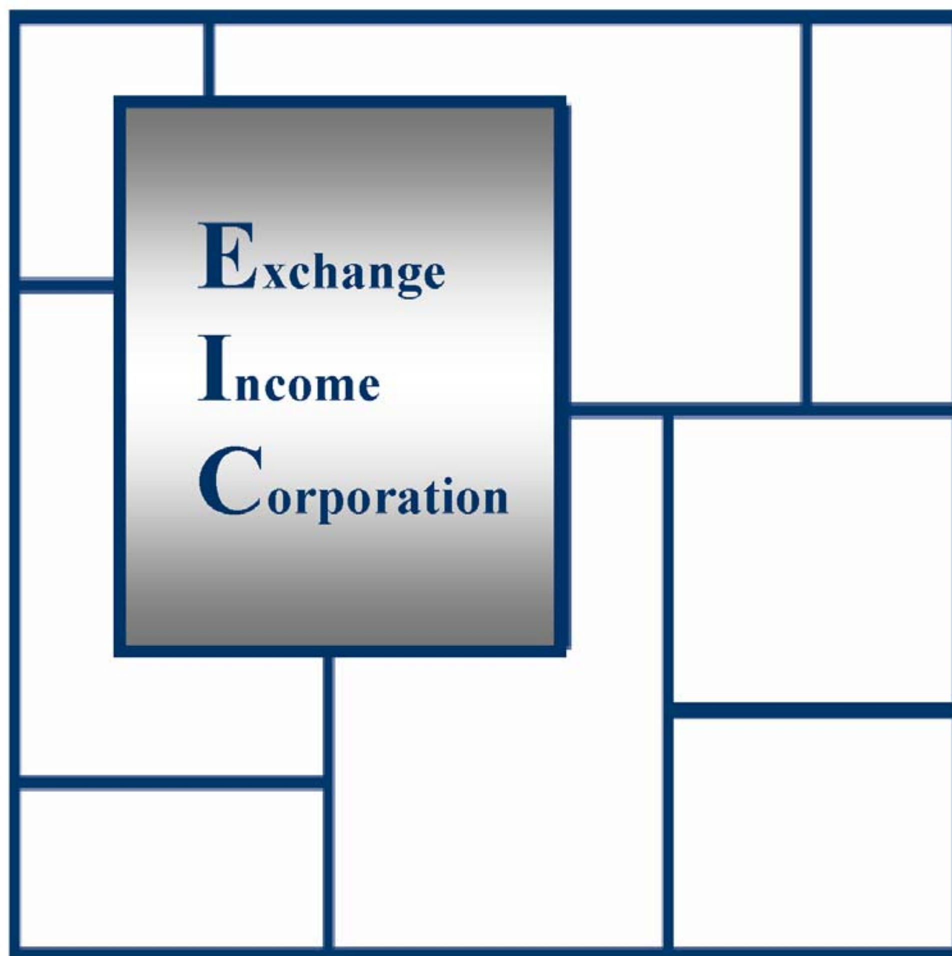


Second Quarter Report

For the three and six months ended June 30, 2017

CEO's Message

We are pleased with our second quarter results. We have hit record highs on most financial metrics, but the second quarter results are more significant than simply exceeding financial expectations. In the first quarter I spoke of how the quarter had laid the ground work to allow EIC to "continue on its established growth trajectory". We had implemented a plan which would enable us to take advantage of the synergies between our aviation operations by internalizing the overhaul of all of our aircraft types, improving our maintenance scheduling, and preparing our fleet for the busy summer and fall seasons. As a result we experienced temporary higher operating costs and concentrated maintenance capital investment in the first quarter. We have never managed our business to maximize short term results. Instead, we have taken a long term perspective, and as anticipated we have already begun to see the benefits of the actions we undertook in the first quarter. I am very pleased to report that we exit the second quarter with our large aircraft overhaul program largely complete for 2017, record profitability, and a strong outlook for the balance of the year.

Second Quarter Highlights

- Revenue grew by 20% to $273.1 million
- EBITDA Increased by 23% to $70.1 million
- Net Earnings rose 50% to $25.8 million
- On a per share basis net earnings increased 34% to $0.83

EBITDA and earnings metrics were all time quarterly highs for the Company

- Completed the majority of our annual large aircraft overhaul program by the end of the second quarter with 6 large aircraft overhauls in the second quarter (versus 2 in 2016)
- Maintenance Capital Expenditures increased to $29.9 million as planned
- Free Cash Flow less Maintenance Capital Expenditures was $21.8 million down 14% as a result of increased Maintenance Capital Expenditures in the quarter
- Payout ratio as a percentage of free cash flow less maintenance capital expenditures was 75%
- Payout ratio as a percentage of net earnings was 63%

We have now completed the bulk of our large aircraft overhaul program and expect maintenance capital expenditures to fall significantly (approximately 25-35%) in the second half of the year. These recently overhauled aircraft together with those purchased to facilitate our expansions in Northwest Ontario and Atlantic Canada, will provide us with the capacity to meet anticipated customer demand for the balance of the year. The timing of the overhaul program and the purchase of additional aircraft was fundamental to Perimeter Aviation's achieving back to back record monthly revenues in May and June.

A large portion of our airline business is servicing First Nations in various locations across Canada. Most of our customers do not have the benefit of year round road access and as such air travel is not a luxury, but an essential service. We take our responsibility to our customers very seriously and have invested over $400 million dollars in our Legacy Airlines subsequent to the acquisition of the airlines in the last 13 years to ensure that we have the necessary type and capacity of aircraft and ground infrastructure to meet our customers' needs.

The relationship with our First Nations customers is unique. The services we provide help ensure that the communities have access to the basic necessities including medical care, food and clothing. The First Nations we serve are much more than customers, they are our partners. As such, we believe that we have a social responsibility to reinvest in our partners' communities. We are proud to have long standing Community Partnerships and other arrangements that help to improve the lives of the people in the communities which we serve. During the second quarter Provincial Airlines expanded our partnership with the First Nations in Labrador to include both the Innu (through the Innu Development Corporation) and the Inuit (through the Nunatsiavut Group of Companies). Air Borealis was formed to better serve the people of Labrador and has extended the reach and market share of our airline.

We are particularly proud of our newest initiative announced on May 12 of this year. In conjunction with the Winnipeg Blue Bombers of the Canadian Football League and the First Nations in Manitoba and Northwestern Ontario, we have developed a program for youth from remote communities to experience events in which they would otherwise not have the opportunity to participate. Each game a group of 40 to 50 youth selected by their community leaders together with chaperones are flown to Winnipeg on a dedicated charter aircraft where they are treated to the Bombers' full game day experience including Bomber merchandise, food, great seats for the game and a chance to meet the players on the field after the game. For some of these youth it will be the first time they have left

their community. We hope to show the youth that people do care and there are opportunities for them within and outside of their home communities. The program is detailed in an article from CBC News available here http://www.cbc.ca/news/canada/manitoba/blue-bombers-manitoba-first-nations-1.4112815. The season is just getting underway however based on the faces of the participants in the first few games the program is a hit with all involved.

The outlook for the balance of 2017 and beyond looks bright. We are busy preparing for the start of Keewatin's new medevac contract in the Kitikmeot region of Nunavut which begins in the fourth quarter and we look forward to the completion of Provincial's demonstrator surveillance aircraft by the end of the year. With the completion of Regional One's CRJ900 purchase program that was announced in late 2016, we expect growth capital expenditures to decline in the balance of the year, although as an opportunistic buyer we will move quickly should the right opportunity present itself. We expect to have these aircraft fully deployed by the end of 2017. Through AirPro Service, Provincial has continued to advance the Fixed Wing Search and Rescue contract achieving all the contractual milestones. Additionally they have made progress on the facility setup and are negotiating to increase their scope of work to include some upfront modification on the C295W.

Our acquisition pipeline is the best we have seen in several years and we are optimistic that we will be able to grow through accretive acquisition. I should point out that most of the opportunities reside in Canada as the American market remains over-priced from our perspective.

We are not without our challenges. The wireless industry is in between technology cycles and as such our revenue in WesTower is lower than the level to which we are accustomed. Our rotary wing business has also experienced weaker demand driven by low fire suppression services in the Prairie Provinces and the continued downturn in mining and exploration resulting in lower returns than we have experienced in our fixed wing and aerospace businesses. It is these challenges that we face in certain of our businesses that demonstrate the strength and resilience of our business model. By acquiring companies at accretive prices and investing when the right opportunities present themselves we have diversified our operations to allow us to generate record results even when there are challenges at certain subsidiaries. We have been able to grow profitably with consistent modest leverage for 13 years in spite of wide changes in commodity prices and currency exchange rates which can have dramatic impacts on Canadian businesses. This was proven once again in the second quarter of 2017 as EIC generated its highest quarterly earnings per share in its history while utilizing the same level of leverage as the Company deployed in 2004. We are proud of what has been accomplished at EIC since our IPO in 2004. We look forward to continued profitable, sustainable growth in the balance of 2017 and beyond. I want to take this opportunity to thank you for your ongoing support, and I look forward to reporting our third quarter to you this fall.

Mike Pyle
Chief Executive Officer

July 19, 2017

FORWARD-LOOKING STATEMENTS

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

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

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

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

INTRODUCTION

This MD&A supplements the unaudited interim condensed consolidated financial statements and related notes for the three and six months ended June 30, 2017 ("Consolidated Financial Statements") of Exchange Income Corporation ("EIC" or "the Corporation"). All amounts are stated in thousands of Canadian dollars, except per share information and share data, unless otherwise stated.

This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Corporation for the three and six months ended June 30, 2017, its annual financial statements for the year ended December 31, 2016 and its annual MD&A for the year ended December 31, 2016. The interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of financial statements.

1. FINANCIAL HIGHLIGHTS

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

FINANCIAL PERFORMANCE	2017	per share basic	per share fully diluted	2016	per share basic	per share fully diluted
For the three months ended June 30						
Revenue	$ 273,145			$ 226,851		
EBITDA(1)	70,071			56,928		
Net earnings	25,779	$ 0.83	$ 0.77	17,214	$ 0.62	$ 0.59
Adjusted net earnings(1)	23,943	0.77	0.72	20,388	0.74	0.69
Free Cash Flow(1)	51,731	1.66	1.46	42,683	1.54	1.34
Free Cash Flow less maintenance capital expenditures(1)	21,842	0.70	0.66	25,476	0.92	0.84
Free Cash Flow less maintenance capital expenditures payout ratio(1)		75%	80%		54%	59%
Dividends declared	16,310	0.525		13,839	0.495	
For the six months ended June 30						
Revenue	$ 495,673			$ 444,749		
EBITDA(1)	113,419			101,259		
Net earnings	31,338	$ 1.01	$ 0.99	27,087	$ 0.98	$ 0.96
Adjusted net earnings(1)	31,751	1.02	1.00	32,396	1.17	1.13
Free Cash Flow(1)	85,520	2.75	2.44	77,573	2.80	2.44
Free Cash Flow less maintenance capital expenditures(1)	28,222	0.91	0.89	42,277	1.53	1.42
Free Cash Flow less maintenance capital expenditures payout ratio(1)		115%	118%		64%	69%
Dividends declared	32,645	1.05		27,097	0.975	
FINANCIAL POSITION	June 30, 2017			December 31, 2016		
Working capital	$ 203,162			$ 178,492		
Capital assets	777,761			693,993		
Total assets	1,531,644			1,424,532		
Senior debt and finance leases	475,127			446,329		
Equity	562,917			486,137		
SHARE INFORMATION	June 30, 2017			December 31, 2016		
Common shares outstanding	30,911,840			28,793,354		
	June 30, 2017			June 30, 2016		
Weighted average shares outstanding during the period - basic	31,064,236			27,656,525		

(1) As defined in *Section 13 – Non-IFRS Financial Measures*.

2. OVERVIEW

EXCHANGE INCOME CORPORATION

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

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

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

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

Segment Summary

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

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

(b) **Manufacturing –** provides a variety of manufactured goods and related services in a number of industries and geographic markets throughout North America. The operations of **WesTower** are focused on the engineering, design, manufacturing and construction of communication infrastructure and provision of technical services. **Stainless** manufactures specialized stainless steel tanks, vessels and processing equipment. **Ben Machine** is a manufacturer of precision parts and components primarily used in the aerospace and defence sector. 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 the operating subsidiaries. The operating subsidiaries of the Corporation, however, operate autonomously and maintain their individual business identities. The Corporation will undertake future acquisitions as deemed beneficial to the Corporation.

SIGNIFICANT EVENTS

Bought Deal Financing of Common Shares

On January 4, 2017, the Corporation closed the bought deal financing of common shares, resulting in the issuance of 2,303,450 shares of the Corporation at $42.45 per share. This includes the full exercise of an overallotment option to purchase 300,450 shares, representing 15% of the size of the offering. The net proceeds of the offering were $93.0 million and were used to make a repayment against the Corporation's credit facility.

Amended Credit Facility

During the first quarter, the Corporation amended its credit facility to increase its size and extend its term. The amendments included increasing the credit available to $695 million allocated to the Corporation's Canadian head office and US $55 million allocated to EIIF Management USA Inc., which is an aggregate increase of $200 million over the Corporation's previous credit facility. Two banks were added to the syndicate and the maturity was extended to March 2021. The Corporation amends and extends its facility on a regular basis to continuously have a maturity that extends at least three years and to increase the size of its facility to correspond to the increasing size of the Corporation.

Air Borealis

On June 16, 2017 it was announced that Provincial would be expanding its Labrador indigenous partnership to include both the Innu and Inuit under a new brand, Air Borealis. For nearly 20 years Provincial has been partnered with the Innu (Innu Development Limited Partnership) alone through Innu Mikun while the Inuit (Nunatsiavut Group of Companies) provided competing air service in Labrador through Air Labrador. Prior to this transaction, Air Labrador ceased operations. Air Borealis is equally owned by PAL Airlines, The Innu Development Limited Partnership and the Nunatsiavut Group of Companies and is managed by Provincial. Air Borealis with its fleet of Twin Otter aircraft provides vital air service to all of coastal Labrador communities previously served by Innu Mikun and Air Labrador and will now have seamless through traffic on the Provincial Airline network. Provincial Airlines also provides Air Borealis any needed air service requiring larger gauge aircraft. In conjunction with the transaction Provincial Airlines launched service to seven new destinations on the Quebec North Shore.

Normal Course Issuers Bid ("NCIB")

During the second quarter, the Corporation purchased a total of 295,890 shares for cancellation through its NCIB. The Corporation paid $9.9 million for these shares, representing an average purchase price of $33.47 per share. The Corporation believes that the underlying performance of its businesses is not fully reflected in its share price, making the share buyback an accretive use of capital.

Kitikmeot Contract Award

During the first quarter, Keewatin was awarded the five year medevac contract for the Kitikmeot region of Nunavut. As a result of this award, Keewatin now has all three regions of Nunavut under contract, further establishing Keewatin as the preeminent northern medevac provider. Services under the contract are expected to begin at the end of 2017.

Re-Marketing Agreement with Bombardier

As announced in the Corporation's 2016 annual report, the Corporation entered into an agreement with Bombardier Commercial Aircraft Asset Management for the purchase of 13 previously owned CRJ900 aircraft. During the second quarter, the Corporation took delivery of the last of the CRJ900 aircraft. Regional One, pursuant to the agreement, continues to have the opportunity to acquire additional aircraft. These aircraft were purchased as part of the Corporation's expansion of its leasing business into Ireland.

3. KEY PERFORMANCE INDICATORS

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

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

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

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

EBITDA	Three Months Ended		Six Months Ended	
periods ending June 30	**2017**	2016	**2017**	2016
Earnings before income taxes	$ **35,754**	$ 24,668	$ **43,661**	$ 40,356
Depreciation of capital assets	**28,905**	20,689	**53,648**	39,503
Amortization of intangible assets	**2,775**	2,814	**5,530**	5,671
Finance costs - interest	**8,174**	8,449	**15,879**	15,357
Acquisition costs	**48**	308	**286**	372
Gain on disposal of partnership interest in Innu Mikun	**(5,585)**	-	**(5,585)**	-
	$ **70,071**	$ 56,928	$ **113,419**	$ 101,259

Three Month EBITDA

The EBITDA generated by the Corporation during the current quarter was $70.1 million, an increase of $13.1 million or 23% over the comparative period. The Aerospace & Aviation segment contributed an additional $15.8 million over the prior period. The Manufacturing segment saw EBITDA decline by $1.9 million from the prior period and head office costs increased by $0.8 million over the prior period.

The increase in EBITDA generated by the Aerospace & Aviation segment is directly attributable to growth capital expenditures previously made by the Corporation across the segment. This is most evident in the performance of Regional One which grew its EBITDA by 86% as a result of its higher asset base generating higher revenue in all areas of its operations. Likewise, our Legacy Airlines' operations within Nunavut have experienced growth as a result of the acquisition of First Air's non-aircraft assets in the Kivalliq region. Provincial generated stronger EBITDA as a result of improved yields and increased volumes within its airline operations.

The Manufacturing segment had strong performance across all subsidiaries with the exception of a significant decline at WesTower, which is experiencing the cyclical impact of cellular carriers' reduced capital spending in WesTower's traditional services as they prepare for the transition to next generation technologies.

Six Month EBITDA

The EBITDA generated by the Corporation during six months ended June 30, 2017 was $113.4 million, an increase of $12.2 million or 12% over the comparative period. The Aerospace & Aviation segment contributed an additional $15.1 million over the prior period. The Manufacturing segment saw EBITDA decline by $1.7 million from the prior period and head office costs increased by $1.2 million over the prior period.

Consistent with the three month discussion, the increase in EBITDA generated by the Aerospace & Aviation segment is directly attributable to growth capital expenditures previously made by the Corporation across the segment, in particular at Regional One which grew its EBITDA by 56% as a result of its higher asset base. The increase in EBITDA generated was muted slightly by the planned increase in third party charter costs during the first quarter of 2017 as a result of management's decision to internalize previously outsourced large aircraft maintenance work and concentrate that work early in the year during the Corporation's slow season.

Consistent with the three month discussion, the Manufacturing segment had strong performance with the exception of a significant decline at WesTower, which is experiencing the cyclical impact of cellular carriers' reduced capital spending in WesTower's traditional services.

NET EARNINGS AND ADJUSTED NET EARNINGS

	Three Months Ended		Six Months Ended	
periods ending June 30	**2017**	2016	**2017**	2016
Net Earnings	$ **25,779**	$ 17,214	$ **31,338**	$ 27,087
Acquisition costs, net of tax	**48**	293	**286**	342
Amortization of intangible assets, net of tax	**2,026**	2,054	**4,037**	4,140
Interest accretion on redeemed debentures, net of tax	**-**	827	**-**	827
Gain on disposal of partnership interest in Innu Mikun, net of tax	**(3,910)**	-	**(3,910)**	-
Adjusted Net Earnings	$ **23,943**	$ 20,388	$ **31,751**	$ 32,396
Earnings per share				
Basic	$ **0.83**	$ 0.62	$ **1.01**	$ 0.98
Diluted	$ **0.77**	$ 0.59	$ **0.99**	$ 0.96
Adjusted Net Earnings per share				
Basic	$ **0.77**	$ 0.74	$ **1.02**	$ 1.17
Diluted	$ **0.72**	$ 0.69	$ **1.00**	$ 1.13

Three Month Net Earnings and Adjusted Net Earnings

The 50% increase in Net Earnings for the three months ended June 30, 2017 was primarily driven by the 23% increase in EBITDA. Additionally, a gain on the disposal of the Corporation's partnership interest in Innu Mikun contributed to the increase in Net Earnings. Increased depreciation relating to investments in EIC's fleet of aircraft and higher income taxes partially offset the increases.

The 34% increase in Basic Net Earnings per share was due to higher Net Earnings, and partially offset by the 12% increase in the weighted average number of shares outstanding compared to the second quarter of 2016. The increase in the weighted average number of shares outstanding is mainly attributable to the Corporation's equity offering which closed at the beginning of 2017 and the impact of convertible debenture conversions throughout 2016. Details around the change in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

Adjusted Net Earnings for the three months ended June 30, 2017 increased by 17% compared to 2016 primarily as a result of higher Net Earnings. The most significant adjustment during the quarter relates to the removal of a gain on disposal of the Corporation's partnership interest in Innu Mikun, which reduced Adjusted Net Earnings.

Adjusted Earnings per share increased by 4% compared to 2016 as a result of increased Net Earnings and partially offset by the 12% increase in the weighted average number of shares outstanding compared to the second quarter of 2016 as discussed above.

Six Month Net Earnings and Adjusted Net Earnings

The 16% increase in Net Earnings for the six months ended June 30, 2017 was primarily driven by the 12% increase in EBITDA. Additionally, a gain on the disposal of the Corporation's partnership interest in Innu Mikun contributed to the increase in Net Earnings. Increased depreciation relating to investments in EIC's fleet of aircraft and higher income taxes partially offset the increases.

The 3% increase in basic Net Earnings per share was due to higher Net Earnings, and was partially offset by the 12% increase in the weighted average number of shares outstanding compared to the six months ended June 30, 2016. The increase in the weighted average number of shares outstanding is mainly attributable to the Corporation's equity offering which closed at the beginning of 2017 and the impact of convertible debenture conversions throughout 2016. Details around the change in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

Adjusted Net Earnings for the six months ended June 30, 2017 decreased by 2% compared to 2016. The most significant adjustment during the period relates to the removal of a gain on disposal of the Corporation's partnership interest in Innu Mikun, which reduced Adjusted Net Earnings.

Adjusted Net Earnings per share decreased by 13% compared to 2016 due to lower Adjusted Net Earnings and the 12% increase in the weighted average number of shares outstanding.

The six month earnings and adjusted net earnings were impacted by the lower results in the first quarter of 2017. First quarter results were lower as a result of management's planned increase in third party charter costs during the first quarter of 2017 as large aircraft overhaul work was concentrated early in the year during the Corporation's slow season. This reduced the period over period gains realized in the second quarter compared to the six month period comparison.

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

FREE CASH FLOW	Three Months Ended		Six Months Ended	
periods ending June 30	**2017**	2016	**2017**	2016
Cash flows from operations	**$ 36,910**	$ 43,434	**$ 43,794**	$ 62,047
Change in non-cash working capital items	**14,773**	(1,059)	**41,440**	15,154
Acquisition costs	**48**	308	**286**	372
	$ 51,731	$ 42,683	**$ 85,520**	$ 77,573
per share - Basic	**$ 1.66**	$ 1.54	**$ 2.75**	$ 2.80
per share - Fully Diluted	**$ 1.46**	$ 1.34	**$ 2.44**	$ 2.44

Three Month Free Cash Flow

The Free Cash Flow generated by the Corporation for the second quarter of 2017 was $51.7 million, an increase of $9.0 million or 21% over the comparative period. The increase in Free Cash Flow is a result of a number of factors, but is primarily due to the 23% increase in EBITDA generated during the period. This positive impact to Free Cash Flow was partially offset by higher current income taxes in the quarter which were primarily the result of higher taxable earnings generated during the quarter. In addition, the Corporation incurred a one-time current tax cost of $4.3 million as a result of the sale of certain aircraft assets between subsidiaries to facilitate the expansion of our aircraft leasing business in Ireland. The profits on these intercompany sales have been eliminated from consolidated earnings before income taxes.

On a basic per share basis, the increase in absolute Free Cash Flow contributed to the increase in per share amounts and was partially offset by the 12% increase in the weighted average number of Shares outstanding in the current quarter. The combined

impact resulted in an increase to Free Cash Flow of $0.12 per share or 8% over the comparative period (fully diluted increase of $0.12 or 9%). Details around the change in Shares outstanding can be found in Section 6 – *Liquidity and Capital Resources*.

Six Month Free Cash Flow

The Free Cash Flow generated by the Corporation for the six months ended June 30, 2017 was $85.5 million, an increase of $7.9 million or 10% over the comparative period. Consistent with the three month discussion, the increase was caused by higher EBITDA, partially offset by higher cash taxes.

On a basic per share basis, the increase in absolute Free Cash Flow was offset by the 12% increase in the weighted average shares outstanding during the period. The combined impact resulted in a decrease to Free Cash Flow of $0.05 per share or 2% from the comparative period (fully diluted flat to prior period). Details around the increase in Shares outstanding can be found in Section 6 – *Liquidity and Capital Resources*.

CAPITAL EXPENDITURES

CAPITAL EXPENDITURES	Three Months Ended		Six Months Ended	
periods ending June 30	**2017**	2016	**2017**	2016
Cash maintenance capital expenditures	**$ 29,668**	$ 17,023	**$ 56,889**	$ 34,928
add: finance lease principal payments	**221**	184	**409**	368
Maintenance capital expenditures	**29,889**	17,207	**57,298**	35,296
Growth capital expenditures	**33,048**	33,489	**91,838**	61,355
Capital expenditures	**$ 62,937**	$ 50,696	**$ 149,136**	$ 96,651
Maintenance capital expenditures per share - Basic	**$ 0.96**	$ 0.62	**$ 1.84**	$ 1.28
Growth capital expenditures per share - Basic	**1.06**	1.21	**2.96**	2.22
Total capital expenditures per share - Basic	**$ 2.02**	$ 1.83	**$ 4.80**	$ 3.50

Purchases of capital assets are classified as either maintenance capital expenditures or growth capital expenditures. This classification is based on the nature of the asset purchased and the cash flows that the expenditure will generate. If the new asset will generate new cash flows, the expenditure is classified as a growth capital expenditure. If the new asset serves to maintain existing cash flow streams, such as in the case of the replacement of an existing asset, it is classified as a maintenance capital expenditure. When calculating the payout ratio, maintenance capital expenditures are taken into account to ensure that our payout ratio reflects the necessary replacement of capital assets to maintain our revenue streams. Growth capital expenditures are investments which, similar to acquisitions, will generate future returns for the Corporation and are therefore not reflected in the payout ratio. The process for Regional One is conceptually similar but mechanically different and therefore is discussed further below.

Regional One's purchases of operating aircraft within its lease portfolio are capital expenditures. Aircraft that are leased to third parties are being consumed over time, therefore reinvestment is necessary in order to maintain the ability to generate future cash flows at existing levels. This depletion of the remaining green time of these aircraft is represented by depreciation. The assets in the lease portfolio are depreciated as single units and are included within aircraft frames and aircraft engines in our disclosures. Capital expenditures are split between maintenance and growth based on depreciation. An amount equal to Regional One's depreciation is included in the Corporation's consolidated maintenance capital expenditures. Only capital expenditures in excess of depreciation are classified as growth capital expenditures. If there were no purchases of capital assets during the period by Regional One, maintenance capital expenditures would still be equal to depreciation recorded on its leased assets and growth capital expenditures would be negative, representing the depletion of future earning potential. The aggregate of maintenance and growth capital expenditures always equals the actual cash spent on capital assets during the period. This ensures that our payout ratio reflects the necessary replacement of Regional One's leased assets.

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

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

Maintenance Capital Expenditures by Segment	Three Months Ended				Six Months Ended			
periods ending June 30		**2017**		2016		**2017**		2016
Aerospace & Aviation Segment	$	**28,882**	$	15,646	$	**55,727**	$	33,066
Manufacturing Segment		**577**		1,061		**1,137**		1,730
Head Office		**430**		500		**434**		500
	$	**29,889**	$	17,207	$	**57,298**	$	35,296

Three Month Maintenance Capital Expenditures

Maintenance capital expenditures for the quarter were $29.9 million, an increase of $12.7 million over the prior period. This increase is entirely attributable to the Aerospace & Aviation segment.

Regional One's maintenance capital expenditures during the quarter were $8.8 million compared to $5.2 million in 2016. The $3.6 million increase in maintenance capital expenditures at Regional One as a result of increased depreciation accounted for 28% of the increase in total maintenance capital expenditures for the segment during the quarter. The increase in maintenance capital expenditures at Regional One is as a result of the increased depreciation on its larger fleet of leased aircraft and engines. The determination of maintenance capital expenditures is discussed in detail previously within the capital expenditures section. The remaining increase in the Aerospace & Aviation segment was invested at the Legacy Airlines and Provincial.

As previously disclosed in the Corporation's year end 2016 report and 2017 first quarter report, an increase in the number of scheduled maintenance events in the Corporation's aviation businesses compared to the prior period and the front loading of the maintenance events into the first half of the year contributed to the increased maintenance capital expenditures. Maintenance capital expenditures incurred by our aviation businesses, including Provincial, were $20.1 million for the second quarter compared to $10.5 million in 2016. The increase reflects the variability in the timing of maintenance events. The increase also reflects the completion of our strategic decision to accelerate large aircraft overhaul maintenance into the first half of the year in order to ensure that we have higher aircraft availability for our busier season. For these reasons, our maintenance capital expenditures are higher than usual for the first half of 2017. See *Section 12 – Outlook* for additional discussion of our expectations for reduced maintenance capital expenditures for the remainder of the year.

Maintenance capital expenditures made by our Manufacturing segment entities for the quarter have decreased by $0.5 million from the comparative period. These expenditures primarily relate to replacement of production equipment or components of that equipment.

Six Month Maintenance Capital Expenditures

Consistent with the 3 month discussion above, the increase in maintenance capital expenditures of $22.0 million for the six months ended June 30, 2017 is entirely attributable to the Aerospace & Aviation segment.

Regional One's maintenance capital expenditures during the first six months of 2017 were $16.7 million compared to $9.3 million in 2016, accounting for 33% of the increase in total maintenance capital expenditures. The increase in maintenance capital expenditures at Regional One is as a result of the increased depreciation on its fleet of leased aircraft and engines. Growth capital expenditures of $41.3 million in the first quarter of 2017 and $139.5 million in 2016 are driving the increase in depreciation expense and therefore maintenance capital expenditures.

For the first six months of 2017, maintenance capital expenditures incurred by our aviation businesses, including Provincial, was $39.0 million compared to $23.8 million in 2016. This increase was driven by the same factors discussed above in the three month discussion.

Maintenance capital expenditures made by our Manufacturing segment entities for the six months ended June 30, 2017 have decreased $0.6 million from the comparative period.

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

Growth Capital Expenditures by Segment	Three Months Ended		Six Months Ended	
periods ending June 30	2017	2016	2017	2016
Aerospace & Aviation Segment	$ 32,362	$ 33,489	$ 91,152	$ 61,355
Manufacturing Segment	686	-	686	-
	$ 33,048	$ 33,489	$ 91,838	$ 61,355

Growth capital expenditures of $17.5 million for the second quarter (and $20.3 million for the six month period) have been invested at Provincial Aerospace primarily relating to two areas. The largest portion is tied to the continued construction of Provincial's demonstrator surveillance aircraft. This project started construction in 2016 and is scheduled to be completed in the fourth quarter, which is described further in *Section 12 - Outlook*. Upon completion, the demonstrator surveillance aircraft will enable Provincial to expand its service offering. Provincial also purchased additional aircraft for its airline operations that will be used to enter into new markets. In the second quarter Provincial acquired a Dash 8 aircraft and the first of two Beech 1900 aircraft to service increased volumes and new routes, including the new Northern Quebec operations announced earlier in the quarter.

As part of the Corporation's expansion into Northwestern Ontario, the Legacy Airlines purchased a Dash 8-300 aircraft during the second quarter. This purchase, along with the purchase of another Dash 8 aircraft in the first quarter and other growth capital expenditures, will allow the Corporation to expand its geographical footprint into areas of Northwestern Ontario previously not serviced by the Corporation's Legacy Airlines.

The fleet of aircraft and engines in Regional One's leasing portfolio is impacted by the purchase of assets which are added to the fleet offset by the transfer of assets into inventory for part out or disposal. During the second quarter, a total of four aircraft were purchased which included the last of the CRJ900 aircraft per the Bombardier agreement disclosed previously. Offsetting this was the sale of three aircraft during the current period resulting in the net addition of one aircraft to the portfolio mix. On a year to date basis, a total of five aircraft have been added to the fleet which includes the addition of five CRJ-900 aircraft purchased per the Bombardier agreement. Further discussion of Regional One's leased assets can be found in *Section 4 – Analysis of Operations*.

Growth capital expenditures for Regional One were $8.6 million for the second quarter and $49.9 million for the six month period. Since its acquisition by EIC, Regional One has consistently delivered returns that exceed our target return on capital. When capital expenditures are made by Regional One, these aircraft often take approximately six months before Regional One starts experiencing returns on these investments.

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

FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENDITURES	Three Months Ended		Six Months Ended	
periods ending June 30	2017	2016	2017	2016
Free Cash Flow	$ 51,731	$ 42,683	$ 85,520	$ 77,573
Maintenance Capital Expenditures	29,889	17,207	57,298	35,296
	$ 21,842	$ 25,476	$ 28,222	$ 42,277
per share - Basic	$ 0.70	$ 0.92	$ 0.91	$ 1.53
per share - Fully Diluted	$ 0.66	$ 0.84	$ 0.89	$ 1.42

Three Month Free Cash Flow Less Maintenance Capital Expenditures

The Free Cash Flow less maintenance capital expenditures generated by the Corporation for the current quarter was $21.8 million, a decrease of $3.6 million or 14% from the comparative period. This is due to increased maintenance capital expenditures during the quarter as a result of the strategic decision to advance large aircraft overhauls into the first half of 2017 and the higher number of scheduled maintenance events in 2017, which is described in detail in the Capital Expenditures section.

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

The 12% increase in the weighted average number of share outstanding during the quarter and the decrease in absolute Free Cash Flow less maintenance capital expenditures contributed to the decrease in basic per share amounts. The combined impact resulted in Free Cash Flow less maintenance capital expenditures of $0.70 per share for the current quarter, a decrease of $0.22 per share or 24% from the comparative period (fully diluted $0.66, decrease of $0.18 or 21%). Details around the change in shares outstanding can be found in Section 6 – *Liquidity and Capital Resources*.

Six Month Free Cash Flow Less Maintenance Capital Expenditures

The Free Cash Flow less maintenance capital expenditures generated by the Corporation for the six month period was $28.2 million, a decrease of $14.1 million or 33% compared to the comparative period. This is due to increased maintenance capital expenditures during the quarter as a result of the decision to front load overhauls in the first half of 2017 and the higher number of scheduled maintenance events in 2017, which is described in detail in the Capital Expenditures section.

The 12% increase in the weighted average number of share outstanding during the period and the decrease in absolute Free Cash Flow less maintenance capital expenditures contributed to the decrease in basic per share amounts. The combined impact resulted in Free Cash Flow less maintenance capital expenditures of $0.91 per share for the six months ended June 30, 2017, a decrease of $0.62 per share or 41% from the comparative period (fully diluted $0.89, decrease of $0.53 or 37%). Details around the change in shares outstanding can be found in Section 6 – *Liquidity and Capital Resources*.

DIVIDENDS & PAYOUT RATIO

The amounts and record dates of the dividends declared during the six months ended June 30, 2017 and the comparative period in 2016 were as follows:

			2017 Dividends			2016 Dividends
Month	Record date	Per Share	Amount	Record date	Per Share	Amount
January	January 31, 2017	$ 0.175	$ 5,438	January 29, 2016	$ 0.16	$ 4,424
February	February 28, 2017	0.175	5,447	February 29, 2016	0.16	4,416
March	March 31, 2017	0.175	5,450	March 31, 2016	0.16	4,418
April	April 28, 2017	0.175	5,455	April 29, 2016	0.16	4,423
May	May 31, 2017	0.175	5,444	May 31, 2016	0.1675	4,633
June	June 30, 2017	0.175	5,411	June 30, 2016	0.1675	4,783
Total		$ 1.05	$ 32,645		$ 0.975	$ 27,097

Dividends declared for the current period increased over the comparative period. This was the result of the increase in the dividend rate per month in the current period and the higher number of shares outstanding in 2017. The Corporation increased the monthly dividend rate per share by $0.0075 in the second quarter of 2016 (5% increase) and $0.0075 in the fourth quarter of 2016 (4% increase). This resulted in the dividends declared for the six months ended June 30, 2017 totaling $1.05 per share compared to $0.975 per share in the comparative period, an increase of 8%. Dividends declared during the period totaled $32.6 million. Impacting the dividends declared in 2017 most significantly was the Corporation's issuance of shares through its equity offering that closed on January 4, 2017, resulting in the issuance of 2,303,450 shares of the Corporation and the convertible debenture conversions throughout 2016, resulting in the issuance of 928,156 shares.

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

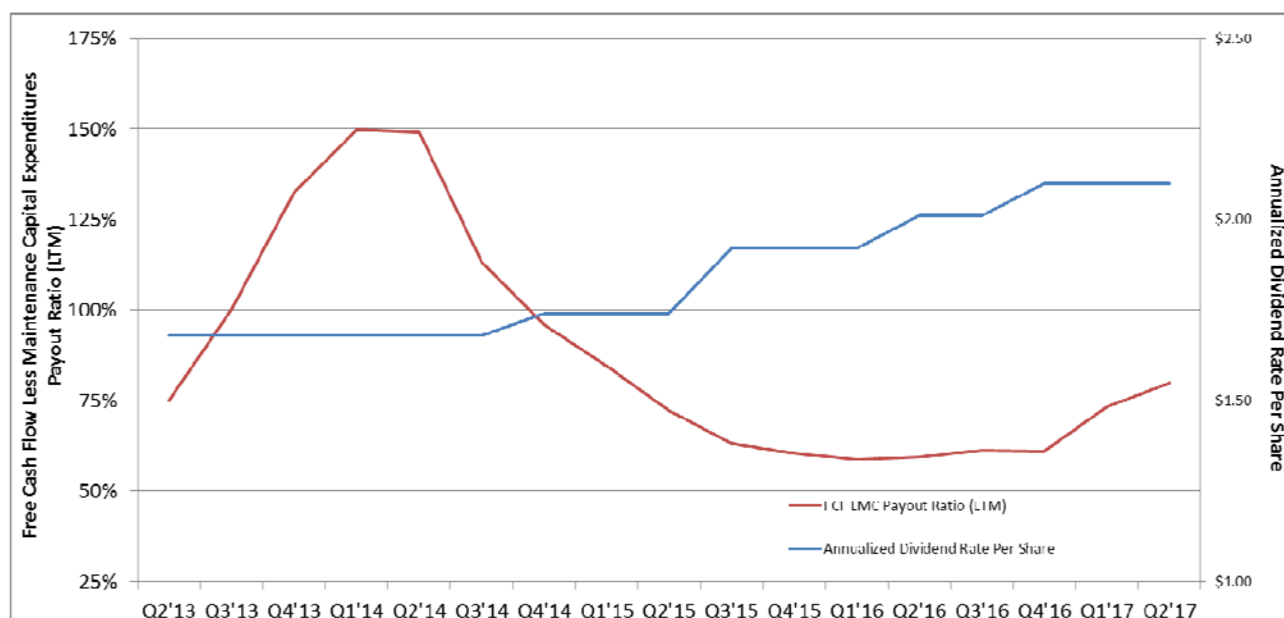
The following compares the Corporation's dividends declared on a per share basis as a percentage of the Corporation's Free Cash Flow, Free Cash Flow less maintenance capital expenditures, Net Earnings and Adjusted Net Earnings on a per share basis during the current period and the comparative period.

Payout Ratios	2017	Per share basic	Per share fully diluted	2016	Per share basic	Per share fully diluted
For the three months ended June 30						
Free Cash Flow		***32%***	***36%***		*32%*	*37%*
Free Cash Flow less maintenance capital expenditures		***75%***	***80%***		*54%*	*59%*
Net Earnings		***63%***	***68%***		*80%*	*84%*
Adjusted Net Earnings		***68%***	***73%***		*67%*	*72%*
For the six months ended June 30						
Free Cash Flow		***38%***	***43%***		*35%*	*40%*
Free Cash Flow less maintenance capital expenditures		***115%***	***118%***		*64%*	*69%*
Net Earnings		***104%***	***106%***		*99%*	*102%*
Adjusted Net Earnings		***103%***	***105%***		*83%*	*86%*

The Corporation's Free Cash Flow and Adjusted Net Earnings payout ratios for the quarter remained relatively flat compared to prior year despite the issuance of 2,303,450 shares as part of its equity offering on January 4, 2017. Free Cash Flow less maintenance capital expenditures payout ratio increased compared to the prior period due to the Corporation's strategic decision to accelerate as much maintenance work as possible into the first half of 2017 for the Legacy Airlines, the higher number of scheduled maintenance events in 2017 and the Corporation's equity offering during the first quarter.

The first quarter of the fiscal year is always the most seasonally challenging for the Corporation. Winter roads into northern communities lessen the demand for the Corporation's air services. Due to this seasonality, payout ratios should be assessed over longer periods of time as the payout ratio in a single quarter can be impacted by seasonal variations that do not impact the Corporation's ability to pay dividends over a longer period of time. The Corporation analyzes the trailing twelve months payout ratio when assessing its ability to pay and increase dividends, which is illustrated in the following graph.

The following graph shows the Corporation's historical Free Cash Flow less maintenance capital expenditures trailing twelve months payout ratio on the left axis. On the right axis, the annualized dividend rate per share is shown. As can be seen in the graph, the current trailing twelve months payout ratio of 80% has been impacted by the increased maintenance capital expenditures in the first half of 2017 and is expected to improve in the remainder of the year as maintenance capital expenditures decline.



The Corporation firmly believes the Free Cash Flow less maintenance capital expenditures payout ratio is the most pertinent metric to guide our dividend decisions, however the Corporation also monitors dividends declared as a percentage of Adjusted Net Earnings. Adjusted Net Earnings does not include the after tax impact of intangible asset amortization, acquisitions costs, and non-recurring items. A calculation of Adjusted Net Earnings is included in *Section 3 - Key Performance Indicators*.

The Adjusted Net Earnings payout ratio was 68% for the second quarter of 2017 compared to 67% for the second quarter of 2016, while the June 30, 2017 trailing twelve month Adjusted Net Earnings payout ratio was 87% compared to 82% at June 30, 2016. This metric provides further evidence that the operating results of the Corporation are more than sufficient to support the dividend. The Company will continue to use the Free Cash Flow less maintenance capital expenditures payout ratio as its primary payout metric because it is the best indication of cash flow generated from operations after sustaining capital expenditures, however the Adjusted Net Earnings payout ratio is also considered.

4. ANALYSIS OF OPERATIONS

Three Month Results

The following section analyzes the financial results of the Corporation's operations for the three months ended June 30, 2017 and the comparative 2016 period.

	Three Months Ended June 30, 2017			
	Aerospace & Aviation	Manufacturing	Head Office[2]	Consolidated
Revenue	$ 226,984	$ 46,161	$ -	$ 273,145
Expenses[1]	156,690	41,374	5,010	203,074
EBITDA	70,294	4,787	(5,010)	70,071
Depreciation of capital assets				28,905
Amortization of intangible assets				2,775
Finance costs - interest				8,174
Acquisition costs				48
Gain on disposal of partnership interest				(5,585)
Earnings before tax				35,754
Current income tax expense				11,616
Deferred income tax recovery				(1,641)
Net earnings				$ 25,779

				Three Months Ended June 30, 2016
	Aerospace & Aviation	Manufacturing	Head Office[2]	Consolidated
Revenue	$ 177,108	$ 49,743	$ -	$ 226,851
Expenses[1]	122,632	43,087	4,204	169,923
EBITDA	54,476	6,656	(4,204)	56,928
Depreciation of capital assets				20,689
Amortization of intangible assets				2,814
Finance costs - interest				8,449
Acquisition costs				308
Earnings before tax				24,668
Current income tax expense				8,509
Deferred income tax recovery				(1,055)
Net earnings				$ 17,214

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

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

AEROSPACE & AVIATION SEGMENT

Aerospace & Aviation Segment	Three Months Ended June 30,	**2017**	2016	Variance	Variance %
Revenue		$ **226,984**	$ 177,108	$ 49,876	28%
Expenses		**156,690**	122,632	34,058	28%
EBITDA		$ **70,294**	$ 54,476	$ 15,818	29%

The Aerospace & Aviation segment's revenue for the quarter increased $49.9 million or 28% over the second quarter of 2016. EBITDA generated by the Aerospace & Aviation segment for the current quarter increased $15.8 million or 29% over the second quarter of 2016. EBITDA margins were 31.0% in the current quarter versus 30.8% in the comparative period.

Provincial's EBITDA increased by 16% as a result of higher contributions from its airline operations and the acquisition of CarteNav in August of 2016. Overall revenues and EBITDA margins increased with the airlines operations margins improving as a result of softening competitive pressures in the region and higher volumes.

Revenue for the Legacy Airlines increased by $5.4 million or 7% over the comparative period in 2016. This is the result of growth in the Kivalliq market across all revenue streams driven by increased volumes and higher revenue in the Manitoba market. Consistent with the first quarter, this revenue was offset to a certain degree by decreases in the rotary wing operations. Legacy Airlines' EBITDA was flat compared to 2016 excluding the impact of the rotary wing operations, which declined $1.5 million due to reduced demand for fire suppression services. EBITDA and EBITDA margins were impacted by higher pilot training costs as a result of turnover experienced throughout the industry. Additionally, EBITDA decreased as a result of increased investment in a skilled workforce and other infrastructure supporting our expansion into Northwestern Ontario.

The average currency exchange rates used in translation of Regional One's results and Provincial's aerospace contracts to Canadian dollars reflects a weaker Canadian dollar in 2017. This increased the positive impact of currency translation for both of these entities.

Revenue generated by Regional One increased by 128%, driven by previous investments in inventory and growth capital expenditures.

Regional One Revenues	Three Months Ended June 30,	2017	2016	Variance	Variance %
Sales and service revenue		$ 55,413	$ 21,172	$ 34,241	162%
Lease revenue		23,738	13,599	10,139	75%
		$ 79,151	$ 34,771	$ 44,380	128%

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

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

The sales and service revenue stream increased by 162% compared to the same period in 2016. Revenue is up in all aspects of this revenue stream. The sales of parts are the largest component of sales and service revenue but aircraft and engine sales had the largest increase over the prior period. The revenue increase is a result of several factors, including the purchase of additional inventory, an increasing customer base and territory and the part out of more aircraft coming off lease. The 32% gross margins generated by the sales and service revenue stream in the second quarter of 2017 are lower than the comparative period because of the proportionately higher aircraft and engine sales.

The Regional One lease portfolio is comprised of several different types of aircraft and engines, but the predominant platforms are the Bombardier CRJ aircraft and the GE CF34 engines that are used on those aircraft. Other platforms included in the portfolio are the Bombardier Dash 8, Embraer 145 and ATR aircraft. Regional One is different from traditional leasing companies. It does not acquire assets with the intention of owning them for a long duration and deriving earnings solely from the financing spread. Regional One typically acquires assets with the intent of leasing them for a shorter duration, consuming available green time and producing cash flows, and then generating further profits once the aircraft have been retired from the active fleet and parted out. The size and composition of the lease portfolio is impacted by investments made in new assets and the transfer of assets into inventory for part-out or disposal. It is important to note that not all of the aircraft and engines in the portfolio will be on lease at any given time, as newly-acquired assets generally take approximately six months to prepare and lease.

Regional One Lease Portfolio	June 30, 2017		June 30, 2016	
	Aircraft	Engines	Aircraft	Engines
Lease portfolio	44	51	29	37

Lease revenue increased by 75% compared to the same period in 2016. The increase is directly attributable to increased prior investment in the lease portfolio, as outlined in the table above. Compared to the lease portfolio at June 30, 2016, Regional One's portfolio of aircraft available for lease has increased by 52% and the number of engines available for lease has increased by 38%. EBITDA margins associated with the lease income are exceptionally high as the primary costs associated with the lease portfolio are depreciation and financing costs, both of which are accounted for outside of EBITDA. The growth in the lease portfolio is also a primary driver of higher depreciation costs and therefore, maintenance capital expenditures.

Regional One contributed EBITDA of $32.2 million, which is an increase of 86% over the same period in 2016. The increased revenues across all streams drove the higher EBITDA.

MANUFACTURING SEGMENT

Manufacturing Segment	Three Months Ended June 30,	2017	2016	Variance	Variance %
Revenue		$ 46,161	$ 49,743	$ (3,582)	-7%
Expenses		41,374	43,087	(1,713)	-4%
EBITDA		$ 4,787	$ 6,656	$ (1,869)	-28%

The revenue of the Manufacturing segment for the current quarter decreased $3.6 million or 7% from the comparative period. The Manufacturing segment EBITDA decreased $1.9 million or 28% from the comparative period. EBITDA margins were 10.4% in the current quarter versus 13.4% in the comparative period. Revenue of all entities within the Manufacturing segment increased compared to the prior period with the exception of WesTower, and EBITDA at all entities apart from WesTower either increased or was essentially flat.

WesTower's second quarter revenue and EBITDA declined substantially compared to the second quarter of 2016 and while we anticipated a decline from last year, the results were below our internal expectations. Revenue and EBITDA has been negatively impacted by reduced capital spending by cellular carriers in WesTower's traditional services as they prepare for the transition to the next generation of technology. Macro-economic factors in certain markets have further depressed demand as recovery in the telecommunications sectors lags behind some others.

Stainless continued its strong performance over the last nine months as a result of improved economic conditions compared to the second quarter of 2016. Stainless' USD revenue was substantially higher than the comparative period. Shop operations and field projects both increased over the same quarter last year, with the rate of growth in the field projects leading the way. This shift in work had a positive impact on margins and was reflected in an increase in EBITDA over that of the prior year's comparative period that outpaced the sales growth. The weaker Canadian dollar in the second quarter compared to the second quarter of 2016 had a positive impact on Stainless' results.

The improvement in economic conditions in the regions serviced by Alberta Operations continued throughout the second quarter and positively impacted results in the second quarter of 2017. During the economic downturn that plagued the market during the past few years, Alberta Operations managed the business, without sacrificing customer service or quality, which has positioned it to capitalize on the opportunities arising as the economic factors improved.

Ben Machine generated revenue and EBITDA that was in line with expectations for the quarter ended June 30, 2017. Revenue in the quarter was slightly higher than revenue in the second quarter of 2016 and EBITDA was essentially flat to 2016. As a business that does custom orders, Ben Machine's margins can fluctuate depending on the mix of customers and products being manufactured in any given period.

Second quarter revenue and EBITDA for Overlanders exceeded those of the comparative period. Investments made to expand production capacity are contributing positive results, allowing the company to expand its customer base and increase throughput with existing customers.

HEAD-OFFICE

Head-office Costs	Three Months Ended June 30,	2017	2016	Variance	Variance %
Expenses		$ 5,010	$ 4,204	$ 806	19%

The head-office costs of the Corporation increased by $0.8 million over the comparative period. This was a result of higher headcount at head-office and an increase in professional costs.

OTHER NON-EBITDA ITEMS

	Three Months Ended June 30,	2017	2016	Variance	Variance %
Depreciation of capital assets		$ 28,905	$ 20,689	$ 8,216	40%

Depreciation on the Corporation's capital assets for the three months ended June 30, 2017 was $28.9 million, an increase of 40% over the comparative period. The increase relates to the Aerospace & Aviation segment, for which depreciation was $27.8 million compared to $19.5 million in 2016. The primary cause of the increase in depreciation relates to growth in Regional One's portfolio of leased assets. Depreciation on Regional One's leased asset portfolio was $8.8 million for the current three month period, an increase of $3.6 million over the comparative period. In addition, depreciation on the larger fleet of aircraft within the Legacy Airlines and Provincial increased depreciation during the quarter.

Three Months Ended June 30,		2017		2016		Variance	Variance %
Amortization of intangible assets	$	**2,775**	$	2,814	$	(39)	-1%

Amortization on the Corporation's intangible assets was $2.8 million for the three months ended June 30, 2017, a decrease of 1% from the comparative period. Intangible asset amortization recorded as a result of the CarteNav acquisition was more than offset by reductions in amortization recorded on the Corporation's other intangible assets.

Three Months Ended June 30,		2017		2016		Variance	Variance %
Finance costs - interest	$	**8,174**	$	8,449	$	(275)	-3%

The Corporation's interest incurred for the three months ended June 30, 2017 was $0.3 million lower than the comparative period in 2016. Interest incurred on the credit facility increased by $1.0 million as a result of higher debt levels outstanding as capital asset additions were funded through the credit facility. The impact of the higher debt levels was offset by the benefit of borrowing in US dollars at lower interest rates as described further in Section 6 – *Liquidity and Capital Resources.*

Interest incurred on the convertible debentures decreased by $1.3 million over the comparative period. This decrease was caused by the redemption of the Series J convertible debentures in June of 2016, offset partially from interest incurred on the June 2016 Unsecured convertible debentures, which have a minimal impact on the prior period.

The overall effective interest rate on the Corporation's credit facility for the current quarter was 3.59% (2016 – 3.48%), which includes standby charges on the unused portion of the credit facility. The Corporation strategically chooses to have significant available credit, enabling the Corporation to act quickly when the right opportunity presents itself. This results in higher standby charges.

Three Months Ended June 30,		2017		2016		Variance	Variance %
Acquisition Costs	$	**48**	$	308	$	(260)	-84%

Acquisition costs for the current quarter were minimal. Acquisition costs vary from period to period depending on the acquisition activity of the Corporation.

Three Months Ended June 30,		2017		2016		Variance	Variance %
Gain on disposal of partnership interest in Innu Mikun	$	(5,585)	$	-	$	(5,585)	-

On June 18, 2017, PAL Airlines expanded its Labrador indigenous partnership to include both the Innu Development Limited Partnership ("IDLP") and Nunatsiavut Group of Companies ("NGC"). The new partnership provides air services, primarily in the Labrador region, under the brand Air Borealis. The three partners have equal ownership interests and equal board representation. The air services provided by Air Borealis were previously provided by Innu Mikun and Air Labrador. PAL Airlines disposed of its existing interest in Innu Mikun by contributing it to the new partnership in return for a one-third interest in the new partnership. Likewise, IDLP contributed its existing interest in Innu Mikun and NGC contributed cash as well as its existing interest in Air Labrador. The Corporation recorded a non-cash gain on the disposal of its interest in Innu Mikun. The gain of $5,585 ($3,910 after tax) was determined under IFRS by comparing the carrying value of its previous investment to its percentage of the fair value of the net assets contributed by the other partners. Its interest in Innu Mikun has therefore been de-recognized and its new interest has been recorded in Other Assets at an amount equal to the original book value of the partnership plus the gain. The costs associated with this transaction have been expensed and netted with the non-cash gain on the income statement. The equity method of accounting will be used to recognize the Corporation's share of the future earnings of Air Borealis.

Three Months Ended June 30,		2017		2016		Variance	Variance %
Current income tax expense	$	**11,616**	$	8,509	$	3,107	37%
Deferred income tax expense (recovery)		**(1,641)**		(1,055)		(586)	56%
Income tax expense	$	**9,975**	$	7,454	$	2,521	34%

The effective tax rate in the current quarter decreased to 27.9% from 30.2% in the second quarter of 2016. The effective tax rate declined as a result of a comparatively larger proportion of the Corporation's consolidated earnings being generated in jurisdictions, such as Ireland, which are subject to a lower tax rate than in Canada and the United States. The increase in current tax expense was

primarily the result of higher taxable earnings generated during the quarter, including the impact of the one-time current tax cost of $4.3 million as a result of the expansion of our aircraft leasing business in Ireland. The increase in current taxes was partially offset by a deferred tax recovery.

Six Month Results

The following section analyzes the financial results of the Corporation for the six months ended June 30, 2017 and the comparative 2016 period.

	Six Months Ended June 30, 2017			
	Aerospace & Aviation	Manufacturing	Head Office[2]	Consolidated
Revenue	$ 404,019	$ 91,654	$ -	$ 495,673
Expenses[1]	290,876	82,174	9,204	382,254
EBITDA	113,143	9,480	(9,204)	113,419
Depreciation of capital assets				53,648
Amortization of intangible assets				5,530
Finance costs - interest				15,879
Acquisition costs				286
Gain on disposal of partnership interest				(5,585)
Earnings before income tax				43,661
Current income tax expense				15,280
Deferred income tax recovery				(2,957)
Net earnings				$ 31,338

	Six Months Ended June 30, 2016			
	Aerospace & Aviation	Manufacturing	Head Office[2]	Consolidated
Revenue	$ 350,618	$ 94,131	$ -	$ 444,749
Expenses[1]	252,587	82,928	7,975	343,490
EBITDA	98,031	11,203	(7,975)	101,259
Depreciation of capital assets				39,503
Amortization of intangible assets				5,671
Finance costs - interest				15,357
Acquisition costs				372
Earnings before income tax				40,356
Current income tax expense				12,985
Deferred income tax expense				284
Net earnings				$ 27,087

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

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

AEROSPACE & AVIATION SEGMENT

Aerospace & Aviation Segment	Six Months Ended June 30,	2017	2016	Variance	Variance %
Revenue		$ 404,019	$ 350,618	$ 53,401	15%
Expenses		290,876	252,587	38,289	15%
EBITDA		$ 113,143	$ 98,031	$ 15,112	15%

The Aerospace & Aviation segment's revenue for the six months ended June 30, 2017 increased $53.4 million or 15% over the prior period. EBITDA generated by the Aerospace & Aviation segment increased $15.1 million or 15% over the prior period. EBITDA margins were 28.0% in the current period versus 28.0% in the comparative period.

Consistent with the three month discussion, Provincial's results include higher contributions from its airline operations and the acquisition of CarteNav in August of 2016. Overall revenues and EBITDA margins increased with the airlines operations margins improving as a result of softening competitive pressures in the region and higher volumes.

Revenue for the Legacy Airlines increased $8.2 million or 5% compared to the first six months of 2016. This is the result of growth in the Kivalliq market across all revenue streams, including the impact of two new stores with a major retail cargo customer. Consistent with the second quarter, this revenue was offset to a certain degree by decreases in the rotary wing operations. During the current period, Legacy Airlines EBITDA and EBITDA margins were impacted by third party costs, consistent with disclosure in the Corporation's first quarter report. In addition, cancellations in the first quarter due to extreme weather had a negative impact on both revenue and EBITDA. Consistent with the three month discussion, higher pilot training costs and the investment supporting the expansion into Northwestern Ontario decreased EBITDA and EBITDA margins. The reduction of demand for fire suppression services has reduced revenue and EBITDA in our rotary wing operations.

Revenue generated by Regional One increased by 66%, driven by previous investments in inventory and growth capital expenditures.

Regional One Revenue	Six Months Ended June 30,	2017	2016	Variance	Variance %
Sales and service revenue		$ 88,930	$ 52,665	$ 36,265	69%
Lease revenue		42,337	26,310	16,027	61%
		$ 131,267	$ 78,975	$ 52,292	66%

The sales and service revenue stream increased by 69% compared to the same period in 2016. All components of this revenue stream are higher than last year. Similar to the second quarter results, the sale of parts comprised the biggest portion of sales and service revenue but aircraft and engine sales increased the most over the prior period. The revenue increase is a result of several factors, including the purchase of additional inventory, an increasing customer base and territory and the part out of more aircraft coming off lease. The sales and service revenue stream generated margins of 34% in the first six months of 2017 and is slightly lower than the comparative period because of the proportionately higher aircraft and engine sales, as was the case in the second quarter.

Lease revenue increased by 61% compared to the same period in 2016. The increase is directly attributable to the increased investment in the lease portfolio made by EIC over the previous 18-24 months. EBITDA margins associated with the lease income are exceptionally high as the primary costs associated with the lease portfolio are depreciation and financing costs, both of which are accounted for outside of EBITDA. The growth in the lease portfolio is also a primary driver of higher depreciation costs and, by extension, maintenance capital expenditures. Regional One is different from traditional leasing companies. It does not acquire assets with the intention of owning them for a long duration and deriving earnings solely from the financing spread. Regional One typically acquires assets with the intent of leasing them for a shorter duration, consuming available green time and producing cash flows, and then generating further profits once the aircraft have been retired from the active fleet and parted out.

Regional One contributed EBITDA of $54.8 million, which is an increase of 56% over the same period in 2016. The increased revenues across all revenue streams and the higher proportion of revenue derived from leases are the drivers of the higher EBITDA.

MANUFACTURING SEGMENT

Manufacturing Segment	Six Months Ended June 30,	2017	2016	Variance	Variance %
Revenue		$ 91,654	$ 94,131	$ (2,477)	-3%
Expenses		82,174	82,928	(754)	-1%
EBITDA		$ 9,480	$ 11,203	$ (1,723)	-15%

The revenue of the Manufacturing segment for the six month period ended June 30, 2017 decreased $2.5 million or 3% from the comparative period. The Manufacturing segment EBITDA for the six months ended June 30, 2017 decreased $1.7 million or 15% from the comparative period. EBITDA margins were 10.3% in the current period versus 11.9% in the comparative period. Revenue of all entities within the Manufacturing segment increased compared to the prior period with the exception of WesTower, and EBITDA at entities apart from WesTower either increased or was flat.

The factors driving the six month results are consistent with those in the three month discussion. WesTower's six month performance in 2017 is a result of the negative impact of overall reduced capital spending by cellular carriers in WesTower's traditional services as

they prepare for the transition to the next generation of technology. Macro-economic factors in certain markets have further depressed demand as recovery in the telecommunications sectors lags behind some others.

Stainless, Alberta Operations, Ben Machine and Overlanders continued to have strong performance in the first six months of 2017 compared to the first six months of 2016. Improved macro-economic conditions are the primary factor influencing the results for Stainless and Alberta Operations. Targeted capital investments at Overlanders have positioned the company to be able to attract new customers while also expanding manufacturing volumes with its primary customer.

HEAD OFFICE

Head Office Costs	Six Months Ended June 30,	2017	2016	Variance	Variance %
Expenses		$ 9,204	$ 7,975	$ 1,229	15%

The head office costs of the Corporation increased in the current period by $1.2 million or 15% from the comparative period. The increase in head office costs relates to a foreign exchange gain in the prior period which did not recur in 2017 and higher professional costs. This gain resulted in lower head office costs of $1.1 million in the first quarter of 2016.

OTHER NON-EBITDA ITEMS

	Six Months Ended June 30,	2017	2016	Variance	Variance %
Depreciation of capital assets		$ 53,648	$ 39,503	$ 14,145	36%

Depreciation on the Corporation's capital assets for the six months ended June 30, 2017 was $53.6 million, an increase of 36% over the comparative period. The increase relates to the Aerospace & Aviation segment, for which depreciation was $51.4 million compared to $37.2 million in 2016. The primary cause of the increase in depreciation relates to growth in Regional One's portfolio of leased assets. Depreciation on Regional One's leased asset portfolio was $16.7 million for the six months ended June 30, 2017, an increase of $7.4 million over the comparative period. In addition, depreciation on the larger fleet of aircraft within the Legacy Airlines and Provincial increased depreciation during the period.

	Six Months Ended June 30,	2017	2016	Variance	Variance %
Amortization of intangible assets		$ 5,530	$ 5,671	$ (141)	-2%

Amortization on the Corporation's intangible assets was $5.5 million for the six months ended June 30, 2017, a decrease of 2% over the comparative period. Intangible asset amortization recorded as a result of the CarteNav acquisition was more than offset by reductions in amortization recorded on the Corporation's other intangible assets.

	Six Months Ended June 30,	2017	2016	Variance	Variance %
Finance costs - interest		$ 15,879	$ 15,357	$ 522	3%

The Corporation's interest incurred for the first six months of 2017 was $0.5 million higher than the comparative period in 2016. Interest incurred on the credit facility increased by $1.7 million as a result of higher debt levels outstanding as capital asset additions at Regional One and Provincial were funded through the credit facility. Finally, the Corporation drew on its credit facility during the period to repurchase shares under its NCIB for cancellation. The impact of the higher debt levels was partially offset by the benefit of borrowing in US dollars at lower interest rates as described further in *Section 6 – Liquidity and Capital Resources*.

Interest incurred on the convertible debentures decreased by $1.2 million from the comparative period. This decrease was caused by the redemption of the Series J convertible debentures in June of 2016, offset partially from interest incurred on the June 2016 Unsecured convertible debentures, which have a minimal impact on the prior period.

The overall effective interest rate on the Corporation's credit facility for the first six months of 2017 was 3.57% (2016 – 3.45%), which includes standby charges on the unused portion of the credit facility. The Corporation strategically chooses to have significant available credit, enabling the Corporation to act quickly when the right opportunity presents itself. This results in higher standby charges.

Six Months Ended June 30,	2017	2016	Variance	Variance %
Acquisition Costs	$ 286	$ 372	$ (86)	-23%

Acquisition costs for the first six months of 2017 were consistent with the prior year. Acquisition costs can vary from period to period depending on the acquisition activity of the Corporation.

Six Months Ended June 30,	2017	2016	Variance	Variance %
Gain on disposal of partnership interest in Innu Mikun	$ (5,585)	$ -	$ (5,585)	-

See the explanation of this non-cash gain provided in the section relating to the three months ended June 30, 2017.

Six Months Ended June 30,	2017	2016	Variance	Variance %
Current income tax expense	$ 15,280	$ 12,985	$ 2,295	18%
Deferred income tax expense (recovery)	(2,957)	284	(3,241)	-1141%
Income tax expense	$ 12,323	$ 13,269	$ (946)	-7%

The effective tax rate in the first six months of 2017 decreased to 28.2% from 32.9% in the first six months of 2016. The effective tax rate for the first six months of 2016 reflects a $1.0 million charge to deferred income tax expense arising from a change in statutory tax rate in one of the jurisdictions in which the Corporation operates. The effective tax rate also declined as a result of a comparatively larger proportion of the Corporation's consolidated earnings being generated in jurisdictions, such as Ireland, which are subject to a lower tax rate than in Canada and the United States. The increase in current tax expense was primarily the result of higher taxable earnings generated during the quarter, including the impact of the one-time current tax cost of $4.3 million as a result of the expansion of our aircraft leasing business in Ireland. The increase in current taxes is partially offset by a deferred tax recovery.

5. SUMMARY OF QUARTERLY RESULTS

	2017		2016				2015		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total revenue	$ 273,145	$ 222,528	$ 221,657	$ 224,620	$ 226,851	$ 217,898	$ 224,504	$ 212,750	$ 196,214
EBITDA	70,071	43,348	51,304	60,012	56,928	44,331	46,055	54,052	48,053
Net earnings	25,779	5,559	13,822	20,581	17,214	9,873	9,923	15,983	13,394
Basic	0.83	0.18	0.48	0.72	0.62	0.36	0.36	0.64	0.58
Diluted	0.77	0.18	0.47	0.67	0.59	0.35	0.35	0.60	0.54
Adjusted net earnings	23,943	7,808	16,571	23,127	20,388	12,008	12,636	18,811	16,516
Basic	0.77	0.25	0.58	0.81	0.74	0.43	0.46	0.76	0.71
Diluted	0.72	0.25	0.56	0.74	0.69	0.43	0.45	0.69	0.64
Free Cash Flow ("FCF")	51,731	33,789	40,765	45,873	42,683	34,890	36,025	42,195	37,626
Basic	1.66	1.09	1.42	1.60	1.54	1.26	1.31	1.70	1.63
Diluted	1.46	0.98	1.25	1.37	1.34	1.10	1.14	1.43	1.33
FCF less maintenance capital expenditures	21,842	6,380	22,823	26,484	25,476	16,801	20,460	24,966	19,870
Basic	0.70	0.21	0.80	0.93	0.92	0.61	0.74	1.01	0.86
Diluted	0.66	0.20	0.74	0.84	0.84	0.58	0.69	0.89	0.75
Maintenance capital expenditures	29,889	27,409	17,942	19,389	17,207	18,089	15,565	17,229	17,756
Growth capital expenditures	33,048	58,790	44,760	53,268	33,489	27,866	(517)	18,718	20,285

6. LIQUIDITY AND CAPITAL RESOURCES

During the first six months of 2017 our financial position has continued to strengthen. During the six month period, we completed an equity offering and used the proceeds to pay down our credit facility. The Corporation also amended and increased its capacity under the credit facility to reflect the size of its operations. The Corporation's working capital, Free Cash Flow and capital resources are strong and we have no long-term debt or debentures maturing before 2019. We have sufficient liquidity and access to capital to make further acquisitions, invest in our operating subsidiaries and meet our obligations.

As at June 30, 2017, the Corporation had a cash position of $14.1 million (December 31, 2016 of $26.5 million) and net working capital of $203.2 million (December 31, 2016 of $178.5 million), which represents a current ratio of 2.21 to 1 (December 31, 2016 of 2.05 to 1).

	June 30, 2017	December 31, 2016	Change
Cash and cash equivalents	$ 14,113	$ 26,494	$ (12,381)
Accounts receivable	165,994	150,338	15,656
Costs incurred plus recognized profits in excess of billings	9,509	7,567	1,942
Inventory	150,545	129,854	20,691
Prepaid expenses and deposits	30,360	34,295	(3,935)
Income taxes receivable	244	-	244
Accounts payable and accrued expenses	(129,804)	(127,423)	(2,381)
Income taxes payable	-	(3,570)	3,570
Deferred revenue	(24,559)	(27,222)	2,663
Billings in excess of costs incurred plus recognized profits	(12,242)	(10,772)	(1,470)
Current portion of long-term debt and finance leases	(998)	(1,069)	71
Net working capital	$ 203,162	$ 178,492	$ 24,670

Working capital has increased by $24.7 million since December 31, 2016. During the period, the Corporation made significant investments in Regional One's inventory of parts for resale. This includes several aircraft that are scheduled for part out. In addition, an increase in working capital consistent with the seasonally busier summer months for the Legacy Airlines resulted in increased working capital. Additionally, the sale of operating aircraft prior to quarter end by Regional One resulted in an increase in accounts receivable. The Corporation's working capital position can vary somewhat from period to period primarily due to variations in the timing of receipts and payment associated with larger customer contracts.

The Corporation aims to maintain leverage at consistent levels over time. There are points where leverage temporarily rises as a result of a significant acquisition where the associated EBITDA has not yet been realized. Our target leverage range, based on senior debt to EBITDA, is between 1.5 and 2.5. Our leverage covenant with our lenders allows for a leverage ratio maximum of 3.0. The Corporation's leverage ratio at June 30, 2017 as calculated under our credit facility was 2.08. Our leverage ratios are, and have been, within our target range and well beneath the maximum allowed under our credit facility.

Overview of Capital Structure

The Corporation's capital structure is summarized below.

	June 30 2017	December 31 2016
Total senior debt outstanding (principal value)	$ 475,530	$ 445,425
Convertible debentures outstanding (par value)	229,979	230,082
Common shares	556,415	463,603
Total capital	$ 1,261,924	$ 1,139,110

Credit facility

The size of the Corporation's credit facility is $750 million, with $695 million allocated to the Corporation's Canadian head office and US $55 million allocated to EIIF Management USA Inc. The facility allows for borrowings to be denominated in either Canadian or US

funds. At June 30, 2017, the Corporation had drawn $21.4 million and US $350.0 million (December 31, 2016 - $217.3 million and US $169.9 million).

During the first half of 2017, the Corporation used the net proceeds of $93.0 million from its equity offering to make a repayment of the credit facility. The Corporation made draws on its facility during the first six months of 2017 to fund growth capital expenditures, most significantly at Regional One and the construction of a company owned maritime surveillance aircraft at Provincial. In addition, the Corporation made several draws on its facility throughout the period to fund purchases of shares for cancellation under its NCIB.

During the first half of 2017, the Corporation continued to use derivatives through several cross currency basis swaps ("swap") with a member of the Corporation's lending syndicate. The swap requires that funds are exchanged back in 30 days at the same term unless both parties agree to extend the swap for a further 30 days. By borrowing in US dollars, the Corporation is able to take advantage of lower interest rates on US dollar LIBOR denominated borrowings. The swap mitigates the risk of changes in the value of the US dollar borrowings as they will be exchanged for the same Canadian equivalent in 30 days. At June 30, 2017, US $186.8 million (December 31, 2016 – US $37.8 million) of the Corporation's US denominated borrowings are hedged with these swaps.

Convertible Debentures

The following summarizes the convertible debentures outstanding as at June 30, 2017 and the changes in the amount of convertible debentures outstanding during the six months ended June 30, 2017:

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

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

Share Capital

The following summarizes the changes in the shares outstanding of the Corporation during the six months ended June 30, 2017:

	Date issued (redeemed)	Number of shares
Shares outstanding, beginning of period		28,793,354
Issued upon conversion of convertible debentures	various	3,106
Issued under dividend reinvestment plan (DRIP)	various	92,515
Issued under deferred share plan	various	7,727
Shares cancelled under NCIB	various	(295,890)
Prospectus offering, January 2017	January 4, 2017	2,303,450
Issued under First Nations community partnership agreements	various	7,578
Shares outstanding, end of period		30,911,840

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

The Corporation's dividend reinvestment plan ("DRIP") continued during the first six months of 2017 and the Corporation received $3.3 million throughout the period for an aggregate 92,515 Shares being issued in accordance with the DRIP.

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

The weighted average shares outstanding for the three and six months ended June 30, 2017 increased by 12% and 12%, respectively, over the comparative period. This increase is mainly as a result of the equity offering completed by the Corporation on January 4, 2017 and the shares issued as a result of the convertible debenture conversions throughout 2016.

Normal Course Issuers Bid

On January 12, 2017, the Corporation received approval from the TSX for the renewal of its NCIB to purchase up to an aggregate of 1,554,884 shares, representing 5% of the issued and outstanding Shares as at January 9, 2017. Purchases of shares pursuant to the renewed NCIB may be made through the facilities of the TSX commencing on January 23, 2017 and ending on January 22, 2018, or an earlier date in the event that the Corporation purchases the maximum number of the shares available under the NCIB. The maximum number of shares that may be purchased by the Corporation on a daily basis is 30,390 shares, other than block purchase exemptions. As of the date of this report, there are 1,258,994 Shares available for purchase under the NCIB ending January 22, 2018.

During the first six months of 2017, the Corporation purchased a total of 295,890 shares through its NCIB. The Corporation paid $9.9 million to purchase these shares, with an average purchase price of $33.47. All of these purchased shares under the current NCIB were cancelled.

7. RELATED PARTY TRANSACTIONS

The related party transactions that the Corporation entered into during the six months ended June 30, 2017 are consistent with those described in the Corporation's MD&A for the year ended December 31, 2016, except as noted below.

Regional One regularly enters into agreements with external entities to co-invest in certain assets. The aircraft asset or assets are often held in separate holding companies or partnerships. As the underlying assets generate cash flows, cash profits are distributed to the investors. These investments are accounted for in accordance with IFRS based on the specifics of each investment.

The Corporation entered into an agreement during 2017 with CRJ Capital Corp., a corporation owned by the CEO of Regional One. Under this agreement CRJ Capital Corp. can, subject to the approval of the Corporation, co-invest on a non-controlling basis in certain aircraft assets being purchased by Regional One. As a co-investor in these isolated aircraft assets, CRJ Capital Corp. receives profits as money is collected on the sale of the aircraft assets. In return, the CEO of Regional One has extended his non-compete agreement with the Corporation. The assets are managed by Regional One and Regional One charges a management fee to CRJ Capital Corp. for services rendered. Cash flow returns are paid out when collected from the customer.

During the current period CRJ Capital Corp. invested US$7.3 million with the Corporation, generating returns paid or payable to CRJ Capital Corp. of US$2.4 million. As a result of the sale of certain of these assets and the return of the initial investment to CRJ Capital Corp., its remaining investment at June 30, 2017 was US$4.4 million.

8. CRITICAL ACCOUNTING ESTIMATES

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

9. ACCOUNTING POLICIES

The accounting policies of the Corporation used in the determination of the results for these interim condensed consolidated financial statements for the six months ended June 30, 2017 that are discussed and analyzed in this report are described in detail in Note 3 of the Corporation's 2016 annual consolidated financial statements and Note 3 of the Corporation's interim condensed consolidated financial statements for the six months ended June 30, 2017.

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

10. CONTROLS AND PROCEDURES

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining internal controls over financial reporting in order to provide reasonable assurance with regards to the reliability of financial reporting and preparation of financial statements in accordance with IFRS, as defined under National Instrument 52-109 issued by the Canadian Securities Administrators. Consistent with the concept of reasonable assurance, the Corporation recognizes that all systems of internal controls, no matter how well designed, have inherent limitations. As such, the Corporation's internal controls over financial reporting can only provide reasonable, and not absolute, assurance that the objectives of such controls are met.

An assessment of internal controls over financial reporting was conducted by the Corporation's management, under supervision by the Chief Executive Officer and Chief Financial Officer. Management has used the 2013 Internal Control – Integrated Framework to evaluate the Corporation's internal controls over financial reporting, which is recognized as a suitable framework developed by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Management has evaluated the design of the Corporation's internal controls over financial reporting as at June 30, 2017, and has concluded that the design of internal controls over financial reporting is effective.

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

Disclosure Controls and Procedures

Management has established and maintained disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Corporation is made known to management in a timely manner and that information required to be disclosed by the Corporation is reported within the time periods prescribed by applicable securities legislation. Management has concluded that disclosure controls and procedures were designed effectively as at June 30, 2017.

11. RISK FACTORS

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

12. OUTLOOK

Acquisition strategy

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

The Corporation remains committed to being active in the acquisition market, in addition to its internal growth opportunities. The Corporation is well positioned to take advantage of these opportunities with approximately $290 million of undrawn credit facility available to fund acquisitions or internal investment opportunities.

Aerospace & Aviation Segment

Through the first half of 2017, Regional One continued to invest new capital to grow its regional aircraft portfolio of assets, including parts, engines, and operating aircraft. Similar to prior investments made to increase the size of its portfolio of assets, the 2017 growth capital expenditures will expand the profitable operations of Regional One on a go forward basis. As part of a new investment, there is a lag until the return on the new asset is realized; however the resulting growth is clear and can be seen in our recent history. In 2014, the first full year of ownership by the Corporation, Regional One invested $28 million to grow its portfolio. The following year Regional One's EBITDA grew by 62%. In 2015, Regional One invested $45 million and the following year its EBITDA grew by 61%. In 2016, Regional One invested $140 million plus the $12.8 million acquisition of Team J.A.S. and so far in the first half of 2017 Regional One's EBITDA has grown by 56%. The relationship is obvious; growth capital expenditures at Regional One generate significant increases in future financial performance. We expect the same relationship from the $53.5 million investment in 2017, leading to continued growth of Regional One.

Strategically the investments made at Regional One and the acquisition of Team J.A.S. have also significantly diversified its operations. Regional One has added new aircraft platforms into its portfolio, such as Embraer and Twin Otters, and it has increased

the number of variants within the aircraft platforms that it supports. Regional One's customer base has expanded to service over 1,000 customers in more than 85 countries. The expansion of the business is evident in all aspects of the operations as parts sales, engine sales, aircraft sales, engine and aircraft leasing and ancillary services, such as third party asset management, have all increased since the Corporation acquired Regional One.

In order to support this growth, Regional One has made significant and necessary additions to its infrastructure. Regional One has added senior management resources, increased its worldwide sales team and institutionalized new systems and processes. Regional One recently expanded its leasing operations in Ireland, which provides it with further access to an experienced workforce and industry contacts.

To be clear, although the investment in Regional One has been significant, the Corporation has not wavered from its foundational values. Any investment made at Regional One must meet the same stringent criteria as any acquisition or investment made by the Corporation. It is this disciplined approach that has allowed us to be successful and the Corporation will remain steadfast to it.

Our regional airlines continue to perform well in their respective markets where the majority of them provide essential transportation services into remote communities. Our regional airlines have invested in infrastructure and additional aircraft to add new customers and to expand into new territories. Calm Air is benefiting from its new long-term contract with a major northern retail cargo customer. As previously discussed, Calm Air received notice from The North West Company, another major northern retailer, that it will be transitioning its freight services to its own newly acquired subsidiary. This work is performed at low margins by Calm Air and is not expected to have a significant impact on the results of Calm Air when it stops. Perimeter and Bearskin continue their expansion into new areas within Northwestern Ontario, which is similar in nature to Perimeter's Manitoba market. The two airlines are making significant progress with the communities in Northwestern Ontario. As expected, the expansion into a new market will take time to fully develop as we forge new relationships with these communities. We are very confident we will continue to make inroads into this market as our expertise in this type of geography will lead to improved service and benefits for these communities.

Our airline entities have many partnerships with the communities they service and we continue to extend, expand and add to these partnerships in 2017. Perimeter has multi-year partnership agreements with 85% of the Manitoba communities it services and in 2017 it has extended two agreements. Perimeter is bringing this model to Northwestern Ontario where it has signed partnership agreements with two significant communities in that region. Calm Air and Keewatin also have multiple partnerships in Nunavut, the most significant of which is with the Birthrights organization of the central region. Through these partnerships employment opportunities and economic benefits are provided to the communities we service. A significant partnership was added in the second quarter, as Provincial's regional airline expanded its Labrador indigenous partnership to include both the Innu and the Inuit under a new brand, Air Borealis. Air Borealis, with its fleet of Twin Otter aircraft, provides vital air service to all of the coastal Labrador communities previously served by Innu Mikun and Air Labrador and will now have seamless through traffic on the Provincial airline network.

Our Aerospace & Aviation segment is supported by many long-term operational contracts with customers around the globe. In 2017, this part of our business was strengthened with new contracts and contract extensions. As mentioned above, Calm Air signed a new long term contract with a major northern retail cargo customer. In 2017, Keewatin won the bid to provide medevac service for the Kitikmeot region of Nunavut, which was the only region in Nunavut that Keewatin didn't have under contract, and the term is for a five year period beginning in late 2017. Provincial renewed its surveillance contract with the State of Netherlands Antilles this year until 2020. The award of the Fixed Wing Search and Rescue Contract with the federal government of Canada in late 2016, while not yet contributing to 2017 results, is another long term contract that will further enhance the foundation of Provincial's service operations for many years to come. These new long-term service contracts add on to our strong base of long term contracts providing the stability for our diverse niche operators to further build their operations and support these entities for the long-term.

As discussed in the first quarter outlook, a competitor has announced its intention to service Winnipeg from Northwestern Ontario once per day. In the second quarter, this airline initiated this service. Additionally a small competitor in Manitoba has begun flying an intermittent scheduled service to two communities in Manitoba using a small single engine aircraft. The combined impact from these two competitors is negligible compared to the scale of service the Corporation's airlines provide to communities in Manitoba and Northwestern Ontario. The Corporation will continue to monitor the situation and ensure our service meets the needs of our customers.

The one area of our Aerospace & Aviation segment that is not as positive as the remainder of the segment is the rotary wing operations. Wet weather in Manitoba, especially in northern Manitoba, has reduced the normal demand for fire suppression services, however, there are signs of improvement. The soil conditions in the Prairie Provinces have become dryer in July increasing the fire risk and we have deployed aircraft in British Colombia to assist in fire suppression from our new base in the province. Additionally, there have been some anecdotal signs of demand from mining operations, however the mining exploration industry remains at historic lows.

In the second half of the year, Provincial will complete its demonstrator surveillance aircraft and will add a second Beech 1900 to service new markets. Keewatin will also add an additional aircraft to ramp up for its new contract in the Kitikmeot region of Nunavut. These are the most significant budgeted growth capital items in the remainder of the year, as the Legacy Airlines have already deployed the necessary capital to move into Northwestern Ontario and Regional One has completed the acquisition of the 13 aircraft under the purchase program with Bombardier. Regional One will continue to be opportunistic in its purchases, however there are no major programs planned for the remainder of the year.

Manufacturing Segment

Most of our operations in the Manufacturing segment are benefiting from the continued improvement in macro-economic factors in their marketplaces and we believe this trend will continue for the remainder of 2017. The sole exception is WesTower, where changing customer requirements are impacting its operations during its low point in the cellular technology cycle.

For the third consecutive quarter, Stainless has seen its business continue to ramp up. Bookings and enquiries, for both shop production and field operations, are at levels not seen in recent years resulting in more balanced operations. The increased bookings and quotations have set the stage for a successful conclusion to 2017 and a strong beginning for 2018, as the company has a backlog of work stretching beyond the remainder of the year. The increasing percentage of field work will also drive margin improvement.

In markets serviced by the Alberta Operations, we are encouraged by continuing signs of economic recovery and a slow but steady improvement in the business itself. We do not anticipate the return to activity levels seen during the high point of the oil boom a few years ago but activity levels, including quotations and orders, have accelerated in all areas of the business and the Alberta Operations are tracking towards substantially improved results compared to 2016. The steps taken to rationalize operations during the economic slowdown without sacrificing customer service or quality have positioned the Alberta Operations to capitalize on the economic recovery.

Overlanders is experiencing a period of growth which is resulting in year over year performance improvements that should continue throughout the year. Overlanders' focus on broadening its customer base is fueling growth with higher sales to new clients to go along with increased sales to its primary customer base. Its investments in new manufacturing technologies and painting facilities are resulting in increased interest from customers who require both of these services.

Ben Machine continues to produce consistent, solid performance. There are indications that defence spending is increasing and we anticipate that this will enhance Ben Machine's already-strong order book during the remainder of the year. In addition to increasing activity from its regular clientele, Ben Machine is seeing more requests for quotations from new customers and from previous customers who have not had work requirements in the last several years. Ben Machine is well positioned for the second half of 2017.

While the current environment in which WesTower operates is experiencing a transition as a new technology upgrade is anticipated, the level of decline has exceeded our expectations. This is consistent with historical patterns as telecommunication companies prepare themselves for large scale rollouts across their networks. As a result, there has been a reduction in spending in the areas that WesTower historically serviced. WesTower is addressing this by placing additional attention in the non-traditional areas of the industry for which customers presently have significant spending requirements. While this has been a slow process, it has allowed WesTower to broaden the scope of services that it is able to provide, taking advantage of non-traditional opportunities such as wireline services and in-building systems. While we are seeing some positive indicators that there could be a slight rebound in business, we anticipate that the overall conditions for WesTower will remain challenging for the remainder of 2017 and into the beginning of 2018 or until the rollout of the full scale upgrades on the networks commences.

Maintenance Capital Expenditures

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

As disclosed in the outlooks of both the 2016 annual report and the first quarter of 2017, the maintenance capital expenditures were scheduled to be front end heavy in 2017 for the operating airlines. This is evident in the Aerospace & Aviation segment's maintenance capital expenditures of $55.7 million for the first half of 2017, which consisted of $16.7 million for Regional One and $39.0 million for the remainder of the Aerospace & Aviation segment. In the second half of the year, the Regional One maintenance capital expenditures will increase marginally as the size of its leased fleet increases. However, with the substantial completion of the large aircraft overhaul program at the operating airlines, we will see the remainder of the Aerospace & Aviation segment's maintenance capital expenditures fall by approximately 35-45%.

The previously released reports discussed the 2017 year will be a higher year for overall maintenance capital expenditures for the operating airlines versus 2016 or other recent periods. This is driven by the timing of major aircraft maintenance events in addition to regular ongoing line maintenance. The operating airlines will experience a higher amount of scheduled large aircraft overhauls in 2017 as a result of the variable timing of these events over the fleet of aircraft. There are 15 large aircraft overhauls scheduled for fiscal 2017 compared to 9 in 2016. This compares to a historical average of 11 large aircraft overhauls per year experienced by the operating airlines.

13. NON-IFRS FINANCIAL MEASURES

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

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

Adjusted Net Earnings: is defined as net earnings adjusted for acquisition costs expensed, amortization of intangible assets that are purchased at the time of acquisition and non-recurring items. Adjusted Net Earnings is a performance measure, along with Free Cash Flow less maintenance capital expenditures, which the Corporation uses to assess cash flow available for distribution to shareholders.

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

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

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

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

ADDITIONAL INFORMATION

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited, in thousands of Canadian dollars)

As at	June 30 2017	December 31 2016
ASSETS		
CURRENT		
Cash and cash equivalents	$ 14,113	$ 26,494
Accounts receivable	165,994	150,338
Costs incurred plus recognized profits in excess of billings	9,509	7,567
Inventory	150,545	129,854
Prepaid expenses and deposits	30,360	34,295
Income taxes receivable	244	-
	370,765	348,548
OTHER ASSETS (Note 6)	22,431	14,589
CAPITAL ASSETS	777,761	693,993
INTANGIBLE ASSETS	102,349	107,277
DEFERRED INCOME TAX ASSETS	252	238
GOODWILL	258,086	259,887
	$ 1,531,644	$ 1,424,532
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ 129,804	$ 127,423
Income taxes payable	-	3,570
Deferred revenue	24,559	27,222
Billings in excess of costs incurred plus recognized profits	12,242	10,772
Current portion of long-term debt and finance leases (Note 7)	998	1,069
	167,603	170,056
LONG-TERM DEBT AND FINANCE LEASES (Note 7)	474,129	445,260
OTHER LONG-TERM LIABILITIES	26,490	18,399
DEFERRED REVENUE	9,077	11,293
CONVERTIBLE DEBENTURES (Note 8)	214,131	212,344
DEFERRED INCOME TAX LIABILITY	77,297	81,043
	968,727	938,395
EQUITY		
SHARE CAPITAL (Note 9)	556,415	463,603
CONVERTIBLE DEBENTURES - Equity Component (Note 8)	11,240	11,245
CONTRIBUTED SURPLUS	3,478	3,478
DEFERRED SHARE PLAN	8,392	7,207
RETAINED EARNINGS		
Cumulative Earnings	279,319	247,981
Cumulative Dividends	(323,276)	(290,631)
Cumulative impact of share cancellation under the NCIB (Note 9)	(4,979)	(395)
	(48,936)	(43,045)
ACCUMULATED OTHER COMPREHENSIVE INCOME	32,328	43,649
	562,917	486,137
	$ 1,531,644	$ 1,424,532

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

Approved on behalf of the directors by:

Duncan Jessiman, Director
Signed

Donald Streuber, Director
Signed

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

For the periods ended June 30	Three Months Ended 2017	Three Months Ended 2016	Six Months Ended 2017	Six Months Ended 2016
REVENUE				
Aerospace & Aviation	$ 226,984	$ 177,108	$ 404,019	$ 350,618
Manufacturing	46,161	49,743	91,654	94,131
	273,145	226,851	495,673	444,749
EXPENSES				
Aerospace & Aviation expenses - excluding depreciation and amortization	129,826	102,006	239,167	211,539
Manufacturing expenses - excluding depreciation and amortization	35,337	37,486	69,999	71,268
General and administrative	37,911	30,431	73,088	60,683
	203,074	169,923	382,254	343,490
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER (Note 4)	70,071	56,928	113,419	101,259
Depreciation of capital assets	28,905	20,689	53,648	39,503
Amortization of intangible assets	2,775	2,814	5,530	5,671
Finance costs - interest	8,174	8,449	15,879	15,357
Acquisition costs	48	308	286	372
Gain on disposal on partnership interest, net of transaction costs (Note 6)	(5,585)	-	(5,585)	-
EARNINGS BEFORE INCOME TAXES	35,754	24,668	43,661	40,356
INCOME TAX EXPENSE (RECOVERY)				
Current	11,616	8,509	15,280	12,985
Deferred	(1,641)	(1,055)	(2,957)	284
	9,975	7,454	12,323	13,269
NET EARNINGS	$ 25,779	$ 17,214	$ 31,338	$ 27,087
EARNINGS PER SHARE (Note 12)				
Basic	$ 0.83	$ 0.62	$ 1.01	$ 0.98
Diluted	$ 0.77	$ 0.59	$ 0.99	$ 0.96

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 June 30	Three Months Ended 2017	Three Months Ended 2016	Six Months Ended 2017	Six Months Ended 2016
NET EARNINGS	$ 25,779	$ 17,214	$ 31,338	$ 27,087
OTHER COMPREHENSIVE INCOME (LOSS),				
Items that are or may be reclassified to the Statement of Income				
Cumulative translation adjustment, net of tax recovery for the three months ended June 30 of $(18) and $(5), respectively and net of tax recovery for the six months ended June 30 of $(21) and $(84), respectively	(14,205)	1,044	(16,865)	(19,165)
Net gain (loss) on hedge of net investment in foreign operation, net of tax expense (recovery) for the three months ended June 30 of $548 and $(24), respectively and net of tax expense for the six months ended June 30 of $582 and $514, respectively	5,065	(207)	5,544	3,162
	(9,140)	837	(11,321)	(16,003)
COMPREHENSIVE INCOME FOR THE PERIOD	$ 16,639	$ 18,051	$ 20,017	$ 11,084

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 repurchase under NCIB	Accumulated Other Comprehensive Income (Loss)	**Total**
Balance, January 1, 2016	$ 425,561	$ 11,200	$ 1,788	$ 5,123	$ 186,491	$ (234,300)	$ -	$ 50,755	$ **446,618**
Convertible debentures									
Converted into shares (Note 9)	27,899	(1,446)	-	-	-	-	-	-	**26,453**
Issued	-	3,262	-	-	-	-	-	-	**3,262**
Matured	-	(1,690)	1,690	-	-	-	-	-	**-**
Shares issued under dividend reinvestment plan (Note 9)	2,545	-	-	-	-	-	-	-	**2,545**
Deferred share plan vesting	-	-	-	1,041	-	-	-	-	**1,041**
Shares cancelled under NCIB (Note 9)	(889)	-	-	-	-	-	(395)	-	**(1,284)**
Comprehensive income	-	-	-	-	27,087	-	-	(16,003)	**11,084**
Dividends declared (Note 10)	-	-	-	-	-	(27,097)	-	-	**(27,097)**
Balance, June 30, 2016	**$ 455,116**	**$ 11,326**	**$ 3,478**	**$ 6,164**	**$ 213,578**	**$ (261,397)**	**$ (395)**	**$ 34,752**	**$ 462,622**
Balance, January 1, 2017	$ 463,603	$ 11,245	$ 3,478	$ 7,207	$ 247,981	$ (290,631)	(395)	$ 43,649	$ **486,137**
Prospectus offering, January 2017 (Note 9)	94,288	-	-	-	-	-	-	-	**94,288**
Convertible debentures									
Converted into shares (Note 9)	104	(5)	-	-	-	-	-	-	**99**
Shares issued under dividend reinvestment plan (Note 9)	3,311	-	-	-	-	-	-	-	**3,311**
Shares issued under First Nations community partnership agreements (Note 9)	230	-	-	-	-	-	-	-	**230**
Deferred share plan vesting	-	-	-	1,185	-	-	-	-	**1,185**
Deferred share plan issuance (Note 9)	199	-	-	-	-	-	-	-	**199**
Shares cancelled under NCIB (Note 9)	(5,320)	-	-	-	-	-	(4,584)	-	**(9,904)**
Comprehensive income	-	-	-	-	31,338	-	-	(11,321)	**20,017**
Dividends declared (Note 10)	-	-	-	-	-	(32,645)	-	-	**(32,645)**
Balance, June 30, 2017	**$ 556,415**	**$ 11,240**	**$ 3,478**	**$ 8,392**	**$ 279,319**	**$ (323,276)**	**$ (4,979)**	**$ 32,328**	**$ 562,917**

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

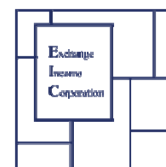
Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of Canadian dollars)

	Three Months Ended		Six Months Ended	
For the periods ended June 30	**2017**	2016	**2017**	2016
OPERATING ACTIVITIES				
Net earnings for the period	$ **25,779**	$ 17,214	$ **31,338**	$ 27,087
Items not affecting cash:				
Depreciation of capital assets	**28,905**	20,689	**53,648**	39,503
Amortization of intangible assets	**2,775**	2,814	**5,530**	5,671
Accretion of interest	**1,204**	2,278	**2,396**	3,392
Long-term debt discount (paid) accretion	**(11)**	(57)	**152**	189
(Gain)/loss on sale of disposal of capital assets	**(81)**	(72)	**(272)**	34
Deferred income tax	**(1,641)**	(1,055)	**(2,957)**	284
Deferred share program share-based vesting	**738**	564	**1,384**	1,041
Gain on disposal of partnership interest	**(5,985)**	-	**(5,985)**	-
	51,683	42,375	**85,234**	77,201
Changes in non-cash operating working capital items and long-term deferred revenue (Note 16)	**(14,773)**	1,059	**(41,440)**	(15,154)
	36,910	43,434	**43,794**	62,047
FINANCING ACTIVITIES				
Proceeds from (repayment of) long-term debt & finance leases, net of issuance costs	**45,511**	(30,234)	**39,947**	23,650
Proceeds from issuance of debentures, net of issuance costs	**-**	65,623	**-**	65,623
Redemption of convertible debentures (Note 8)	**-**	(30,357)	**-**	(30,357)
Issuance of shares, net of issuance costs	**1,785**	1,293	**96,305**	2,545
Payment for repurchase of Shares under NCIB (Note 9)	**(9,904)**	-	**(9,904)**	(1,284)
Cash dividends (Note 10)	**(16,310)**	(13,839)	**(32,645)**	(27,097)
	21,082	(7,514)	**93,703**	33,080
INVESTING ACTIVITIES				
Purchase of capital assets	**(73,366)**	(56,012)	**(167,013)**	(111,030)
Proceeds from disposal of capital assets	**11,545**	5,570	**19,532**	15,223
Purchase of intangible assets	**(895)**	(70)	**(1,246)**	(476)
Cash outflow for prior acquisition working capital settlement (Note 15)	**(144)**	-	**(144)**	-
Investment in other assets	**(2,453)**	529	**(3,505)**	246
Finance lease receivable payments, net of reserves	**376**	223	**2,498**	926
	(64,937)	(49,760)	**(149,878)**	(95,111)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(6,945)**	(13,840)	**(12,381)**	16
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**21,058**	29,353	**26,494**	15,497
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ **14,113**	$ 15,513	$ **14,113**	$ 15,513
Supplementary cash flow information				
Interest paid	$ **5,393**	$ 3,070	$ **12,655**	$ 10,002
Income taxes paid	$ **11,675**	$ 1,127	$ **18,771**	$ 2,645

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



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

1. ORGANIZATION

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

As at June 30, 2017, the principal operating subsidiaries of the Corporation are Perimeter Aviation LP, Keewatin Air LP, Calm Air International LP, Bearskin Lake Air Service LP, Custom Helicopters Ltd., Overlanders Manufacturing LP, Water Blast Manufacturing LP, WesTower Communications Ltd., R1 Canada LP, Provincial Aerospace Ltd., Ben Machine Products Company Inc., EIC Aircraft Leasing Ltd., and EIIF Management USA Inc.. Stainless Fabrication, Inc., Dallas Sailer Enterprises, Inc., and Regional One Inc. are wholly owned subsidiaries of EIIF USA. Through the Corporation's subsidiaries, products and services are provided in two business segments: Aerospace & Aviation and Manufacturing.

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

2. BASIS OF PREPARATION

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

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

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

During the quarter, the Corporation separated its depreciation and amortization into separate line items on the statement of income. Previously, deprecation of capital asset and amortization of intangible assets were included within one line. The prior year comparative figures have been adjusted to conform with current year presentation.

During the quarter, the Corporation separated the impact of cumulative purchases under its normal course issuer bid within retained earnings. As part of the repurchase and cancellation, the Corporation must allocate a portion of the purchase price to retained earnings and a portion to share capital based on the average book value of the shares at the time of repurchase (calculated as share capital divided by the number of shares outstanding). The portion that exceeds the average book value is recorded as a reduction to cumulative retained earnings. The prior year comparative figures have been reclassified to conform to current period presentation.

These interim condensed consolidated financial statements were approved by the Board of Directors of the Corporation for issue on July 19, 2017.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

6. OTHER ASSETS

Changes to other assets of the Corporation from those disclosed at December 31, 2016 consist of the following:

Air Borealis

On June 18, 2017, PAL Airlines expanded its Labrador indigenous partnership to include both the Innu Development Limited Partnership ("IDLP") and Nunatsiavut Group of Companies ("NGC"). The new partnership provides air services, primarily in the Labrador region, under the brand Air Borealis. The three partners have equal ownership interests and equal board representation. The air services provided by Air Borealis were previously provided by Innu Mikun and Air Labrador. PAL Airlines disposed of its existing interest in Innu Mikun by contributing it to the new partnership in return for a one-third interest in the new partnership. Likewise, IDLP contributed its existing interest in Innu Mikun and NGC contributed cash as well as its existing interest in Air Labrador. The Corporation recorded a non-cash gain of $5,585 ($3,910 after tax) on the disposal of its interest in Innu Mikun. The gain was determined under IFRS by comparing the carrying value of its previous investment to its percentage of the fair value of the net assets contributed by the other partners. Its interest in Innu Mikun has therefore been de-recognized and its new interest has been recorded in Other Assets at an amount equal to the original book value of the partnership plus the gain. The costs associated with this transaction have been expensed and netted with the non-cash gain on the income statement. The equity method of accounting will be used to recognize the Corporation's share of the future earnings of Air Borealis. In connection with this transaction, the Corporation loaned $5,100 to NGC. The loan is interest bearing and repayable over the next five years and is also recognized in Other Assets.

7. LONG-TERM DEBT AND FINANCE LEASES

The following summarizes the Corporation's long-term debt and finance leases as at June 30, 2017 and December 31, 2016:

	June 30 2017	December 31 2016
Revolving term facility:		
Canadian dollar amounts drawn	$ 21,400	$ 217,300
United States dollar amounts drawn (US$349,950 and US$169,900 respectively)	454,130	228,125
Total credit facility debt outstanding, principal value	475,530	445,425
less: unamortized transaction costs	(2,137)	(1,087)
less: unamortized discount on outstanding Banker's Acceptances	(11)	(163)
Net credit facility debt	473,382	444,175
Finance leases	1,745	2,154
Total net credit facility debt and finance leases	475,127	446,329
less: current portion of finance leases	(998)	(1,069)
Long-term debt and finance leases	$ 474,129	$ 445,260

The Corporation's credit facility is secured by a general security agreement over the assets of the Corporation, subject to customary terms, conditions, covenants and other provisions, and includes both financial and negative covenants. The Corporation is in compliance with all financial and negative covenants as at June 30, 2017.

The Corporation reached an agreement to amend the terms of its credit facility during the six month period ended June 30, 2017. The amendments included increasing the credit facility from $550,000 to $750,000 and the maturity was extended to March 2021. The credit facility consists of $695,000 allocated to the Corporation's Canadian head office and US $55,000 allocated to EIIF Management USA Inc. The facility allows for borrowings to be denominated in either Canadian or US funds.

Interest expense recorded by the Corporation during the three and six months ended June 30, 2017 for the long-term debt and finance leases was $4,083 and $7,653, respectively (2016 – $3,088 and $5,919, respectively).

Credit Facility

The following is the continuity of long-term debt for the six months ended June 30, 2017:

	Six Months Ended June 30, 2017				
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar portion	$ 217,300	$ 96,900	$ (292,800)	$ -	$ 21,400
United States dollar portion	228,125	425,110	(187,305)	(11,800)	454,130
	$ 445,425				$ 475,530

8. CONVERTIBLE DEBENTURES

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

Summary of the debt component of the convertible debentures:

	2017 Balance, Beginning of Period	Debentures Issued	Accretion Charges	Debentures Converted	Redeemed / Matured	2017 Balance, End of Period
Unsecured - 2012	$ 54,838	$ -	$ 352	$ (31)	$ -	$ 55,159
Unsecured - 2013	62,662	-	326	-	-	62,988
Unsecured - 2014	37,366	-	183	(69)	-	37,480
Unsecured - 2016	64,486	-	285	-	-	64,771
						220,398
less: unamortized transaction costs						(6,267)
Convertible Debentures - Debt Component, end of period						$ 214,131

During the six months ended June 30, 2017, convertible debentures totaling a face value of $103 were converted by the holders at various times into 3,106 shares of the Corporation (2016 – $27,120 face value into 886,264 shares).

Interest expense recorded during the three and six months ended June 30, 2017 for the convertible debentures was $4,091 and $8,226 respectively (2016 – $5,361 and $9,438, respectively).

Convertible Debentures Equity Component

Since all of the outstanding convertible debentures contain a conversion feature available to the debenture-holder to convert debenture principal into shares of the Corporation, the debenture obligation is classified partly as debt and partly as shareholders' equity. The debt component represents the present value of interest and principal payments over the life of the convertible debentures discounted at a rate approximating the rate which would have been applicable to non-convertible debentures at the time the convertible debentures were issued. The difference between the principal amount of the convertible debentures and the present value of interest and principal payments over the life of the convertible debentures is accreted over the term of the convertible debentures through periodic charges to the debt component, such that, on maturity, the debt component equals the principal amount of the convertible debentures outstanding.

Summary of the equity component of the convertible debentures:

	June 30 2017	December 31 2016
Unsecured Debentures - 2012	$ 3,164	$ 3,166
Unsecured Debentures - 2013	3,063	3,063
Unsecured Debentures - 2014	1,751	1,754
Unsecured Debentures - 2016	3,262	3,262
Convertible Debentures - Equity Component, end of period	$ 11,240	$ 11,245

All convertible debentures outstanding at June 30, 2017 represent direct unsecured debt obligations of the Corporation.

9. SHARE CAPITAL

Changes in the shares issued and outstanding during the six months ended June 30, 2017 are as follows:

		2017	
	Number of Shares		Amount
Share capital, beginning of period	28,793,354	$	463,603
Issued upon conversion of convertible debentures	3,106		104
Issued under dividend reinvestment plan	92,515		3,311
Shares cancelled under NCIB	(295,890)		(5,320)
Issued under deferred share plan	7,727		199
Prospectus offering, January, 2017	2,303,450		94,288
Issued under First Nations community partnership agreements	7,578		230
Share capital, end of period	30,911,840	$	556,415

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

On January 12, 2017, the Corporation received approval from the TSX for the renewal of its NCIB and during the six months ended June 30, 2017 purchased a total of 295,890 shares. The Corporation purchased the shares at an average cost of $33.47 per share for aggregate consideration of $9,904. All of the shares repurchased under NCIB were cancelled. The excess of the cost over the average book value of $4,584 was charged to retained earnings.

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 six months ended June 30, 2017 and the comparative 2016 period are as follows:

					2017 Dividends					2016 Dividends
Month	Record date		Per Share		Amount	Record date		Per Share		Amount
January	January 31, 2017	$	0.175	$	5,438	January 29, 2016	$	0.16	$	4,424
February	February 28, 2017		0.175		5,447	February 29, 2016		0.16		4,416
March	March 31, 2017		0.175		5,450	March 31, 2016		0.16		4,418
April	April 28, 2017		0.175		5,455	April 29, 2016		0.16		4,423
May	May 31, 2017		0.175		5,444	May 31, 2016		0.1675		4,633
June	June 30, 2017		0.175		5,411	June 30, 2016		0.1675		4,783
Total		$	1.05	$	32,645		$	0.975	$	27,097

Subsequent to June 30, 2017 and before these interim condensed consolidated financial statements were authorized, the Corporation declared a monthly dividend of $0.175 per share for July 2017.

11. SEGMENTED AND SUPPLEMENTAL INFORMATION

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

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

provides airline services to communities in Manitoba, Ontario, Nunavut and eastern Canada and also provides aircraft and engine aftermarket parts to regional airline operators around the world. In addition, Provincial's aerospace business designs, modifies, maintains and operates custom sensor equipped aircraft. The Manufacturing segment consists of niche specialty metal manufacturers in markets throughout Canada and the United States.

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

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

	Three Months Ended June 30, 2017			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 226,984	$ 46,161	$ -	$ 273,145
Expenses	156,690	41,374	5,010	203,074
EBITDA	70,294	4,787	(5,010)	70,071
Depreciation of capital assets				28,905
Amortization of intangible assets				2,775
Finance costs - interest				8,174
Acquisition costs				48
Gain on disposal of partnership interest				(5,585)
Earnings before income tax				35,754
Current income tax expense				11,616
Deferred income tax recovery				(1,641)
Net earnings				$ 25,779

	Three Months Ended June 30, 2016			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 177,108	$ 49,743	$ -	$ 226,851
Expenses	122,632	43,087	4,204	169,923
EBITDA	54,476	6,656	(4,204)	56,928
Depreciation of capital assets				20,689
Amortization of intangible assets				2,814
Finance costs - interest				8,449
Acquisition costs				308
Earnings before income tax				24,668
Current income tax expense				8,509
Deferred income tax recovery				(1,055)
Net earnings				$ 17,214

	Six Months Ended June 30, 2017			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 404,019	$ 91,654	$ -	$ 495,673
Expenses	290,876	82,174	9,204	382,254
EBITDA	113,143	9,480	(9,204)	113,419
Depreciation of capital assets				53,648
Amortization of intangible assets				5,530
Finance costs - interest				15,879
Acquisition costs				286
Gain on disposal of partnership interest				(5,585)
Earnings before income tax				43,661
Current income tax expense				15,280
Deferred income tax recovery				(2,957)
Net earnings				$ 31,338

	Six Months Ended June 30, 2016			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 350,618	$ 94,131	$ -	$ 444,749
Expenses	252,587	82,928	7,975	343,490
EBITDA	98,031	11,203	(7,975)	101,259
Depreciation of capital assets				39,503
Amortization of intangible assets				5,671
Finance costs - interest				15,357
Acquisition costs				372
Earnings before income tax				40,356
Current income tax expense				12,985
Deferred income tax expense				284
Net earnings				$ 27,087

	June 30, 2017			
	Aerospace & Aviation	Manufacturing	Head Office[(1)]	Consolidated
Total assets	$ 1,336,284	$ 204,977	$ (9,617)	$ 1,531,644
Net capital asset additions, excluding finance leases	145,633	1,414	434	147,481

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

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

12. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net earnings by the weighted average number of shares outstanding during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Corporation has two categories of dilutive potential common shares: deferred shares under the Corporation's Deferred Share Plan and convertible debentures. For the convertible debentures, the convertible debt is assumed to have been converted into common shares and 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 Corporation for the three and six months ended June 30, 2017 and comparative periods in 2016 are as follows:

	Three Months Ended		Six Months Ended	
Periods Ended June 30	**2017**	2016	**2017**	2016
Net earnings for the period, available to common shareholders	**$ 25,779**	$ 17,214	**$ 31,338**	$ 27,087
Effect of dilutive securities				
Convertible debentures	**2,987**	2,254	**-**	2,738
Diluted earnings for the period	**$ 28,766**	$ 19,468	**$ 31,338**	$ 29,825
Basic weighted average number of Shares	**31,085,669**	27,689,788	**31,064,236**	27,656,525
Effect of dilutive securities				
Vested deferred shares	**631,718**	534,598	**631,718**	534,598
Convertible debentures	**5,883,336**	4,793,105	**-**	3,027,279
Diluted basis weighted average number of Shares	**37,600,723**	33,017,491	**31,695,954**	31,218,402
Earnings per share:				
Basic	**$ 0.83**	$ 0.62	**$ 1.01**	$ 0.98
Diluted	**$ 0.77**	$ 0.59	**$ 0.99**	$ 0.96

13. DEFERRED SHARE PLAN

During the six months ended June 30, 2017, the Corporation granted deferred shares to certain personnel. The fair value of the deferred shares granted was $3,313 (2016 - $3,173) at the time of the grant and was based on the market price of the Corporation's shares at that time. During the three and six months ended June 30, 2017, the Corporation recorded compensation expense of $738 and $1,384 respectively, for the Corporation's Deferred Share Plan within the general and administrative expenses of head office (2016 - $564 and $1,041, respectively).

14. RELATED PARTY TRANSACTIONS

The related party transactions that the Corporation entered into during the six months ended June 30, 2017 are consistent with those described in the Corporation's financial statements for the year ended December 31, 2016, except as noted below.

Regional One regularly enters into agreements with external entities to co-invest in certain assets. The aircraft asset or assets are often held in separate holding companies or partnerships. As the underlying assets generate cash flows, cash profits are distributed to the investors. These investments are accounted for in accordance with IFRS based on the specifics of each investment.

The Corporation entered into an agreement during 2017 with CRJ Capital Corp., a corporation owned by the CEO of Regional One. Under this agreement CRJ Capital Corp. can, subject to the approval of the Corporation, co-invest on a non-controlling basis in certain aircraft assets being purchased by Regional One. As a co-investor in these isolated aircraft assets, CRJ Capital Corp. receives profits as money is collected on the sale of the aircraft assets. In return, the CEO of Regional One has extended his non-compete agreement with the Corporation. The assets are managed by Regional One and Regional One charges a management fee to CRJ Capital Corp. for services rendered. Cash flow returns are paid out when collected from the customer.

During the current period CRJ Capital Corp. invested US$7,292 with the Corporation, generating returns paid or payable to CRJ Capital Corp. of US$2,352. As a result of the sale of certain of these assets and the return of the initial investment to CRJ Capital Corp., its remaining investment at June 30, 2017 was US$4,447.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Market Risk

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

Currency Risk

The Corporation has US $349,950 or $454,130 (December 31, 2016 - US $169,900 or $228,125) outstanding on its credit facility. The outstanding funds in USD results in currency risk that the future cash flows will fluctuate with the changes in market currency rates. The exposure for the USD portion of its credit facility outstanding is offset by the cash generated through the operations of its US based subsidiaries. Of the total US credit facility drawn, US $5,250 is drawn by EIIF USA, an entity that uses US dollars as its functional currency. Therefore, the currency risk on this balance is recognized in other comprehensive income.

The Corporation`s investment in those subsidiaries with USD functional currencies are hedged partially by US $157,900 (December 31, 2016 - US $89,000) of credit facility draws, which mitigates the foreign currency translation risk arising from the subsidiary`s net assets. The loan is designated as a net investment hedge and no ineffectiveness was recognized from the net investment hedge.

During the quarter, the Corporation continued the use of derivatives through several cross currency basis swaps ("Swap") with a member of the Corporation's lending syndicate. The Swap requires that funds are exchanged back in 30 days at the same terms unless both parties agree to extend the Swap for a further 30 days. By borrowing in US dollars, the Corporation is able to take advantage of lower interest rates on US dollar LIBOR denominated borrowings. The Swap mitigates the risk of changes in the value of the Corporation's US dollar LIBOR borrowings as they will be exchanged for the same Canadian equivalent in 30 days. The Swap is designated as a hedge of the underlying debt instrument and no ineffectiveness was recognized. The fair value of the Swaps at June 30, 2017 was a loss of $7,590 (December 31, 2016 - loss of $246). At June 30, 2017, the notional value of the swaps outstanding is US $186,800 (December 31, 2016 - US $37,800).

Interest Rates

The Corporation is subject to the risk that future cash flows associated with the credit facility outstanding (Note 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 June 30, 2017:

- US $344,700 (2016 – US $139,000) was outstanding under US LIBOR,
- US $5,250 (2016 – US $30,900) was outstanding under USD Prime,
- $10,000 (2016 – nil) was outstanding under Prime, and
- $11,400 (2016 – $217,300) was outstanding under Banker's Acceptances.

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

Fair Value of Financial Instruments

The following table provides fair value information about financial assets and liabilities in the consolidated balance sheet and categorized by level according to the significance of the inputs used in making the measurements and their related classifications:

		Fair Value		
Recurring fair value measurements	Carrying Value June 30, 2017	Quoted prices in an active market Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Financial Liabilities				
Consideration liabilities - Financial liability at fair value through profit and loss	$ (3,766)	$ -	$ -	$ (3,766)
Other long term liabilities - Cross currency basis swap - Financial liability at fair value through profit and loss	(7,590)	-	(7,590)	-
Fair Value Disclosures				
Other assets - Amortized cost	9,075	-	9,075	-
Other assets - Fair value through OCI	2,617	-	-	2,617
Long term debt - Amortized cost	(473,382)	-	-	(475,530)
Convertible debt - Amortized cost	(214,131)	(239,115)	-	-

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

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

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

Consideration Liability Summary		June 30		December 31
For the periods ended		2017		2016
Opening	$	3,765	$	484
Accretion		128		140
Settled during the period		(267)		(260)
Acquisition of CarteNav		-		3,414
Acquisition of Team J.A.S.		141		9
Translation (gain)/loss		(1)		(22)
Ending	$	3,766	$	3,765

During the period the Corporation finalized the working capital settlement for the acquisition of Team J.A.S. As part of the settlement the Corporation paid US $112 to the vendors.

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

There were 438,209 shares of the Corporation that were originally issued into escrow at the time of acquisition of Regional One and relate to the retention of the vendor as CEO. There are 87,642 shares remaining in escrow at June 30, 2017, which will be released on the fifth anniversary of the acquisition of Regional One in April of 2018.

Financial Instrument Fair Value Disclosures

The fair values of cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued expenses which are classified as amortized cost or other financial liabilities, as applicable, approximate their carrying values due to their short term nature.

As at June 30, 2017, management had determined that the fair value of its long term debt approximates its carrying value. The fair value of long-term debt has been calculated by discounting the expected future cash flows using a discount rate of 3.45%. The discount rate is determined by using a risk free benchmark bond yield for instruments of similar maturity adjusted for the Corporation's specific credit risk. In determining the adjustment for credit risk, the Corporation considers market conditions, the underlying value of assets secured by the associated instrument and other indicators of the Corporation's credit worthiness.

As at June 30, 2017, management estimated the fair value of the convertible debentures based on trading values. The estimated fair value of its convertible debentures is $239,115 (December 31, 2016 - $261,062) with a carrying value of $214,131 (December 31, 2016 - $212,344).

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

16. CHANGES IN WORKING CAPITAL ITEMS

The changes in non-cash operating working capital items during the three and six months ended June 30, 2017 and the comparative period in 2016 are as follows:

	Three Months Ended		Six Months Ended	
Periods Ended June 30	**2017**	2016	**2017**	2016
Accounts receivable	**$ (30,081)**	$ (13,405)	**$ (15,656)**	$ (17,186)
Costs incurred plus recognized profits in excess of billings	**204**	(1,274)	**(1,942)**	(3,366)
Inventory	**3,378**	(2,341)	**(20,691)**	6,967
Prepaid expenses	**3,829**	10,059	**3,935**	7,414
Accounts payable and accrued charges	**14,194**	10,132	**2,381**	4,559
Income taxes receivable (payable)	**(482)**	7,276	**(3,814)**	9,990
Deferred revenue	**(3,191)**	(3,493)	**(2,663)**	(6,631)
Billings in excess of costs incurred plus recognized profits	**828**	(6,284)	**1,470**	(11,692)
Foreign currency adjustments	**(2,285)**	389	**(2,244)**	(5,209)
Net change in working capital items	**$ (13,606)**	$ 1,059	**$ (39,224)**	$ (15,154)

For the three and six months ended June 30, 2017, long-term deferred revenue decreased by $1,167 and $2,216, respectively (three and six months ended June 30, 2016 – nil and nil, respectively), which has been combined with the change in working capital from the table above on the statement of cash flows.