs. These factors collectively helped to mitigate pandemic induced reductions in demand.

Regional One's EBITDA decreased by $12.2 million or 62% from the prior period. The decrease is related most significantly to the $8.6 million reduction in lease revenue where the EBITDA margins are approximately 95%. This was driven by regional airlines around the world experiencing lower passenger volumes compared to the prior year. Compounding the reduction in lease revenue, decreased part sales also decreased EBITDA. Increased sales of aircraft and engines compared to the prior period and cost saving initiatives, including headcount reductions, partially mitigated the impact of COVID-19.

<u>Manufacturing Segment</u>

The Manufacturing segment revenue increased by $11.3 million or 11% over the prior period to $117.6 million and EBITDA increased by $4.0 million or 28% to $18.1 million.

All of the Corporation's subsidiaries within the Manufacturing segment have been deemed essential businesses during the COVID-19 pandemic and have continued to operate. Social distancing and required employee absenteeism have reduced the efficiency and throughput in the short term despite robust demand. 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.

EBITDA at Quest was higher than the prior period reflecting the acquisition of WIS in the third quarter of 2020 with no comparative in the first quarter of 2020. Our installation businesses in the United States have performed above our expectations since being acquired. During the first quarter of 2021, COVID-19 and weather-related interruptions to production impacted Quest and its installation businesses. This included an interruption at the Quest plant in Texas for several days due to a devastating snowstorm that resulted in the declaration of a state of emergency in Texas. This reduced output from the facility and reduced efficiencies for a period of time, which negatively impacted EBITDA during the period. Quest continues to be impacted by job-site delays and inefficiencies as a result of health and safety protocols relating to the impacts of COVID-19.

The balance of the segment collectively experienced an increase in EBITDA. Demand continues to be strong while the benefit of CEWS helps to offset higher health and safety costs and inefficiencies associated with COVID-19.

NET EARNINGS (LOSS)

Three Months Ended March 31,		**2021**		2020
Net Earnings (Loss)	**$**	**7,127**	$	(5,298)
Net Earnings (Loss) per share	**$**	**0.20**	$	(0.15)

Net Earnings was $7.1 million, an increase of $12.4 million over the prior period. The $6.9 million increase in EBITDA during the current period increased Net Earnings. In addition, a reduction in interest costs and depreciation on capital assets increased Net Earnings. In the prior period, a non-recurring $6.1 million impairment loss on certain intangible assets decreased Net Earnings.

Income tax expense increased by $6.0 million due to increased earnings before tax compared to the prior period. Current income tax expense increased during the period primarily due to stronger earnings before tax and lower tax depreciation being available in the period from reduced capital expenditures and accelerated tax depreciation claimed in prior periods.

Net Earnings per share increased by 233% to $0.20 over the prior period due to increased Net Earnings generated in the period. The weighted average number of shares increased by 2%, which partially offset the increased Net Earnings. 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,		2021		2020
Net Earnings (Loss)	**$**	**7,127**	$	(5,298)
Acquisition costs, net of tax		**104**		15
Amortization of intangible assets, net of tax		**3,249**		2,800
Interest accretion on acquisition contingent consideration		**71**		68
Impairment loss, net of tax		**-**		4,473
Adjusted Net Earnings	**$**	**10,551**	$	2,058
per share - Basic	**$**	**0.30**	$	0.06
per share - Diluted	**$**	**0.29**	$	0.06

Adjusted Net Earnings was $10.6 million, an increase of $8.5 million over the prior period. Adjusted Net Earnings includes the add-back of acquisition-related costs, which are comprised of $3.2 million in intangible asset amortization, $0.1 million in acquisition costs, and $0.1 million in interest accretion on contingent consideration (all net of tax).

Adjusted Net Earnings per share increased by 400% to $0.30 over the prior period due to higher Adjusted Net Earnings generated in the period. The weighted average number of shares increased by 2%, which partially offset the increased Adjusted Net Earnings. 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,		2021		2020
Cash flows from operations	**$**	**68,270**	$	45,739
Change in non-cash working capital		**(20,995)**		(1,175)
Acquisition costs, net of tax		**104**		15
Principal payments on right of use lease liabilities		**(5,737)**		(5,830)
	$	**41,642**	$	38,749
per share - Basic	**$**	**1.17**	$	1.12
per share - Fully Diluted	**$**	**1.06**	$	1.01

The Free Cash Flow generated by the Corporation during the period was $41.6 million, an increase of $2.9 million, or 7% over the comparative period. The main reason for this increase is the $6.9 million increase in EBITDA, partially offset by higher current taxes. Free Cash Flow is discussed further in *Section 12 – Non-IFRS Financial Measures and Glossary*.

Because of the increase in Free Cash Flow described above, Free Cash Flow on a basic per share basis increased by 4% to $1.17. The weighted average number of shares increased by 2%, which partially offset the increased Free Cash Flow. 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 detailed 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 our existing portfolio of subsidiaries is a primary objective of the Corporation.

CAPITAL EXPENDITURES

	Three Months Ended March 31, 2021			
CAPITAL EXPENDITURES	**Aerospace & Aviation**	**Manufacturing**	**Head Office**	**Total**
Maintenance Capital Expenditures	$ 21,053	$ 983	$ 28	$ 22,064
Growth Capital Expenditures	22,178	354	-	22,532
	$ 43,231	$ 1,337	$ 28	$ 44,596

	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

Maintenance Capital Expenditures for the period ended March 31, 2021, decreased by 39% from the prior period. 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. During the prior period, Maintenance Capital Expenditures for two and a half months reflected pre-pandemic reality, whereas in the current period Maintenance Capital Expenditures reflect current levels of flying. Flight hours have been reduced due to the pandemic and the timing of Maintenance Capital Expenditures is directly impacted by flying time for the aircraft and engines. Maintenance Capital Expenditures are expected to gradually increase as our flight hours increase throughout 2021. In 2020, a weak Canadian dollar also 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 period ended March 31, 2021, were $19.5 million, a decrease of 20% from 2020. Reduced flying volumes resulted in lower required maintenance. During the period, the Legacy Airlines and Provincial invested $6.9 million in Growth Capital Expenditures. Investments made relating to aircraft modifications in preparation for the Netherlands Coast Guard ISR contract for Provincial were partially offset by the disposal of one aircraft in the Legacy Airlines during the period, which is expected to be replaced in a subsequent period.

Regional One's Maintenance Capital Expenditures for the period ended March 31, 2021, were $1.6 million, a decrease of 86% from the prior year due to lower reinvestment requirements. The COVID-19 pandemic has left its fleet of aircraft and engines underutilized, and as a result, the available green time on those aircraft is not being consumed at the same rate as in prior periods. 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. As the fleet is currently underutilized, the historical approach is not appropriate. The actual costs of maintaining the fleet were significantly lower than the depreciation expense recorded during the period. The actual expenditures on assets already owned have been 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, net of disposals and transfers to inventory, 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, 2021**		December 31, 2020	
	Aircraft	**Engines**	Aircraft	Engines
Lease portfolio	**59 (1)**	**59**	58	51

Note 1) The aircraft total above includes 10 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, the Embraer ERJ aircraft, and the Dash-8 Q400 aircraft. Regional One is not a traditional leasing company. Regional One 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 not all the aircraft and engines in the portfolio will be on lease at any given time.

During the period ended March 31, 2021, Regional One invested $15.3 million in Growth Capital Expenditures. Regional One took an opportunity to purchase some larger assets at attractive prices due to the impact COVID-19 has had on the aviation industry. These assets are currently being marketed for lease and will contribute to lease revenue in future periods after the impacts of COVID-19 on the aviation industry wane. Partially offsetting the Growth Capital Expenditures, Regional One's inventory decreased by $3.8 million in the first quarter of 2021.

In the prior period, Growth Capital Expenditures at Regional One represented the difference between net capital assets acquired (assets purchased less assets sold or transferred to inventory) and the amount of Maintenance Capital Expenditures, calculated using depreciation as a proxy. Starting in the second quarter of 2020, Growth Capital Expenditures represent the purchases of new assets, net of disposals and transfers to inventory. Because 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 Corporation has been actively searching for opportunities arising from the impact of the COVID-19 pandemic on the aviation industry and made some purchases during the period. 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.*

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 period ended March 31, 2021, Maintenance Capital Expenditures of $1.0 million were made by the Manufacturing segment, an increase of $0.5 million over the prior period.

During the period ended March 31, 2021, Growth Capital Expenditures of $0.4 million were made by the Manufacturing segment. The investments were made to increase capacity within the segment to support the growth in demand currently experienced by the segment subsidiaries.

INVESTMENT IN WORKING CAPITAL

During the period ended March 31, 2021, the Corporation generated $21.0 million in cash from working capital. Details of the investment in working capital are included in Note 15 and the Statement of Cash Flows in the Corporation's Consolidated Financial Statements.

Since the onset of the pandemic, the Corporation has enhanced processes surrounding its working capital management. The Corporation will continue to manage its working capital to reflect its current level of operations.

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 our core strategy of diversification, disciplined investment in our subsidiaries, and disciplined acquisition of companies with defensible and steady cash flows.

Dividends

Month	Record date	Per Share	2021 Dividends Amount	Record date	Per Share	2020 Dividends Amount
January	January 29, 2021	$ 0.19	$ 6,744	January 31, 2020	$ 0.19	$ 6,596
February	February 26, 2021	0.19	6,748	February 28, 2020	0.19	6,599
March	March 31, 2021	0.19	6,755	March 31, 2020	0.19	6,606
Total		**$ 0.57**	**$ 20,247**		$ 0.57	$ 19,801

Dividends declared for the three months ended March 31, 2021, increased over the comparative period. This increase was driven by the issuance of shares in the last twelve months, primarily through the Corporation's dividend reinvestment plan and shares issued as part of the acquisition of WIS in the third quarter of 2020.

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 exclude 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 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.

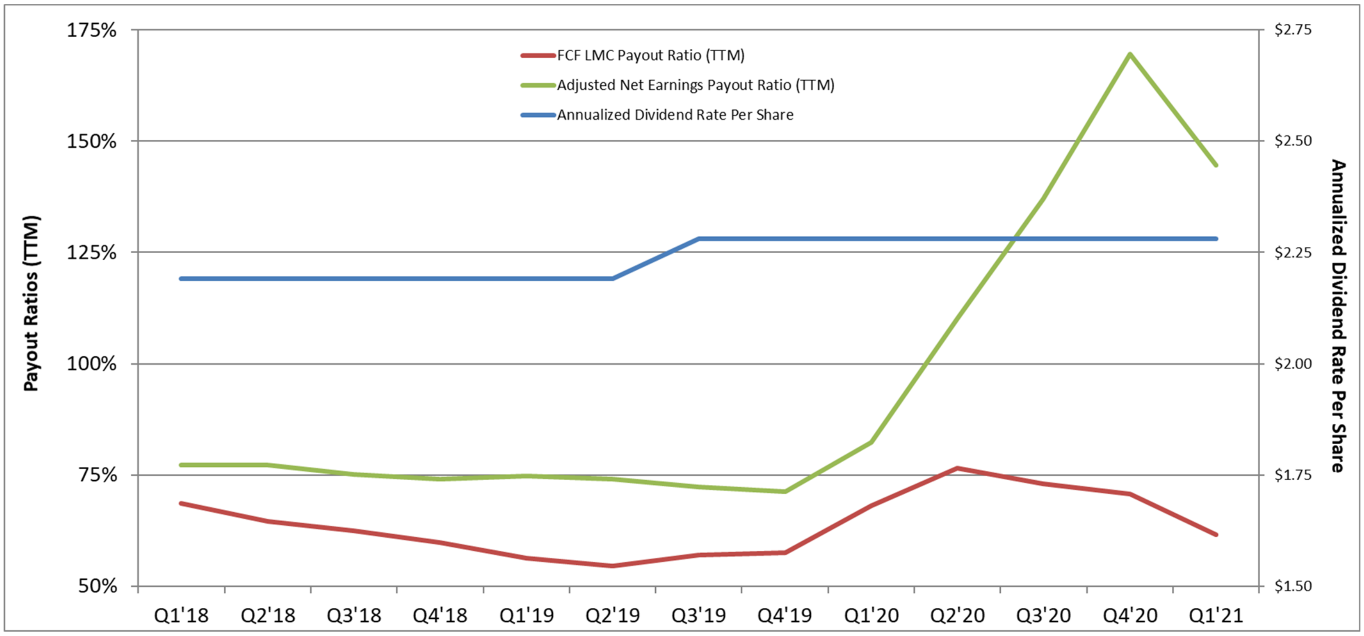
Payout Ratios

Basic per Share Payout Ratios for the Corporation	**2021**		2020	
Periods Ended March 31	**Three Months**	**Trailing Twelve Months**	Three Months	Trailing Twelve Months
Adjusted Net Earnings	**190%**	**145%**	950%	82%
Free Cash Flow less Maintenance Capital Expenditures	**104%**	**62%**	814%	68%

The Corporation's payout ratios were impacted by COVID-19. The trailing twelve month Adjusted Net Earnings payout ratio increased over the prior period to 145% from 82% at March 31, 2020, due to the impacts of COVID-19. Since March 31, 2020, however, the trailing twelve month Free Cash Flow less Maintenance Capital Expenditures payout ratio improved from 68% to 62% at March 31, 2021, and was achieved through the diligent management of cash flow in general and capital expenditures specifically during the pandemic. The payout ratio at this level is a significant achievement as it is only slightly higher than the payout ratio at December 31, 2019 of 57%, which was the Corporation's lowest annual payout ratio in its history.

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.

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

The near-term outlook will continue to be directly impacted by the trajectory of the pandemic. Its impact varies by region, segment, business, and revenue streams within each business. In this regard, our diversification has served us well, and combined with our employees' proven ability to adapt to the unpredictability of the virus, it will continue to serve us well as we manage through the current state of the pandemic.

In Canada, the number of cases of COVID-19 and the frequency of the variants have increased. This situation has resulted in more government-mandated restrictions in most provinces and territories, which will delay the expected recovery in passenger volumes in the regions we service across Canada. Within our Aerospace & Aviation segment, the increase in COVID-19 cases and variants also creates challenges in our ability to onboard international students at our flight school. In the Manufacturing segment, it will put a strain on production at our Canadian manufacturing companies, as they continue to enforce appropriate safety protocols, implement new ones, have a higher number of employees required to stay home, and in some circumstances experience temporary production interruptions. As the percentage of the population that is vaccinated increases and the number of cases decrease, we expect these restrictions to be lifted. When the restrictions ease, our experience has shown that passenger volumes will quickly return to pre-pandemic levels as travel in the north is an essential service. Customers need to travel south for medical treatment and services that are not available in their communities, so once it is viewed as safe to travel, these deferred events will drive a quick return to normalcy. The other areas of our diversified aviation services, including government charters, ISR, medevacs, and cargo, continue to perform well. As well, we have recently adjusted our schedule in Eastern Canada and Quebec to enhance our regional network. By having an established presence in the market, we are well positioned to flexibly deploy our fleet and meet emerging demand. In undertaking this alignment, we are working cooperatively with national carriers to facilitate access to domestic, transborder and international networks, including destinations where national carrier service has been suspended due to the impact of COVID-19 on travel.

In our manufacturing operations, demand remains steady and is increasing in certain areas. As previously discussed there will be some production gaps and lower revenue at Quest in 2021 as a result of construction projects' schedules being stretched to deal with government restrictions and health protocols in different regions, however demand for new inquiries has returned to pre-pandemic levels. This demand will lead to bookings in 2022 and beyond and serve to further increase the backlog. In addition, demand in the remainder of the segment will be positively impacted by the development of the 5G network across Canada and the post election increased spending in the US.

In the US, where a higher percentage of the population is vaccinated, we are seeing the COVID-19 pressures on our operations lessen. This is most apparent in the demand for domestic air travel. Many airlines are seeing swift recoveries of their passenger loads and are increasing their flight frequencies. This is especially true of the regional markets where several regional operators in the US expect to be at their pre-pandemic levels by early 2022, driven by strong leisure demand. The increase in demand in the US, as well as some other parts of the world, such as Africa, has led to an uptick in activity at Regional One, resulting in sequentially higher revenue in the first quarter for both parts sales and leasing revenue. We expect this to continue throughout 2021, as the increased demand and higher level of maintenance activity at the airlines drive demand for Regional One's services.

Regional One continues to be opportunistic in their approach to asset purchases. As noted in previous quarters, Regional One had started to see some favourable buying opportunities, however chose to make only limited purchases as they expected the buyer's market to strengthen. This has materialized and Regional One has begun to execute on opportunities in the market. During the quarter, they added ERJ190, CRJ200 and 900, and Q400 aircraft and engines. The Q400 aircraft, while not new to Regional One, is now a larger component of their assets. They used the changing market conditions as a result of the pandemic to make this a key aircraft they support. Now primarily focused on the CRJ, ERJ and Q400 platforms, Regional One is in a very strong position with the right aircraft to support the regional market. This market is expected to rebound first as the demand for smaller jets and large turboprop aircraft should increase faster than larger jets, as airlines seek to utilize these smaller aircraft to match market demand

Our business model is straight forward: diversify operations, buy market leaders, invest in them, empower the existing management teams, and maintain a strong balance sheet. Dogmatically following this model has not only enabled us to weather this uncertainty with great success, it has also enabled us to do so while still focusing on long-term growth.

We have been busy this year increasing our long-term growth potential. Within our existing operations we continued to work on executing long-term projects, including FWSAR, the increased scope of the DFO contract, and the new Netherlands contract. We await the decision from Curacao on the ISR contract we bid as the incumbent and the decision from Malaysia on a new ISR opportunity bid in 2020. Within our northern aviation business, we are increasing the gauge of our aircraft to match demand requirements.

Subsequent to quarter end, the Corporation closed a bought deal financing of common shares for gross proceeds of approximately $80 million. This will serve EIC well as we pursue growth opportunities, both through organic investment and acquisitions. There are a number of strategic acquisition opportunities currently being assessed and we are optimistic to add accretive acquisitions later in the year.

These past, current, and future investments will ensure our companies are stronger in the long run. They provide us the foundation to deal with the expected near-term turbulence driven by the pandemic. The resurgence in the number of cases in Canada will have some impact on near term results, but we are expecting strengthening demand in core areas as the year progresses. We have shown our ability to deal with these uncertainties while executing on our business plan. After one year of the pandemic, our twelve-month Free Cash Flow less Maintenance Capital Expenditures payout ratio has improved from March 31, 2020 to March 31, 2021. This is a feat no one would have predicted one year ago, and has put us in an enviable position amongst others in our industries.

In recent quarters, EIC has taken steps to formalize our values and intentions as it relates to Environmental, Social, and Governance ("ESG") matters. These items are aligned with EIC's core values and important to our long-term success. It is becoming increasingly important to not only conduct our business with these core values in mind, but to also ensure these matters are appropriately tracked, reported, and future goals are set and communicated. Accordingly, in 2020, EIC began an assessment process to identify and prioritize our ESG matters, utilizing an integrated combination of EIC's Board, Board committees, executives, employees and consultants. EIC is currently soliciting feedback about these matters from the Corporation's executive team, subject matter experts within the Corporation, and leaders from the operating subsidiaries. EIC will use insights gained from this process to develop and implement a more systematic approach to managing ESG matters and a framework for reporting on the Corporation's progress.

Capital Expenditures

Maintenance Capital Expenditures are necessary to maintain the earning power of our subsidiaries. Maintenance Capital Expenditures have increased in line with the increased scope of our operations over the last number of years. As we experienced a decrease in our flight hours as a result of COVID-19, we also reduced capital expenditures to match the level of flying. This resulted in much lower Maintenance Capital Expenditures in the recent quarters. Maintenance Capital Expenditures are expected to gradually increase as our flight hours increase.

Growth Capital Expenditures in the remainder of 2021 will focus on the new Netherlands ISR contract and a new hangar in Winnipeg for the FWSAR contract. The modifications for the Netherlands contract started in the fourth quarter of 2020 and are expected to be finished in the second quarter of 2022. The site preparation for the new hangar is expected to start in the third quarter of this year. Regional One expects to execute on further opportunities based on their opportunistic approach to asset acquisition.

As discussed in the 2020 annual report, Regional One's leased aircraft are not flying as much as a result of COVID-19. Therefore, the green time is not being consumed at the same rate on these aircraft. As a result, the actual capital expenditures on assets already owned are being used as the costs of maintaining the fleet starting in the second quarter of 2020. This will continue 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.

A key tenet to EIC's business model is to continue to invest in our subsidiaries. As such, EIC will continue to assess prospects to grow through additional investment as opportunities are developed by our subsidiaries throughout the year. Regional One is the most fluid example as their business opportunities can arise and be acted upon in short order, as has been demonstrated in years past. The current environment is creating interesting opportunities for Regional One's leadership team with EIC's ability to support them with capital. Regional One's ability to be opportunistic is a key aspect of their business model and our long-term investment strategy.

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 combined with the changes to the credit facility in 2020 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's balance sheet strength was enhanced further subsequent to the end of the quarter with its offering of common shares, as discussed further in the Share Capital section below.

Since the onset of COVID-19, the Corporation has taken several steps to manage its liquidity through the crisis and continued to successfully execute on plans put in place in 2020. The Corporation's diligent management of both capital expenditures and working capital has left the Corporation in an excellent position. During the first quarter of 2021, the Corporation has generated sufficient cash flow to cover its Maintenance Capital Expenditures, its dividend to shareholders, and most of its Growth Capital Expenditures, which will contribute to future growth in Free Cash Flow. Working capital over the period generated $21.0 million in cash for the Corporation, indicating that working capital investments in prior periods were required to support increased revenues and as revenues decreased, so did working capital requirements. These results continue to demonstrate the ability to manage cash flow during the pandemic to meet current demand and invest in the future growth of the Corporation, all without adding debt. This is in stark contrast to other entities with exposure to the airline industry and speaks volumes to the effectiveness of EIC's diversified operations and balance sheet management during even the most trying business environments.

At March 31, 2021, the Corporation's key financial covenant for its credit facility is its senior leverage ratio, and its facility allows for a maximum of 5.0x. Due to the initial uncertainty surrounding the impacts of COVID-19, the Corporation proactively approached its syndicate of lenders in the prior period. An amendment to the Corporation's credit facility increased its allowable senior leverage ratio to from 4.0x to 5.0x for the quarters ending December 31, 2020, through September 30, 2021 and was precautionary as there was no expectation of exceeding our 4.0x covenant at the time. The Corporation has not required, and is not expecting to require, the additional flexibility permitted under this amendment. Although the Corporation's leverage ratio has increased from its historical norms caused by the reduction in EBITDA compared to 2019 due to the impact of COVID-19 (senior debt to EBITDA has historically ranged from 1.5-2.5x), the Corporation's current leverage ratio of 2.69x and has not substantially changed since the onset of the pandemic, when it was 2.44x. Consistent with EIC's historical balance sheet management, the Corporation was proactive in managing its liquidity so that should an opportunity present itself, EIC has the capability to execute where others may not be able. Going forward, the increased covenant provides the Corporation the flexibility to draw additional capital to take advantage of opportunities as they are uncovered.

At March 31, 2021, the Corporation has liquidity of approximately $860 million through cash on hand, its credit facility, and the credit facility accordion feature, which when combined with no expected material cash burn, puts the Corporation in a very strong liquidity position.

As at March 31, 2021, the Corporation had a cash position of $83.7 million (December 31, 2020 - $69.9 million) and a net working capital position of $312.2 million (December 31, 2020 - $323.6 million) which represents a current ratio of 1.95 to 1 (December 31, 2020 – 2.10 to 1).

Overview of Capital Structure

The Corporation's capital structure is summarized below.

	March 31 2021	December 31 2020
Total senior debt outstanding (principal value)	$ 815,103	$ 797,444
Convertible debentures outstanding (par value)	335,725	335,725
Common shares	734,552	731,343
Total capital	$ 1,885,380	$ 1,864,512

Subsequent to the end of the period, the Corporation announced a bought deal financing of common shares. The offering is described in further detail in the Share Capital section below. The Corporation used the net proceeds to make a repayment on its credit facility during the second quarter. In addition, the Corporation made a US $10.4 million repayment during the second quarter with cash on hand. The effect of these two repayments on the Corporation's capital structure is shown in the table below.

	March 31 2021 (Adjusted)	December 31 2020
Total senior debt outstanding (principal value), after giving effect to repayments identified above	$ 725,725	$ 797,444
Convertible debentures outstanding (par value)	335,725	335,725
Common shares, after giving effect to bought deal financing of common shares	810,852	731,343
Total capital	$ 1,872,302	$ 1,864,512

Credit facility

The size of the Corporation's credit facility as at March 31, 2021, 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, 2021, the Corporation had drawn $190.0 million and US $497.1 million (December 31, 2020 - $190 million and US $477.1 million).

The Corporation's long-term debt, net of cash, increased by $4.2 million since December 31, 2020. The increase is attributable to Growth Capital Expenditures during the quarter and that were mostly offset by cash flow generated during the period. In addition, the strengthening of the Canadian dollar since December 31, 2020, decreased the Canadian converted amount of its US dollar long-term debt outstanding.

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, 2021, US $262.7 million (December 31, 2020 – US $257.2 million) of the Corporation's US denominated borrowings are hedged with these swaps.

Convertible Debentures

The following summarizes the convertible debentures outstanding as at March 31, 2021, and changes in the amounts of convertible debentures outstanding during the three months ended March 31, 2021:

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, 2021:

	Date issued (redeemed)	Number of shares
Shares outstanding, beginning of period		35,471,758
Issued under dividend reinvestment plan (DRIP)	various	65,897
Issued under employee share purchase plan	March 15, 2021	17,548
Issued under First Nations community partnership agreements	March 19, 2021	1,000
Shares outstanding, end of period		35,556,203

The Corporation issued 65,897 shares under its dividend reinvestment plan during the period and received $2.5 million for those shares in accordance with the dividend reinvestment plan.

The Corporation issued 17,548 shares under its Employee Share Purchase Plan during the period and received $0.7 million for those shares in accordance with the Employee Share Purchase Plan.

The weighted average shares outstanding during the three months ended March 31, 2021, increased by 2% compared to the prior period. The increase is primarily attributable to shares issued in connection with the acquisition of WIS and shares issued under the Corporation's dividend reinvestment plan.

On April 26, 2021, the Corporation closed a bought deal financing of common shares, resulting in the issuance of 2,031,000 shares of the Corporation at $39.40 per share, for gross proceeds of approximately $80 million. The Corporation has also granted the underwriters an option to purchase up to an additional 304,650 shares, representing 15% of the size of the offering, on the same terms and conditions, exercisable at any time, in whole or in part, up to 30 days after the closing of the offering. The net proceeds of the offering, excluding any possible funds to be received under the over-allotment, were used to repay debt under the Corporation's credit facility during the second quarter and will create further availability under the credit facility until required for future acquisitions or other growth opportunities. The Corporation is experiencing increased acquisition opportunities and wishes to be able to move quickly to take advantage of opportunities should the situation warrant.

Normal Course Issuer Bid

On February 22, 2021, the Corporation renewed its NCIB for common shares and received approval for a new NCIB for certain series of convertible debentures of EIC. Under the renewed NCIB for common shares, purchases can be made during the period commencing on February 24, 2021, and ending on February 23, 2022. The Corporation can purchase a maximum of 3,253,765 shares and daily purchases will be limited to 27,845 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.

Under the new NCIB for certain series of convertible debentures, purchases can be made during the period commencing on February 24, 2021, and ending on February 23, 2022. The Corporation can purchase a maximum of $6,897,500 principal amount of 7 year 5.25% convertible unsecured subordinated debentures, $10,000,000 principal amount of 5 year 5.25% convertible unsecured subordinated debentures, $8,050,000 principal amount of 7 year 5.35% convertible unsecured subordinated debentures, and $8,625,000 principal amount of 7 year 5.75% convertible unsecured subordinated debentures, with daily purchases of principal amount, other than block purchase exceptions, limited to $10,207, $11,001, $19,392, and $19,338, respectively. The Corporation sought the NCIB for debentures to permit repurchase and cancellation of these securities during times of market instability where management believes the market price does not reflect the value of the debentures.

During the three months ended March 31, 2021, the Corporation did not make any purchases under either NCIB and therefore still has the full amounts detailed above available for repurchase.

7. RELATED PARTY TRANSACTIONS

The nature of related party transactions that the Corporation entered during the three months ended March 31, 2021, are consistent with those described in the Corporation's MD&A for the year ended December 31, 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, 2020.

9. ACCOUNTING POLICIES

The accounting policies of the Corporation used in the determination of the results for the interim condensed consolidated financial statements for the three months ended March 31, 2021, that are discussed and analyzed in this report are described in detail in Note 3 of the Corporation's 2020 annual consolidated financial statements and Note 3 of the Corporation's interim condensed consolidated financial statements for the three months ended March 31, 2021.

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, 2021, and has concluded that the design of internal controls over financial reporting is effective.

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 WIS, acquired on July 31, 2020. WIS had revenue of $25.1 million included in the consolidated results of the Corporation for the first quarter of 2021. As at March 31, 2021, it had current assets of $32.3 million, non-current assets of $51.1 million, current liabilities of $8.8 million, and non-current liabilities of $0.3 million.

There have been no material changes to the Corporation's internal controls during the 2021 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, 2021.

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, 2020.

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, 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 lease 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, prior to the onset of COVID-19, 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, prior to the onset of COVID-19, 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 was historically represented by depreciation. For the first quarter of 2020, 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 were 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 at Regional One 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. Starting in the second quarter of 2020, 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, net of disposals and transfers to inventory, 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:

	2021				2020				2019
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	**$ 300,746**	$ 301,710	$ 297,286	$ 243,657	$ 306,976	$ 363,287	$ 355,164	$ 325,907	$ 297,016
EBITDA	**64,122**	81,971	83,235	62,075	57,254	88,748	89,002	87,237	63,826
Net Earnings (Loss)	**7,127**	13,479	17,244	2,630	(5,298)	25,283	28,990	21,875	7,488
Basic	**0.20**	0.38	0.49	0.08	(0.15)	0.74	0.90	0.68	0.24
Diluted	**0.20**	0.37	0.48	0.07	(0.15)	0.71	0.83	0.65	0.23
Adjusted Net Earnings	**10,551**	18,847	20,626	5,645	2,058	29,757	33,073	26,573	12,724
Basic	**0.30**	0.53	0.59	0.16	0.06	0.88	1.03	0.83	0.41
Diluted	**0.29**	0.52	0.57	0.16	0.06	0.81	0.93	0.78	0.40
Free Cash Flow ("FCF")	**41,642**	59,497	57,886	42,268	38,749	68,631	67,166	65,729	44,246
Basic	**1.17**	1.68	1.64	1.21	1.12	2.02	2.08	2.05	1.41
Diluted	**1.06**	1.48	1.45	1.09	1.01	1.75	1.78	1.75	1.25
FCF less Maintenance Capital Expenditures	**19,578**	41,270	44,350	25,412	2,299	36,935	36,885	34,533	17,722
Basic	**0.55**	1.17	1.26	0.73	0.07	1.09	1.14	1.08	0.57
Diluted	**0.54**	1.05	1.23	0.71	0.06	0.99	1.03	0.97	0.55
Maintenance Capital Expenditures	**22,064**	18,227	13,536	16,856	36,450	31,696	30,281	31,196	26,524
Growth Capital Expenditures	**22,532**	14,434	6,807	12,301	14,381	29,790	32,060	16,392	41,082

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 2021	December 31 2020
ASSETS		
CURRENT		
Cash and cash equivalents	$ **83,711**	$ 69,862
Accounts receivable	**269,429**	263,885
Amounts due from customers on construction contracts	**20,899**	21,372
Inventory	**233,093**	235,870
Prepaid expenses and deposits	**35,087**	27,967
	642,219	618,956
OTHER ASSETS (Note 6)	**75,989**	75,347
CAPITAL ASSETS	**959,356**	950,037
RIGHT OF USE ASSETS	**87,418**	90,483
INTANGIBLE ASSETS	**157,898**	161,772
GOODWILL	**396,255**	397,589
	$ **2,319,135**	$ 2,294,184
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ **242,202**	$ 214,504
Income taxes payable	**3,110**	5,253
Deferred revenue	**34,702**	27,973
Amounts due to customers on construction contracts	**26,839**	24,997
Current portion of right of use lease liability	**23,205**	22,604
	330,058	295,331
OTHER LONG-TERM LIABILITIES	**20,705**	31,427
LONG-TERM DEBT (Note 7)	**812,224**	794,194
CONVERTIBLE DEBENTURES (Note 8)	**317,188**	315,830
LONG-TERM RIGHT OF USE LEASE LIABILITY	**70,474**	73,794
DEFERRED INCOME TAX LIABILITY	**95,414**	97,662
	1,646,063	1,608,238
EQUITY		
SHARE CAPITAL (Note 9)	**734,552**	731,343
CONVERTIBLE DEBENTURES - Equity Component (Note 8)	**13,214**	13,214
CONTRIBUTED SURPLUS	**9,837**	9,837
DEFERRED SHARE PLAN	**17,264**	16,893
RETAINED EARNINGS		
Cumulative Earnings	**506,751**	499,624
Cumulative Dividends	**(597,179)**	(576,932)
Cumulative impact of share cancellation under the NCIB	**(26,122)**	(26,122)
	658,317	667,857
ACCUMULATED OTHER COMPREHENSIVE INCOME	**14,755**	18,089
	673,072	685,946
	$ **2,319,135**	$ 2,294,184

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		**2021**		2020
REVENUE				
Aerospace & Aviation	**$**	**183,143**	$	200,693
Manufacturing		**117,603**		106,283
		300,746		306,976
EXPENSES				
Aerospace & Aviation expenses - excluding depreciation and amortization		**104,136**		118,311
Manufacturing expenses - excluding depreciation and amortization		**88,370**		78,221
General and administrative		**44,118**		53,190
		236,624		249,722
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER (Note 4)		**64,122**		57,254
Depreciation of capital assets		**30,743**		35,028
Amortization of intangible assets		**4,451**		3,836
Finance costs - interest		**11,391**		13,093
Depreciation of right of use assets		**6,124**		6,341
Interest expense on right of use lease liabilities		**873**		1,032
Acquisition costs		**104**		15
Impairment loss		**-**		6,117
Other		**-**		(177)
EARNINGS (LOSS) BEFORE INCOME TAXES		**10,436**		(8,031)
INCOME TAX EXPENSE (RECOVERY)				
Current		**6,094**		(218)
Deferred		**(2,785)**		(2,515)
		3,309		(2,733)
NET EARNINGS (LOSS)	**$**	**7,127**	$	(5,298)
NET EARNINGS (LOSS) PER SHARE (Note 12)				
Basic	**$**	**0.20**	$	(0.15)
Diluted	**$**	**0.20**	$	(0.15)

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**		**2021**		2020
NET EARNINGS (LOSS)	**$**	**7,127**	$	(5,298)
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 $(4) and $34, respectively.		**(7,472)**		56,802
Net gain (loss) on hedge of net investment in foreign operations, net of tax expense of $20 and nil, respectively.		**2,198**		(17,577)
Net gain (loss) on hedge of restricted share plan, net of tax expense (recovery) of $91 and $(1,127), respectively.		**249**		(3,047)
Net gain (loss) on interest rate swap, net of tax expense (recovery) of $625 and $(1,349), respectively.		**1,691**		(3,646)
		(3,334)		32,532
COMPREHENSIVE INCOME	**$**	**3,793**	$	27,234

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited, in thousands of Canadian dollars)

	Share Capital	Convertible Debentures - Equity Component	Contributed Surplus - Matured Debentures	Deferred Share Plan	Retained Earnings: Cumulative Earnings	Retained Earnings: Cumulative Dividends	Retained Earnings: Cumulative impact of share repurchases under NCIB	Accumulated Other Comprehensive Income (Loss)	**Total**
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	1,928	-	-	-	-	-	-	-	**1,928**
Deferred share plan vesting (Note 13)	-	-	-	441	-	-	-	-	**441**
Shares issued under ESPP	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**
Balance, January 1, 2021	$ 731,343	$ 13,214	$ 9,837	$ 16,893	$ 499,624	$ (576,932)	$ (26,122)	$ 18,089	**$ 685,946**
Shares issued under dividend reinvestment plan (Note 9)	2,463	-	-	-	-	-	-	-	**2,463**
Shares issued under First Nations community partnership agreements	40	-	-	-	-	-	-	-	**40**
Deferred share plan vesting (Note 13)	-	-	-	371	-	-	-	-	**371**
Shares issued under ESPP (Note 9)	706	-	-	-	-	-	-	-	**706**
Comprehensive income	-	-	-	-	7,127	-	-	(3,334)	**3,793**
Dividends declared (Note 10)	-	-	-	-	-	(20,247)	-	-	**(20,247)**
Balance, March 31, 2021	**$ 734,552**	**$ 13,214**	**$ 9,837**	**$ 17,264**	**$ 506,751**	**$ (597,179)**	**$ (26,122)**	**$ 14,755**	**$ 673,072**

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	**2021**	2020
OPERATING ACTIVITIES		
Net earnings (loss) for the period	**$ 7,127**	$ (5,298)
Items not affecting cash:		
Depreciation of capital assets	**30,743**	35,028
Amortization of intangible assets	**4,451**	3,836
Depreciation of right of use assets	**6,124**	6,341
Accretion of interest	**1,792**	1,511
Long-term debt discount	**4**	(90)
Impairment loss	**-**	6,117
Loss (Gain) on disposal of capital assets	**(552)**	(630)
Deferred income tax recovery	**(2,785)**	(2,515)
Deferred share program share-based vesting (Note 13)	**371**	441
Other	**-**	(177)
	47,275	44,564
Changes in non-cash current and long-term working capital (Note 15)	**20,995**	1,175
	68,270	45,739
FINANCING ACTIVITIES		
Proceeds from long-term debt, net of issuance costs (Note 7)	**18,498**	128,168
Repayment of long-term debt (Note 7)	**-**	(1,550)
Principal payments on right of use lease liabilities	**(5,737)**	(5,830)
Issuance of shares, net of issuance costs	**3,209**	2,537
Cash dividends (Note 10)	**(20,247)**	(19,801)
	(4,277)	103,524
INVESTING ACTIVITIES		
Purchase of capital assets	**(56,490)**	(51,916)
Proceeds from disposal of capital assets	**12,897**	2,283
Purchase of intangible assets	**(1,003)**	(1,198)
Investment in other assets	**(4,204)**	(2,620)
Payment of contingent acquisition consideration and working capital settlements	**-**	(5,737)
	(48,800)	(59,188)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**15,193**	90,075
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**69,862**	22,055
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(1,344)**	6,090
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 83,711**	$ 118,220
Supplementary cash flow information		
Interest paid	**$ 7,456**	$ 8,180
Income taxes paid	**$ 8,421**	$ 5,321

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

(unaudited, in thousands of Canadian dollars, unless otherwise noted and 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 the 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, 2021, 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., 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. The recent development and deployment of vaccines could result in more travel around the world.

In the Aerospace & Aviation segment, travel restrictions and required quarantine periods 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. In the Manufacturing segment, social distancing, additional actions to keep our employees safe and required employee absenteeism have reduced manufacturing efficiency and reduced throughput in the production facilities. The Corporation has also incurred additional costs associated with personal protective equipment, sanitization, and other health and safety costs across both segments as a result of COVID-19. These impacts, among others as a result of COVID-19, reduced Revenue, Cash Flows from Operations (before the impact of working capital), and Net Earnings.

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 7 and Note 14.

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, 2020. 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 13, 2021.

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

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 2020 audited financial statements includes a comprehensive listing of the Corporation's significant accounting policies.

Government Grants

During the three months ended March 31, 2021, the Corporation was eligible for the Canada Emergency Wage Subsidy ("CEWS"). During this period, the Corporation recorded $9.0 million related to the CEWS as a reduction to the expenses for which the grant is intended to cover. At March 31, 2021, the Corporation has $4.1 million accrued for amounts to be received under the CEWS program in Accounts Receivable.

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 interim condensed 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 ESTIMATE AND JUDGMENTS

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

6. OTHER ASSETS

The other assets of the Corporation consist of the following:

	March 31 2021	December 31 2020
Long-term prepaid expenses and security deposits	$ 1,882	$ 1,929
Long-term receivables	5,107	5,458
Long-term holdback receivables	1,120	5,060
Equity method investments	45,601	41,019
Other investments - Fair value through OCI (Note 14)	7,860	7,975
Derivative financial instruments - Fair value through profit and loss (Note 14)	718	-
Loan to Wasaya	12,158	12,363
Loan to Nunatsiavut Group of Companies ("NGC")	1,543	1,543
Total other assets	$ 75,989	$ 75,347

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

7. LONG-TERM DEBT

The following summarizes the Corporation's long-term debt as at March 31, 2021, and December 31, 2020:

	March 31 2021	December 31 2020
Revolving term facility:		
Canadian dollar amounts drawn	$ 190,000	$ 190,000
United States dollar amounts drawn (US$497,100 and US $477,100 respectively)	625,103	607,444
Total credit facility debt outstanding, principal value	815,103	797,444
less: unamortized transaction costs	(2,720)	(3,087)
less: unamortized discount on outstanding Banker's Acceptances	(159)	(163)
Long-term debt	$ 812,224	$ 794,194

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, 2021.

During the prior period, the Corporation amended its credit facility. The amendment increased the senior leverage ratio maximum from 4.0x to 5.0x for the fiscal quarters ending December 31, 2020, through September 30, 2021. This amendment was sought by the Corporation as a precautionary measure to ensure that the Corporation had access to capital and additional flexibility during the uncertain times brought on by the COVID-19 pandemic.

Interest expense recorded by the Corporation during the three months ended March 31, 2021, for long-term debt was $5,459 (2020 – $7,216).

Credit Facility

The following is the continuity of long-term debt for the three months ended March 31, 2021:

					Three Months Ended March 31, 2021
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar amounts	$ 190,000	$ -	$ -	$ -	$ 190,000
United States dollar amounts	607,444	18,498	-	(839)	625,103
	$ 797,444				$ 815,103

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

8. CONVERTIBLE DEBENTURES

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

	2021 Balance, Beginning of Period	Debentures Issued	Accretion Charges	Debentures Converted	Redeemed / Matured	2021 Balance, End of Period
Unsecured Debentures - 2016	$ 67,014	$ -	$ 183	$ -	$ -	$ 67,197
Unsecured Debentures - 2017	97,692	-	272	-	-	97,964
Unsecured Debentures - 2018	76,638	-	186	-	-	76,824
Unsecured Debentures - 2019	83,413	-	113	-	-	83,526
						325,511
less: unamortized transaction costs						(8,323)
Convertible Debentures - Debt Component, end of period						$ 317,188

Interest expense recorded during the three months ended March 31, 2021, for the convertible debentures was $5,861 (2020 – $5,809).

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.

Summary of the equity component of the convertible debentures:

	March 31 2021	December 31 2020
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, 2021, represent direct unsecured debt obligations of the Corporation.

On February 22, 2021, the Corporation received approval from the TSX for its Normal Course Issuers Bid ("NCIB") to purchase up to $6,897,500 principal amount of 7 year 5.25% convertible unsecured subordinated debentures of EIC ("Debentures (June 2016)"), $10,000,000 principal amount of 5 year 5.25% convertible unsecured subordinated debentures of EIC ("Debentures (December 2017)"), $8,050,000 principal amount of 7 year 5.35% convertible unsecured subordinated debentures of EIC ("Debentures (June 2018)") and $8,625,000 principal amount of 7 year 5.75% convertible unsecured subordinated debentures of EIC ("Debentures (March 2019)"), representing 10% of the public float of each series of Securities at January 31, 2021. Purchases of Securities pursuant to the NCIB can be made through the facilities of the TSX during the period commencing on February 24, 2021, and ending on February 23, 2022. Daily purchases will be limited to $10,207 principal amount of Debentures (June 2016), $11,001 principal amount of Debentures (December 2017), $19,392 principal amount of Debentures (June 2018), and $19,338 principal amount of Debentures (March 2019), other than block purchase exemptions.

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

During the three months ended March 31, 2021, the Corporation did not make any purchases under its convertible debenture NCIB and therefore has the full amounts detailed above available for repurchase.

9. SHARE CAPITAL

Changes in the shares issued and outstanding during the three months ended March 31, 2021, are as follows:

	Number of Shares		2021 Amount
Share capital, beginning of period	35,471,758	$	731,343
Issued under dividend reinvestment plan	65,897		2,463
Issued under employee share purchase plan	17,548		706
Issued under First Nations community partnership agreements	1,000		40
Share capital, end of period	35,556,203	$	734,552

On February 22, 2021, the Corporation received approval from the TSX for the renewal of its NCIB to purchase up to an aggregate of 3,253,765 Common Shares, representing 10% of the issued and outstanding shares at January 31, 2021. Purchases of shares pursuant to the renewed NCIB can be made through the facilities of the TSX during the period commencing on February 24, 2021, and ending on February 23, 2022. The maximum number of shares that can be purchased by the Corporation daily is limited to 27,845 shares, other than block purchase exemptions.

During the three months ended March 31, 2021, the Corporation did not make any purchases under its common share NCIB and therefore has the full 3,253,765 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, 2021, and the comparative 2020 period are as follows:

Month	Record date		Per Share		2021 Dividends Amount	Record date		Per Share		2020 Dividends Amount
January	January 29, 2021	$	0.19	$	6,744	January 31, 2020	$	0.19	$	6,596
February	February 26, 2021		0.19		6,748	February 28, 2020		0.19		6,599
March	March 31, 2021		0.19		6,755	March 31, 2020		0.19		6,606
Total		$	0.57	$	20,247		$	0.57	$	19,801

After March 31, 2021, and before these interim condensed consolidated financial statements were authorized, the Corporation declared a monthly dividend of $0.19 per share for April 2021.

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 interim condensed consolidated Statement of Income. All intersegment and intra-segment revenues are eliminated, and all segment revenues presented in the tables below are from external customers.

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

"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 the head office of the Corporation.

	Three Months Ended March 31, 2021			
	Aerospace & Aviation	**Manufacturing**	**Head Office**	**Consolidated**
Revenue	**$ 183,143**	**$ 117,603**	**$ -**	**$ 300,746**
Expenses	**130,321**	**99,509**	**6,794**	**236,624**
EBITDA	**52,822**	**18,094**	**(6,794)**	**64,122**
Depreciation of capital assets				**30,743**
Amortization of intangible assets				**4,451**
Finance costs - interest				**11,391**
Depreciation of right of use assets				**6,124**
Interest expense on right of use lease liabilities				**873**
Acquisition costs				**104**
Earnings before income taxes				**10,436**
Current income tax expense				**6,094**
Deferred income tax expense (recovery)				**(2,785)**
Net Earnings				**$ 7,127**

	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)

	Three Months Ended March 31, 2021			
	Aerospace & Aviation	**Manufacturing**	**Head Office (1)**	**Consolidated**
Total assets	**$ 1,655,263**	**$ 544,365**	**$ 119,507**	**$ 2,319,135**
Net capital asset additions	**42,503**	**1,062**	**28**	**43,593**

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

	For the year ended December 31, 2020			
	Aerospace & Aviation	Manufacturing	Head Office (1)	Consolidated
Total assets	$ 1,623,340	$ 548,476	$ 122,368	$ 2,294,184
Net capital asset additions	122,310	5,037	1,040	128,387

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

Revenues

The following table provides disaggregated information about revenue from contracts with customers. Management believes 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 2021**	March 31 2020
Aerospace & Aviation Segment		
Sale of goods - point in time	**$ 30,350**	$ 38,381
Sale of services - point in time	**152,505**	161,585
Sale of services - over time	**288**	727
Manufacturing Segment		
Sale of goods - point in time	**23,725**	22,321
Sale of goods and services - over time	**93,878**	83,962
Total revenue	**$ 300,746**	$ 306,976

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

12. EARNINGS PER SHARE

Basic earnings per share for the Corporation is calculated by dividing the Net Earnings 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 securities to common shares. The Corporation has two categories of dilutive potential common shares: deferred shares under the Corporation's Deferred Share Plan and convertible debentures. For the convertible debentures, the convertible debt is assumed to have been converted into common shares and Net Earnings is adjusted to eliminate the interest expense from the convertible debt less the tax effect.

The computation for basic and diluted earnings per share for the three months ended March 31, 2021, and the comparative for the 2020 period are as follows:

Three Months Ended March 31		**2021**		2020
Net earnings (loss)	**$**	**7,127**	$	(5,298)
Effect of dilutive securities				
Convertible debenture interest		**-**		-
Diluted Net Earnings (Loss)	**$**	**7,127**	$	(5,298)
Basic weighted average number of shares		**35,508,213**		34,729,360
Effect of dilutive securities				
Deferred Shares		**972,874**		-
Convertible debentures		**-**		-
Diluted basis weighted average number of shares		**36,481,087**		34,729,360
Net Earnings (Loss) per share:				
Basic	**$**	**0.20**	$	(0.15)
Diluted	**$**	**0.20**	$	(0.15)

13. EMPLOYEE BENEFITS

Deferred Share Plan

During the three months ended March 31, 2021, the Corporation granted 30,607 (2020 – 18,749) deferred shares to certain personnel. The fair value of the deferred shares granted was $1,214 (2020 - $811) 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, 2021, the Corporation recorded a compensation expense of $371 for the Corporation's Deferred Share Plan within the general and administrative expenses of head office (2020 - $441).

Restricted Share Plan

During the three months ended March 31, 2021, the Corporation granted 120,518 (2020 – 104,543) restricted shares to certain personnel. The fair value of the restricted share units granted was $4,846 (2020 - $4,236) 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, 2021, the Corporation recorded compensation expense of $1,043 for the Corporation's Restricted Share Plan within the general and administrative expenses of head office (2020 - $256), 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, 2021, employees acquired 17,548 shares from treasury at a weighted average price of $40.24 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 $245 based on the share price and monthly dividend rate at that time.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation's activities expose it to a variety of financial risks: market risk (primarily currency, 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, 2020, consolidated financial statements.

During the prior period, the Corporation amended its credit facility to provide additional flexibility during the uncertain times brought on by the COVID-19 pandemic. The amendment increased the senior leverage ratio maximum from 4.0x to 5.0x for fiscal quarters through September 30, 2021. This amendment was sought as a precautionary measure. During 2021, management of working capital has increased liquidity by $20,995, providing the Corporation additional capital. The Corporation has also managed capital investments during the 2021 period where appropriate as part of its overall cash management due to the ongoing impact of COVID-19.

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 $497,100 or $625,103 (December 31, 2020 - US $477,100 or $607,444) 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 $92,000 (December 31, 2020 - US $82,500) 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 $142,400 (December 31, 2020 - US $137,400) 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, 2021, was a financial liability of $1,555 (2020 - financial asset of $17,733). At March 31, 2021, the notional value of the swaps outstanding is US $262,700 (2020 - US $225,300). Hedging gains and losses are reclassified from other comprehensive income to the interim condensed consolidated statement of income to the extent effective. Accordingly, $1,555 was reclassified from other comprehensive income (2020 - $17,733). 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, 2021:

- US $497,100 (December 31, 2020 – US $477,100) was outstanding under US LIBOR and,
- $190,000 (December 31, 2020 – $190,000) 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 until May 15, 2024. 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 $5,090 (December 31, 2020 - other long-term financial liability of $7,407) is recorded as a separate line within other comprehensive income.

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

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, 2020, and 2021 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. On a combined basis, the initial grant date fair value for the 2019, 2020, and 2021 programs was $12,602. The instruments are classified as a long-term financial asset of $718 (2020 - long-term financial liability of $43) and are recorded as a separate line within other comprehensive income.

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, 2021**	**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 (Note 6)	$ 718	$ -	$ 718	$ -
Other assets - Fair value through OCI (Note 6)	7,860	-	-	7,860
Financial Liabilities				
Consideration liabilities - Financial liability at fair value through profit and loss	(5,785)	-	-	(5,785)
Other long-term liabilities - Cross-currency basis swap - Financial liability at fair value through profit and loss	(1,555)	-	(1,555)	-
Other long-term liabilities - Interest Rate Swap - Financial liability at fair value through profit and loss	(5,090)	-	(5,090)	-
Fair Value Disclosures				
Other assets - Amortized cost	22,983	-	22,983	-
Long-term debt - Amortized cost	(812,224)	-	-	(815,103)
Convertible debt - Amortized cost	(317,188)	(347,154)	-	-

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

		Fair Value		
	Carrying Value	Quoted prices in an active market	Significant other observable inputs	Significant unobservable inputs
Recurring fair value measurements	December 31, 2020	Level 1	Level 2	Level 3
Financial Assets				
Other assets - Fair value through OCI (Note 6)	$ 7,975	$ -	$ -	$ 7,975
Financial Liabilities				
Consideration liabilities - Financial liability at fair value through profit and loss	(5,714)	-	-	(5,714)
Other long-term liabilities - Cross-currency basis swap - Financial liability at fair value through profit and loss	(4,433)	-	(4,433)	-
Other long term liabilities - Restricted Share Plan Derivative - Financial liability at fair value through profit and loss	(43)	-	(43)	-
Other long-term liabilities - Interest Rate Swap - Financial liability at fair value through profit and loss	(7,407)	-	(7,407)	-
Fair Value Disclosures				
Other assets - Amortized cost	26,353	-	26,353	-
Long-term debt - Amortized cost	(794,194)	-	-	(797,444)
Convertible debt - Amortized cost	(315,830)	(335,454)	-	-

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 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	**2021**	2020
Opening	**$ 5,714**	$ 12,411
Accretion	**71**	272
Settled during the period	**-**	(7,255)
Change in estimate (Note 5)	**-**	(177)
Acquisition of Advanced Window, including change in estimate (Note 6)	**-**	422
Translation loss	**-**	41
Ending	**$ 5,785**	$ 5,714

The liabilities for contingent consideration 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 interim condensed consolidated 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 $5,785 above is the earn out liability for LV Control.

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

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, 2021, 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 2.2%. 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, 2021, management estimated the fair value of the convertible debentures based on trading values. The estimated fair value of its convertible debentures is $347,154 (December 31, 2020 - $335,454) with a carrying value of $317,188 (December 31, 2020 - $315,830).

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

15. CHANGES IN WORKING CAPITAL

The changes in non-cash operating working capital during the three months ended March 31, 2021, and the comparative period in 2020 are as follows:

Three Months Ended March 31		**2021**		2020
Accounts receivable, including long-term portion	**$**	**(2,849)**	$	24,187
Amounts due from customers on construction contracts		**402**		(4,185)
Inventory		**952**		(11,307)
Prepaid expenses and deposits, including long-term portion		**(7,159)**		543
Accounts payable and accrued expenses, including long-term portion		**22,949**		4,282
Income taxes receivable/payable		**(2,130)**		(5,615)
Deferred revenue, including long-term portion		**6,729**		(2,252)
Amounts due to customers on construction contracts		**2,101**		(4,478)
Net change in working capital	**$**	**20,995**	$	1,175

16. SUBSEQUENT EVENTS

On April 26, 2021, the Corporation closed a bought deal financing of common shares, resulting in the issuance of 2,031,000 shares of the Corporation at $39.40 per share, for gross proceeds of approximately $80 million. The Corporation has also granted the underwriters an option to purchase up to an additional 304,650 shares, representing 15% of the size of the offering, on the same terms and conditions, exercisable at any time, in whole or in part, up to 30 days after the closing of the offering. The net proceeds of the offering, excluding any possible funds to be received under the over-allotment, were used to repay debt under the Corporation's credit facility during the second quarter and will create further availability under the credit facility until required for future acquisitions or other growth opportunities.