Exchange
Income
Corporation

Second Quarter Report

For the three and six months ended June 30, 2019

CEO's Message

The second quarter was strong for EIC as we took advantage of previous investments in our operations and focused our energies on continuing to execute our business plan. The results of this focus show in our financial performance as we hit new second quarter highs on many of our metrics. This focus on execution, combined with our long-term decision making, allowed us to increase our dividend for the 14th time, by $0.09 per share on an annualized basis beginning with the August dividend. This brings our dividend to $2.28 per annum and extends our cumulative annual growth rate of approximately 5% since inception.

The second quarter highlights include:

- Revenue reached an all-time quarterly high of $326 million, an increase of 4% over the previous year.
- EBITDA also hit an all-time quarterly high of $87 million, an increase of 16% over the previous year.
- Adjusted Net Earnings and Adjusted Net Earnings per share set a new mark for the second quarter reaching $27 million and $0.83 per share, up 5% and 4% respectively.
- Net Earnings and Net Earnings per share increased by 12% and 10%, respectively, to $22 million and $0.68.
- Free Cash Flow grew by 12% to $66 million while Free Cash Flow less Maintenance Capital Expenditures grew by 16% to $35 million. On a per share basis, Free Cash Flow less Maintenance Capital Expenditures grew by 15% to $1.08, which in turn reduced the quarterly dividend payout ratio to 51% from 58% the previous year.
- The trailing twelve month payout ratio is a better barometer of our ability to fund our dividend given the seasonality of our results. When calculated based on Free Cash Flow less Maintenance Capital Expenditures basis, the trailing twelve month payout ratio fell to 54% from 64%. The trailing twelve month Adjusted Net Earnings payout ratio fell to 74% from 77% a year ago.

This is the second quarter since our adoption of IFRS 16, which requires leases that were formerly classified as operating leases be recorded on the balance sheet. While this policy absolutely in no way changes the payments being made to landlords or the resultant cash flow, it does affect the income statement in two ways. EBITDA will increase by approximately $20 million per annum, while Net Earnings and Adjusted Net Earnings on a per share basis will be reduced by approximately $0.05 per annum. The effect of IFRS 16 is included in the quarterly and six month results for the trailing twelve month calculations.

During the second quarter, we continued our focus on long-term revenue streams that will enable us to maintain and grow our earnings and dividend stream for years to come. We began flying for the Manitoba Provincial Government under the new General Transportation Contract. The work is being phased in and we anticipate the final of six additional King Air aircraft will go into service this summer. We also continued work on the enhanced fleet of Dash 8 and King Air aircraft required for PAL's new contract with the Government of Canada for Maritime Surveillance. PAL has performed this work for three decades and the new contract, which begins in mid-2020, will see this relationship continue for another decade. This contract requires a significant up-front investment in enhanced aircraft and surveillance equipment but will generate returns over the long-term beginning in 2020.

Earlier this year we announced that we had entered into a joint venture with SkyWest, Inc. to lease narrow-body aircraft and/or engines to airlines around the world. This relationship has hit the ground running, and in the first week of August, we announced that the joint venture had entered into an agreement whereby all 14 engines owned by the partnership, together with nine airframes provided by Regional One, will be leased to a North American carrier for a 10-year period. The aircraft are expected to be provided to the lessee over the next several months. The aircraft are CRJ700 planes which will be adapted and flown in a 50-seat configuration, known as the CRJ550. Our joint venture continues to actively look for additional investment opportunities.

I am very pleased to inform you that after a long design, construction and certification process the Force Multiplier, PAL's short-term rental surveillance aircraft, went into service and began generating revenue in July. It has additional missions booked over the last half of this year, and the outlook for this project remains strong.

Quest's new facility went into production this quarter in Dallas. We are very pleased with the new facility which will more than double the company's production capacity. The production will continue to ramp up through the balance of 2019 as we add more employees and go through the learning curve of teaching them Quest's manufacturing process. Production at our Canadian facility remains robust and we continue to grow our order book, which has grown by more than 50% since Quest was acquired in late 2017. Quest has been a remarkable acquisition which has helped fuel EIC growth in 2018 and 2019 and will continue to do so in 2020 and beyond.

In 2018 we provided formal guidance to the market for the first time in our history. We predicted strong growth, and we met that guidance. We again provided guidance to the market for 2019, where we expect EBITDA and Adjusted Net Earnings per share to grow at between 10 and 15% and 8 and 12%, respectively, in 2019. We also provided longer-term guidance that we intend to lower our payout ratio over the next three years to a goal of 50% if calculated on a Free Cash Flow less Maintenance Capital Expenditures basis or 60% if calculated on an Adjusted Net Earnings basis. As a result of the strong performance in the first half of the year, we are able to not only affirm this guidance but are also pleased to announce our 14th dividend increase to an annualized rate of $2.28. I want to thank our shareholders and all of our stakeholders for their continued support. I look forward to seeing some of you at the Quest Investor Day on September 18, 2019, and speaking to you following the release of our third quarter results in November.

Mike Pyle
Chief Executive Officer

August 7, 2019

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PREFACE

This MD&A supplements the unaudited interim condensed consolidated financial statements and related notes for the three and six months ended June 30, 2019 ("Consolidated Financial Statements") of Exchange Income Corporation ("EIC" or "the Corporation"). All amounts are stated in thousands of Canadian Dollars, except per share information and share data, unless otherwise stated.

This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Corporation for the three and six months ended June 30, 2019, its annual financial statements for the year ended December 31, 2018, and its annual MD&A for the year ended December 31, 2018. The interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements.

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

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. All statements other than statements of historical fact contained in this 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 a significant risk that predictions and other forward-looking statements will not prove to be accurate. Readers of this report are cautioned not to 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.

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 shareholder value through on-going active monitoring of and investment in its operating subsidiaries; and

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

Segment Summary

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

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

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

1. FINANCIAL HIGHLIGHTS AND SIGNIFICANT EVENTS

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

FINANCIAL PERFORMANCE	2019	per share basic	per share fully diluted	2018	per share basic	per share fully diluted
For the three months ended June 30						
Revenue	**$ 325,907**			$ 313,449		
EBITDA(1)	**87,237**			75,071		
Net earnings	**21,875**	**$ 0.68**	**$ 0.65**	19,547	$ 0.62	$ 0.60
Adjusted net earnings(1)	**26,573**	**0.83**	**0.78**	25,208	0.80	0.76
Adjusted net earnings payout ratio(1)		**66%**	**70%**		68%	72%
Free Cash Flow(1)	**65,729**	**2.05**	**1.75**	58,785	1.86	1.66
Free Cash Flow less maintenance capital expenditures(1)	**34,533**	**1.08**	**0.97**	29,679	0.94	0.90
Free Cash Flow less maintenance capital expenditures payout ratio(1)		**51%**	**56%**		58%	61%
Dividends declared	**17,646**	**0.5475**		17,357	0.5475	
For the six months ended June 30						
Revenue	**$ 622,923**			$ 579,476		
EBITDA(1)	**151,063**			129,084		
Net earnings	**29,363**	**$ 0.93**	**$ 0.90**	28,161	$ 0.89	$ 0.87
Adjusted net earnings(1)	**39,297**	**1.24**	**1.21**	38,140	1.21	1.17
Adjusted net earnings payout ratio(1)		**88%**	**90%**		89%	92%
Free Cash Flow(1)	**109,975**	**3.47**	**3.01**	99,381	3.15	2.81
Free Cash Flow less maintenance capital expenditures(1)	**52,255**	**1.65**	**1.51**	39,521	1.25	1.22
Free Cash Flow less maintenance capital expenditures payout ratio(1)		**66%**	**73%**		86%	89%
Dividends declared	**34,833**	**1.095**		34,090	1.08	
FINANCIAL POSITION	**June 30, 2019**			December 31, 2018		
Working capital	**$ 319,641**			$ 301,141		
Capital assets	**911,856**			877,691		
Total assets	**2,131,358**			1,957,298		
Senior debt	**727,724**			727,511		
Equity	**624,432**			617,247		
SHARE INFORMATION	**June 30, 2019**			December 31, 2018		
Common shares outstanding	**32,254,930**			31,316,006		
	June 30, 2019			June 30, 2018		
Weighted average shares outstanding during the period - basic	**31,738,734**			31,518,107		

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

SIGNIFICANT EVENTS

Amended Credit Facility

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

Normal Course Issuers Bid ("NCIB")

On February 8, 2019, the Corporation renewed its NCIB. Under the renewed NCIB, purchases can be made during the period commencing on February 22, 2019, and ending on February 21, 2020. Under the renewed NCIB, the Corporation can purchase a maximum of 1,567,004 shares and daily purchases will be limited to 21,522 shares, other than block purchase exemptions. The

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

Joint Venture with SkyWest, Inc.

On February 19, 2019, the Corporation announced that it had completed a joint venture with SkyWest, Inc. ("SkyWest") to acquire, lease and sell CF34 engines, expanding its relationship with SkyWest. Regional One also purchased 12 CRJ700 airframes from SkyWest. Three of the airframes will be parted out and nine will be leased consistent with Regional One's model.

Aero Engines LLC., the Joint Venture between SkyWest and Regional One, has entered into an agreement to lease its current portfolio of 14 CF34 engines for a 10-year term. The engines are being paired up with nine CRJ700 airframes owned by Regional One and will be leased for 10 years to a US operator. These assets are expected to enter lease in phases between the date of this report and June 2020, with the first commencing this month.

Aerial Surveillance Contract Award

On March 4, 2019, PAL Aerospace was awarded the Aerial Surveillance contract by the Government of Canada. The new five-year contract takes effect in August 2020 with subsequent options to renew for up to five additional years. This new award will materially increase the scope and nature of services provided under the existing contract between PAL Aerospace and the Government of Canada. PAL Aerospace's critical role in the delivery of Canada's aerial surveillance program provides the Government of Canada with the capability to monitor domestic and foreign vessel activities and detect potential illegal activity. The program also contributes significantly to pollution surveillance, environmental monitoring, and marine security for several other federal departments and agencies.

Convertible Debenture Offering

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

Appointment of Chief Financial Officer

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

Early Redemption of Convertible Debentures

On April 26, 2019, the Corporation exercised its right to call its 7 year 6.00% convertible debentures which were due on March 31, 2021. The redemption of the debentures was completed with cash on hand from the Corporation's issuance of its March 2019 5.75% convertible debenture offering. Prior to the redemption date on April 26, 2019, $24.7 million principal amount of debentures were converted into 780,112 common shares at a price of $31.70 per share. On April 26, 2019, the remaining outstanding debentures in the principal amount of $3.1 million were redeemed by the Corporation.

Life in Flight Program

On May 8, 2019, at the Corporation's Annual General Meeting, the Corporation unveiled its Life in Flight program to proactively address the impact of the worldwide shortage of pilots on the Corporation's airline operations. The program will be integrated into each of the Corporation's airlines and will leverage the knowledge and training capacity of Moncton Flight College, which was acquired on February 28, 2018. More information on the program can be found at www.lifeinflight.ca.

Dividend Increase

On August 7, 2019, the Corporation announced that it is increasing its monthly dividend by 4% or $0.09 per annum to $2.28 per annum. The increase will be effective for the August dividend, which will be paid to shareholders on September 13, 2019.

2. RESULTS OF OPERATIONS

Three Month Results

The following section analyzes the financial results of the Corporation's operations for the three months ended June 30, 2019, and the comparative 2018 period.

	Three Months Ended June 30, 2019			
	Aerospace & Aviation	**Manufacturing**	**Head Office(2)**	**Consolidated**
Revenue	**$ 238,884**	**$ 87,023**	**$ -**	**$ 325,907**
Expenses(1)	**159,838**	**71,271**	**7,561**	**238,670**
EBITDA	**79,046**	**15,752**	**(7,561)**	**87,237**
Depreciation of capital assets				**32,256**
Amortization of intangible assets				**4,425**
Finance costs - interest				**13,852**
Depreciation of right of use assets				**5,501**
Interest expense on right of use liabilities				**1,118**
Acquisition costs				**1,489**
Earnings before taxes				**28,596**
Current income tax expense				**2,798**
Deferred income tax expense				**3,923**
Net Earnings				**$ 21,875**
Net Earnings per share				**$ 0.68**
Adjusted Net Earnings				**$ 26,573**
Adjusted Net Earnings per share				**$ 0.83**

	Three Months Ended June 30, 2018			
	Aerospace & Aviation	Manufacturing	Head Office(2)	Consolidated
Revenue	$ 233,402	$ 80,047	$ -	$ 313,449
Expenses(1)	166,092	65,501	6,785	238,378
EBITDA	67,310	14,546	(6,785)	75,071
Depreciation of capital assets				30,383
Amortization of intangible assets				4,397
Finance costs - interest				14,121
Acquisition costs				547
Earnings before taxes				25,623
Current income tax expense				7,023
Deferred income tax recovery				(947)
Net Earnings				$ 19,547
Net Earnings per share				$ 0.62
Adjusted Net Earnings				$ 25,208
Adjusted Net Earnings per share				$ 0.80

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

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

REVENUE AND EBITDA

On a consolidated basis, the Corporation generated revenue of $325.9 million, an increase of $12.5 million or 4% over the comparative period. Of the increase, $7.0 million was generated by the Manufacturing segment and $5.5 million was generated by the Aerospace & Aviation segment.

EBITDA of $87.2 million was generated by the Corporation during the quarter, an increase of $12.2 million or 16% over the comparative period. Excluding the impact of the adoption of IFRS 16, EBITDA increased 9% over the prior year. This performance was primarily attributable to a significant increase in the Aerospace & Aviation segment as discussed below.

During the period, the Corporation's head office costs increased by $0.8 million over the prior period. The primary reason for the increase was recruitment and other costs as the Corporation filled its vacant Chief Financial Officer position during the quarter.

Aerospace & Aviation Segment

Revenue generated by the Aerospace & Aviation segment increased by $5.5 million or 2% to $238.9 million.

Revenue in the Legacy Airlines and Provincial increased by $13.4 million or 8%. The increase in revenue can be attributed to higher volumes in Newfoundland & Labrador and Quebec, which was due to activity in the natural resource sector, increased passenger and medevac volumes in the Kivalliq region and contributions from the rotary-wing operation due to growth in new services, including emergency medical services.

Regional One's business is subject to material changes in product mix from period to period. Regional One's revenue for the quarter decreased by $7.9 million or 10%. This was due to the higher than average volume of whole aircraft and engine sales in the comparative period.

Regional One Revenues	Three Months Ended June 30,	2019	2018	Variance	Variance %
Sales and service revenue		$ **44,215**	$ 56,196	$ (11,981)	-21%
Lease revenue		**23,453**	19,361	4,092	21%
		$ **67,668**	$ 75,557	$ (7,889)	-10%

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

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

Lease revenue increased by $4.1 million or 21% in the current period coming from higher utilization of aircraft within the portfolio and an increase in the number of assets in the portfolio on lease compared to the comparative period. This improvement started in the second half of 2018 and has continued as the whole fleet of CRJ900 aircraft have been on lease since the fourth quarter of 2018. In addition, the lease of 10 CRJ200 aircraft to SkyWest, announced in December 2018, is positively impacting lease revenue in 2019. The recently announced deployment of nine airframes together with 14 engines owned by the joint venture with SkyWest did not contribute in the current period. These assets will begin to contribute to EIC results in subsequent quarters.

Sales and service revenue decreased by 21% over the comparative period. This was due to higher than average sales of whole aircraft and engines in the comparative period, partially offset by higher parts sales in the current period.

In the Aerospace & Aviation segment, EBITDA increased by $11.7 million or 17% to $79.0 million. Excluding the impact of IFRS 16, EBITDA increased by $7.7 million or 12% in the segment over the prior period.

EBITDA generated by the Legacy Airlines and Provincial increased by $12.4 million or 32% and increased by $8.7 million or 23% excluding the impact of IFRS 16. The increase in EBITDA for the Legacy Airlines was driven largely by the increase in revenue discussed above. Cost savings associated with operational efficiencies also contributed to the increase. Capacity sharing across airline subsidiaries and investment in additional aircraft in prior periods reduced third party charter costs.

The growth in EBITDA was achieved despite industry-related labour challenges. Industry-wide labour shortages resulted in continued higher overtime, contractor and training costs. The implementation of the EIC Life in Flight program will help mitigate the impact moving forward but will require time to take full effect. EIC is developing similar strategies to address maintenance labour challenges.

Regional One's EBITDA decreased by $0.7 million, or $1.0 million excluding the impact of IFRS 16. An increase in high margin lease revenue was more than offset by a decrease in aircraft and engine sales. The second quarter of 2018 experienced a particularly high volume of aircraft and engine sales compared to an average quarter.

Manufacturing Segment

Manufacturing segment revenue increased by $7.0 million or 9% to $87.0 million. EBITDA also increased by $1.2 million or 8% to $15.8 million and decreased $0.6 million or 4% excluding the impact of IFRS 16. In the second quarter, EBITDA at Quest was relatively flat over the prior period. The Canadian plant continues to operate at full capacity, generating the highest EBITDA in a single quarter in its history. This was offset by initial production costs at the new Dallas plant. The balance of the segment collectively continued to experience growth in revenue and EBITDA. The segment benefitted from an increase in custom manufacturing, high levels of defense spending worldwide, increased spending from telecommunications companies across Canada and operational efficiencies. Growth Capital Expenditures made in the current and previous periods enabled the segment to respond to increased demand from customers, resulting in increased revenue and EBITDA.

NET EARNINGS

Three Months Ended June 30		**2019**		2018		Variance	Variance %
Net Earnings	$	**21,875**	$	19,547	$	2,328	12%
Net Earnings per share	$	**0.68**	$	0.62	$	0.06	10%

Net Earnings was $21.9 million, an increase $2.3 million or 12% over the prior period. Excluding the impact of IFRS 16, Net Earnings increased 13%. The increase in EBITDA of 16% was partially offset by depreciation on right of use assets and interest expense on right of use liabilities as a result of the adoption of IFRS 16. In addition, increased depreciation on Growth Capital Expenditures drove a $1.9 million increase in depreciation expense. Acquisition costs incurred by the Corporation increased $0.9 million in the second quarter of 2019 compared to the 2018 period, reducing Net Earnings.

Income tax expense increased by $0.6 million, and the effective rate of tax decreased to 23.5% from 23.7%. Current tax decreased due to the ability to claim accelerated tax depreciation on capital expenditures in both Canada and the United States during 2019.

Net Earnings per share increased 10% to $0.68 over the prior period even with the negative impact of the adoption of IFRS 16. Excluding the impact of the adoption of IFRS 16, Net Earnings per share increased 11% to $0.69. The weighted average number of shares increased by 1%, which partially offset the increase in Net Earnings. Details around the change in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

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

Three Months Ended June 30		**2019**		2018
Net Earnings	$	**21,875**	**$**	19,547
Acquisition costs, net of tax		**1,096**		529
Amortization of intangible assets, net of tax		**3,231**		3,210
Interest accretion on acquisition contingent consideration		**280**		326
Interest accretion on redeemed debentures, net of tax		**91**		1,596
Adjusted Net Earnings	$	**26,573**	$	25,208
per share - Basic	$	**0.83**	$	0.80
per share - Diluted	$	**0.78**	$	0.76

Adjusted Net Earnings increased $1.4 million or 5% compared to the prior period. Excluding the impact of IFRS 16, Adjusted Net Earnings increased 7%. Adjusted Net Earnings includes the add-back of acquisition-related costs, which are comprised of $3.2 million in intangible asset amortization, $1.1 million in acquisition costs and $0.3 million in interest accretion on contingent consideration (all net of tax). In addition, Adjusted Net Earnings included a $0.1 million net of tax add-back of accelerated interest accretion on redeemed debentures.

Adjusted Net Earnings per share increased by 4% compared to the second quarter of 2018 despite the negative impact of the adoption of IFRS 16. Excluding the impact of the adoption of IFRS 16, Adjusted Net Earnings increased 5% to $0.84 per share. The weighted average number of shares outstanding increased by 1% over the prior period, which partially offset the increase in Adjusted Net Earnings. Details around the change in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

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

FREE CASH FLOW				
Three Months Ended June 30		**2019**		2018
Cash flows from operations	**$**	**41,137**	$	29,053
Change in non-cash working capital items		**28,479**		29,203
Acquisition costs, net of tax		**1,096**		529
Principal payments on right of use lease liabilities		**(4,983)**		-
	$	**65,729**	$	58,785
per share - Basic	**$**	**2.05**	$	1.86
per share - Fully Diluted	**$**	**1.75**	$	1.66

The Free Cash Flow generated by the Corporation during the period was $65.7 million, an increase of $6.9 million or 12% over the comparative period. The main reasons for this increase are the $12.2 million or 16% increase in EBITDA and the decrease in current tax expense, partially offset by the principal payments on right of use lease liabilities. Free Cash Flow is discussed further in *Section 12 – Non-IFRS Measures and Glossary*.

Because of the increase in Free Cash Flow described above, Free Cash Flow on a basic per share basis increased by 10% to $2.05. The increase in Free Cash Flow was slightly offset by a 1% increase in the weighted average number of shares outstanding compared to 2018. Details around the increase in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

Changes in non-cash working capital are included in cash flow from operations per the Statement of Cash Flow and are removed in the reconciliation to Free Cash Flow. As a result, it has no impact on the calculation of Free Cash Flow. The investment in working capital during the period was driven primarily by investments made at Regional One in its inventory of parts for resale and the purchase of a Q400 aircraft for resale. In addition, an investment was made in working capital required to support the seasonally busier second quarter for the Legacy Airlines and Provincial. A more detailed discussion of changes in working capital is included in *Section 3 – Investing Activities*.

Six Month Results

The following section analyzes the financial results of the Corporation for the six months ended June 30, 2019, and the comparative 2018 period.

	Six Months Ended June 30, 2019			
	Aerospace & Aviation	**Manufacturing**	**Head Office(2)**	**Consolidated**
Revenue	**$ 455,628**	**$ 167,295**	**$ -**	**$ 622,923**
Expenses(1)	**318,956**	**138,530**	**14,374**	**471,860**
EBITDA	**136,672**	**28,765**	**(14,374)**	**151,063**
Depreciation of capital assets				**62,947**
Amortization of intangible assets				**8,905**
Finance costs - interest				**27,211**
Depreciation of right of use assets				**10,899**
Interest expense on right of use lease liabilities				**2,279**
Acquisition costs				**3,689**
Other				**(2,182)**
Earnings before income taxes				**37,315**
Current income tax expense				**5,825**
Deferred income tax expense				**2,127**
Net Earnings				**$ 29,363**
Net Earnings per share (basic)				**$ 0.93**
Adjusted Net Earnings				**$ 39,297**
Adjusted Net Earnings per share (basic)				**$ 1.24**

	Six Months Ended June 30, 2018			
	Aerospace & Aviation	Manufacturing	Head Office(2)	Consolidated
Revenue	$ 423,225	$ 156,251	$ -	$ 579,476
Expenses(1)	309,197	129,207	11,988	450,392
EBITDA	114,028	27,044	(11,988)	129,084
Depreciation of capital assets				58,845
Amortization of intangible assets				9,151
Finance costs - interest				25,167
Acquisition costs				1,062
Other				(1,471)
Earnings before income taxes				36,330
Current income tax expense				11,498
Deferred income tax recovery				(3,329)
Net Earnings				$ 28,161
Net Earnings per share (basic)				$ 0.89
Adjusted Net Earnings				$ 38,140
Adjusted Net Earnings per share (basic)				$ 1.21

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

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

REVENUE AND EBITDA

On a consolidated basis, the Corporation generated revenue of $622.9 million, an increase of $43.4 million or 7% over the comparative period. Of the increase, $32.4 million was generated by the Aerospace & Aviation segment and $11.0 million was generated by the Manufacturing segment.

EBITDA of $151.1 million was generated by the Corporation during the first six months of 2019, an increase of $22.0 million or 17% over the comparative period. Excluding the impact of the adoption of IFRS 16, EBITDA increased 9% over the prior year. This performance was primarily attributable to a significant increase in the Aerospace & Aviation segment.

During the period, the Corporation's head office costs increased $2.4 million over the prior period largely due to increased performance-based compensation, including the new Restricted Share Plan and recruitment and other costs associated with filling the Corporation's vacant Chief Financial Officer position.

Aerospace & Aviation Segment

Revenue generated by the Aerospace & Aviation segment increased by $32.4 million or 8% to $455.6 million.

Revenue in the Legacy Airlines and Provincial increased by $23.0 million or 8% over the comparative year. The increase in revenue can be attributed to higher volumes in Newfoundland & Labrador, due to activity in the natural resource sector, and increased volumes in the Kivalliq region. In addition, expansion into new services by the rotary-wing operation during the year contributed additional revenue. The segment also benefited from the inclusion of Moncton Flight College for a full six months in 2019, as it was acquired on February 28, 2018.

Regional One's revenues for the current period increased by $9.4 million or 7%. As seen in the table below, this was driven by increases in both main revenue streams over the comparative period.

Regional One Revenue	Six Months Ended June 30,		**2019**		2018		Variance	Variance %
Sales and service revenue		$	**97,373**	$	93,313	$	4,060	4%
Lease revenue			**40,226**		34,892		5,334	15%
		$	**137,599**	$	128,205	$	9,394	7%

Sales and service revenue increased by 4% over the comparative period. This was a result of higher volumes of parts sales, partially offset by lower sales of whole aircraft and engines. The comparative period included a high volume of whole aircraft and engines, particularly in the second quarter.

Lease revenue increased by $5.3 million or 15% in the current period. Consistent with the second quarter discussion, the leasing portfolio experienced higher utilization of aircraft by customers and had more assets on lease in the portfolio compared to the prior period. This improvement started in the second half of 2018 and has continued as the whole fleet of CRJ900 aircraft have been on lease since the fourth quarter of 2018. In addition, the lease of 10 CRJ200 aircraft to SkyWest, announced in December 2018, is positively impacting lease revenue in 2019. The recently announced deployment of nine airframes together with 14 engines owned by the joint venture with SkyWest did not contribute in the current period. These assets will begin to contribute to EIC results in subsequent quarters.

In the Aerospace & Aviation segment, EBITDA increased $22.6 million or 20% to $136.7 million. Excluding the impact of IFRS 16, EBITDA increased by $14.8 million or 13% in the segment over the prior period.

EBITDA contributed by the Legacy Airlines and Provincial increased by $18.7 million or 29% and increased $11.5 million or 18% excluding the impact of IFRS 16. The increase in EBITDA was primarily driven by the 8% increase in revenue discussed above. Additionally, the segment benefited from fuel price stabilization, cost savings associated with operational efficiencies, and our investment in Wasaya. Capacity sharing across airline subsidiaries and investment in additional aircraft in prior periods reduced third party charter costs.

The growth in EBITDA was achieved despite industry-related labour challenges. Industry-wide labour shortages resulted in continued higher overtime, contractor and training costs. The implementation of the EIC Life in Flight program will help mitigate the impact moving forward but will require time to take full effect. EIC is developing similar strategies to address maintenance labour challenges.

Regional One's EBITDA increased $3.9 million or 8% from the prior period, or $3.3 million or 7% excluding the impact of IFRS 16. Increased lease revenue drove the increase in EBITDA as margins on lease revenue exceed 95% as the direct cost of leasing is depreciation on the lease portfolio, which is included outside of EBITDA.

Manufacturing Segment

The Manufacturing segment revenue increased by $11.0 million or 7% to $167.3 million over the prior period. EBITDA also increased by $1.7 million or 6% to $28.8 million and decreased $1.3 million or 5% excluding the impact of IFRS 16. EBITDA at Quest was $1.4 million lower because of temporary production delays due to a water main break that flooded the plant and shut down production in November 2018. The plant was operational but was not fully restored until March, resulting in inefficiencies that impacted EBITDA. The Canadian plant continues to operate at full capacity since the water main break was rectified, generating the highest quarterly EBITDA in its history in the second quarter. This was offset by initial production costs at the new Dallas plant. In total, the remaining companies within the segment posted both revenue and EBITDA growth for reasons consistent with the three-month section above.

NET EARNINGS

Six Months Ended June 30		**2019**		2018		Variance	Variance %
Net Earnings	$	**29,363**	$	28,161	$	1,202	4%
Net Earnings per share	$	**0.93**	$	0.89	$	0.04	4%

Net Earnings was $29.4 million, an increase $1.2 million or 4% over the prior period even with the negative impact of the adoption of IFRS 16. Excluding the impact of IFRS 16, Net Earnings increased 8%. The increase in EBITDA of 17% was partially offset by depreciation on right of use assets and interest expense on right of use liabilities as a result of the adoption of IFRS 16. In addition, increased depreciation on assets purchased through acquisition and Growth Capital Expenditures drove the $4.1 million increase in depreciation expense. Interest expense increased by $2.0 million due to the funding of Moncton Flight College and other investments and increases in benchmark borrowing rates. Acquisition costs incurred by the Corporation increased $2.6 million in 2019 compared to the 2018 period, reducing Net Earnings. In the first six months of 2019, the gain on revaluation of contingent consideration increased by $0.7 million over the comparative period. The revaluation of contingent consideration is required when the amount that will ultimately be paid to vendors differs from the amount previously estimated (*Section 8 – Critical Accounting Estimates and Judgments).*

Income tax expense has decreased by $0.2 million, and the effective rate of tax has decreased to 21.3% from 22.5%. The gain on the remeasurement of contingent consideration in the current period increased $0.7 million, which is not taxable and was a higher proportion of earnings before tax compared to the gain in 2018, and therefore decreased the effective tax rate. Current tax expense decreased as a result of the larger non-taxable gain on remeasurement of contingent consideration as well as the ability to claim accelerated tax depreciation on capital expenditures in both Canada and the United States during the first six months of 2019.

Net Earnings per share increased 4% to $0.93 over the prior period even with the negative impact of the adoption of IFRS 16. Excluding the impact of IFRS, Net Earnings per share increased 7% to $0.95. The increase in Net Earnings was partially offset by a 1% increase in the weighted average number of shares outstanding compared to 2018. Details around the change in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

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

Six Months Ended June 30,		**2019**		2018
Net Earnings	$	**29,363**	$	28,161
Acquisition costs, net of tax		**2,740**		1,044
Amortization of intangible assets, net of tax		**6,501**		6,680
Interest accretion on acquisition contingent consideration		**602**		659
Accelerated interest accretion on redeemed debentures, net of tax		**91**		1,596
Adjusted Net Earnings	$	**39,297**	$	38,140
per share - Basic	$	**1.24**	$	1.21
per share - Diluted	$	**1.21**	$	1.17

Adjusted Net Earnings increased $1.2 million or 3% over the prior period and excluding the impact of IFRS 16 Adjusted Net Earnings increased 6%. Adjusted Net Earnings includes the add-back of acquisition-related costs, which are comprised of $6.5 million in intangible asset amortization, $0.6 million in interest accretion on contingent consideration and $2.7 million in acquisition costs (all net of tax). In addition, Adjusted Net Earnings included a $0.1 million net of tax add-back of accelerated interest accretion on redeemed debentures.

Adjusted Net Earnings per share increased 2% to $1.24 even with the negative impact of the adoption of IFRS 16. Excluding the adoption impact of IFRS 16, Adjusted Net Earnings per share increased 5% to $1.27. The increase in Adjusted Net Earnings was partially offset by a 1% increase in the weighted average number of shares outstanding compared to 2018. Details around the change in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

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

FREE CASH FLOW	Six Months Ended June 30,		2019		2018
Cash flows from operations		$	75,875	$	44,667
Change in non-cash working capital items			40,623		53,670
Acquisition costs, net of tax			2,740		1,044
Principal payments on right of use liabilities			(9,263)		-
		$	109,975	$	99,381
per share - Basic		$	3.47	$	3.15
per share - Fully Diluted		$	3.01	$	2.81

The Free Cash Flow generated by the Corporation during the period was $110.0 million, an increase of $10.6 million or 11% over the comparative period. The main reasons for this increase are the $22.0 million or 17% increase in EBITDA and the decrease in current tax expense, partially offset by increased interest costs and principal payments on right of use lease liabilities. Free Cash Flow is discussed further in *Section 12 – Non-IFRS Measures and Glossary*.

Because of the increase in Free Cash Flow described above, Free Cash Flow on a basic per share basis increased by 10% to $3.47. The increase in Free Cash Flow was partially offset by a 1% increase in the weighted average number of shares outstanding compared to 2018. Details around the increase in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

Changes in non-cash working capital are included in cash flow from operations per the Statement of Cash Flow and are removed in the reconciliation to Free Cash Flow. As a result, it has no impact on the calculation of Free Cash Flow. The investment in working capital during the period was driven primarily by investments made at Regional One in the first six months of 2019, including three CRJ700 airframes acquired from SkyWest, which will be parted out in future periods and have been recorded in inventory, and the purchase of a Q400 aircraft for resale. In addition, working capital investment was required to support the seasonally busier second quarter in the Legacy Airlines and Provincial. A more detailed discussion of changes in working capital is included in *Section 3 – Investing Activities*.

3. INVESTING ACTIVITIES

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

CAPITAL EXPENDITURES

	Three Months Ended June 30, 2019			
CAPITAL EXPENDITURES	**Aerospace & Aviation**	**Manufacturing**	**Head Office**	**Total**
Maintenance Capital Expenditures	**$ 29,684**	**$ 1,102**	**$ 410**	**$ 31,196**
Growth Capital Expenditures	**13,492**	**2,900**	**-**	**16,392**
	$ 43,176	**$ 4,002**	**$ 410**	**$ 47,588**

	Three Months Ended June 30, 2018			
CAPITAL EXPENDITURES	Aerospace & Aviation	Manufacturing	Head Office	Total
Maintenance Capital Expenditures	$ 28,213	$ 379	$ 217	$ 28,809
add: finance lease principal payments	-	297	-	297
Maintenance Capital Expenditures	28,213	676	217	29,106
Growth Capital Expenditures	(1,185)	1,486	-	301
	$ 27,028	$ 2,162	$ 217	$ 29,407

	Six Months Ended June 30, 2019			
CAPITAL EXPENDITURES	**Aerospace & Aviation**	**Manufacturing**	**Head Office**	**Total**
Maintenance Capital Expenditures	**$ 55,399**	**$ 1,869**	**$ 452**	**$ 57,720**
Growth Capital Expenditures	**51,313**	**6,161**	**-**	**57,474**
	$ 106,712	**$ 8,030**	**$ 452**	**$ 115,194**

	Six Months Ended June 30, 2018			
CAPITAL EXPENDITURES	Aerospace & Aviation	Manufacturing	Head Office	Total
Maintenance Capital Expenditures	$ 57,649	$ 1,312	$ 321	$ 59,282
add: finance lease principal payments	-	578	-	578
Maintenance Capital Expenditures	57,649	1,890	321	59,860
Growth Capital Expenditures	92	2,249	-	2,341
	$ 57,741	$ 4,139	$ 321	$ 62,201

Aerospace & Aviation

Maintenance Capital Expenditures for the Legacy Airlines and Provincial for the three and six months ended June 30, 2019, were $19.0 million and $35.1 million, respectively, a decrease of 2% and 14% from 2018. The Corporation's strategy to perform as much required maintenance as possible during the seasonally slower first half of the year remains unchanged from prior years. Large aircraft airframe maintenance events have more scheduling flexibility than engine maintenance events, which are typically dictated by usage. The required timing of maintenance events for several engines has moved to the balance of the year, resulting in lower Maintenance Capital Expenditures than expected. The Corporation still expects that, as indicated in its guidance provided in February, Maintenance Capital Expenditures will increase in line with the overall growth in its business in 2019. During the three and six months ended June 30, 2019, the Legacy Airlines and Provincial invested $10.4 million and $24.9 million, respectively, in Growth Capital Expenditures. These expenditures primarily relate to investments required to support new contracts awarded to the Corporation, including the Government of Manitoba General Transport contract for the Legacy Airlines and the Department of Fisheries and Oceans contract for Provincial.

Regional One's Maintenance Capital Expenditures for the three and six months ended June 30, 2019, were $10.7 million and $20.3 million, respectively, an increase of 20% for both periods over the comparative periods because of investments in the lease portfolio during 2018 and 2019, including the purchase of several CRJ700 airframes from SkyWest. Of the 12 airframes purchased from SkyWest, three airframes are classified as inventory as they are expected to be parted out and nine are classified as capital assets in

Regional One's leasing pool. The Corporation's lease portfolio increased from 43 aircraft and 48 engines at June 30, 2018, to 56 aircraft and 52 engines at June 30, 2019, as detailed in the chart below. The increase in the number of assets and the replacement of lower value assets with higher value assets in the last twelve months increased depreciation expense in 2019. The Maintenance Capital Expenditures for Regional One are directly attributable to the depreciation on its fleet of leased aircraft and engines. The table below provides a summary of the fleet of assets in Regional One's lease portfolio.

Regional One Lease Portfolio	**June 30, 2019**		December 31, 2018	
	Aircraft	**Engines**	Aircraft	Engines
Lease portfolio	**56** (1)	**52**	46	54

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

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

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

During the three and six months ended June 30, 2019, the Corporation invested $15.4 million and $48.4 million, respectively, in excess of Maintenance Capital Expenditures into Regional One, of which $12.3 million and $22.0 million, respectively, was invested into inventory and is discussed below. For these same periods, Regional One invested $3.1 million and $26.4 million, respectively, in Growth Capital Expenditures, which was mainly the nine CRJ700 airframes purchased from SkyWest and the purchase of a low-time CRJ700 aircraft. Further discussion of investment in inventory at Regional One is included below in the overall discussion of investment in working capital.

<u>Manufacturing Segment</u>

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

For the three and six months ended June 30, 2019, Maintenance Capital Expenditures of $1.1 million and $1.9 million, respectively, were made by the Manufacturing segment. In the prior period, principal lease payments on finance leases were included in Maintenance Capital Expenditures. With the adoption of IFRS 16, the principal payment of all lease costs that fall under the standard is deducted in the reconciliation of Free Cash Flow. Without this change, Maintenance Capital Expenditures increased $0.7 million in the three month period and $0.6 million in the six month period. The variance over the prior period relates primarily to investments made at Quest's Canadian plant in both the three and six month periods.

For the three and six months ended June 30, 2019, Growth Capital Expenditures of $2.9 million and $6.2 million, respectively, were made by the Manufacturing segment. During the three month period, the Corporation made investments at WesTower for equipment required to support its growing wireline business. The vast majority of the remaining investments were made in Quest's new US plant in both the three and six month periods.

INVESTMENT IN WORKING CAPITAL

During the first six months of 2019, the Corporation invested $40.6 million into working capital across several entities. The investment during the period related primarily to the investment in Regional One's portfolio of parts and whole aircraft for resale and increased working capital required to support the seasonally busier second quarter in the Legacy Airlines and Provincial.

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

18% increase in part sales in the first six months of 2019. In addition, Regional One purchased whole aircraft and engines for resale, including a Q400 aircraft, which have been included in inventory.

With the seasonality that exists in the airline operations, investment in working capital is required in the second and third quarters each year to support increased revenues across these entities. Consistent with quarter over quarter increase in revenue, the Corporation invested working capital during the second quarter to support the Legacy Airlines and Provincial through the busier summer months.

The Corporation began to invest working capital to support the various contracts it has been awarded in 2019, such as the Department of Fisheries and Oceans contract, which was awarded in March 2019, and the Manitoba General Transportation contract, which was awarded during the second quarter of 2019. In addition, the Corporation began to invest working capital to support Quest's US expansion as the plant has started its ramp-up. The Corporation expects to continue to invest working capital in these initiatives throughout the remainder of 2019 and into 2020.

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

4. DIVIDENDS AND PAYOUT RATIOS

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

Dividends

			2019 Dividends			2018 Dividends
Month	**Record date**	**Per Share**	**Amount**	**Record date**	**Per Share**	**Amount**
January	January 31, 2019	**$ 0.1825**	**$ 5,719**	January 31, 2018	$ 0.175	$ 5,484
February	February 28, 2019	**0.1825**	**5,724**	February 28, 2018	0.175	5,517
March	March 29, 2019	**0.1825**	**5,744**	March 29, 2018	0.1825	5,732
April	April 30, 2019	**0.1825**	**5,877**	April 30, 2018	0.1825	5,807
May	May 31, 2019	**0.1825**	**5,882**	May 31, 2018	0.1825	5,791
June	June 28, 2019	**0.1825**	**5,887**	June 29, 2018	0.1825	5,759
Total		**$ 1.095**	**$ 34,833**		$ 1.08	$ 34,090

Dividends declared for the six months ended June 30, 2019, increased over the comparative period because of the increase in the dividend rate per month in the prior period. The Corporation increased the monthly dividend rate per share by $0.0075 during the first quarter of 2018 (4% increase). On August 7, 2019, the Corporation announced that it increased the monthly dividend rate by $0.0075 per month (4% increase) to $2.28 per annum. The increase will be in effect for the August dividend that will be paid to shareholders on September 13, 2019.

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

Adjusted Net Earnings excludes acquisition costs, amortization of intangible assets, and unusual one-time items. Amortization of intangible assets results from intangible assets that are recorded when the Corporation completes an acquisition as part of the purchase price allocation for accounting purposes. There are no future capital expenditures associated with maintaining or replacing these intangible assets, therefore intangible asset amortization is not considered when assessing the ability to pay dividends. Acquisition costs are not required to maintain existing cash flows and therefore these costs are not considered in assessing the payment of dividends, and include acquisition costs and pre-revenue ramp-up costs for significant expansions. Adjusted Net Earnings includes depreciation on all capital expenditures and is not impacted by the period to period variability in Maintenance Capital Expenditures. The Adjusted Net Earnings payout ratio is negatively impacted starting in 2019 as a result of the adoption of IFRS 16 and the comparability to ratios before the 2019 period is impacted.

Free Cash Flow less Maintenance Capital Expenditures is a measure that ensures that the resulting payout ratio reflects the replacement of capital assets that is necessary to maintain the Corporation's existing revenue streams. Cash outflows associated with acquisitions and capital expenditures that will result in growth are not included in this payout ratio because they will generate future returns more than current cash flows. The adoption of IFRS 16 on January 1, 2019, has no impact on this payout ratio and therefore results in 2019 are directly comparable to prior periods.

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

In February 2019, the Corporation announced its intention to lower its payout ratio over a three year period to 50% on a Free Cash Flow less Maintenance Capital Expenditures basis and 60% on an Adjusted Net Earnings basis. At the time of this announcement, the Free Cash Flow less Maintenance Capital Expenditures payout ratio was 60%, and the Adjusted Net Earnings payout ratio was 74%. As evidenced by the increase in the dividend beginning in August 2019, the intention to reduce the payout ratios as set out above does not preclude increases in the dividend when results warrant.

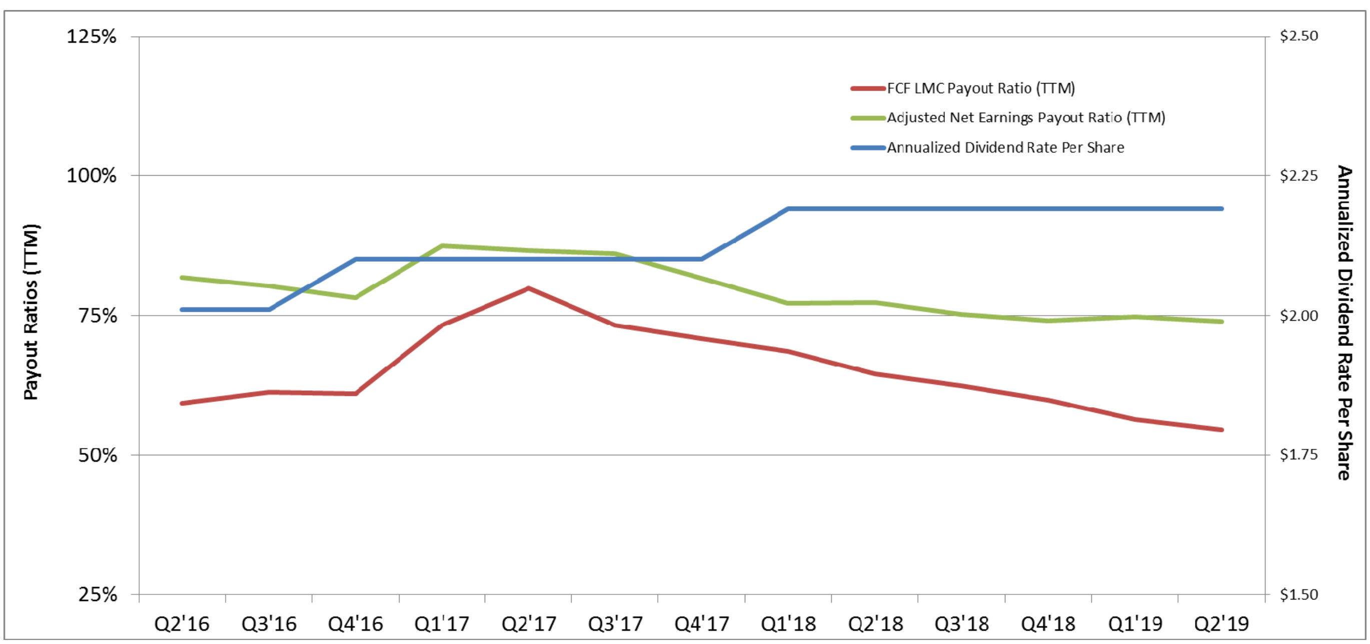
Payout Ratios

Basic per Share Payout Ratios for the Corporation	**2019**		2018	
Periods Ended June 30	**Three Months**	**Trailing Twelve Month**	Three Months	Trailing Twelve Month
Adjusted Net Earnings	***66%***	***74%***	*68%*	*77%*
Free Cash Flow less Maintenance Capital Expenditures	***51%***	***54%***	*58%*	*64%*

During the first six months of 2019, the Corporation generated stronger Free Cash Flow and experienced decreased Maintenance Capital Expenditures compared to the prior period. These factors contributed to a significant improvement in the trailing twelve month Free Cash Flow less Maintenance Capital Expenditures payout ratio, from 64% at June 30, 2018, to 54% at June 30, 2019. Growth in Adjusted Net Earnings resulted in the trailing twelve month Adjusted Net Earnings payout ratio improving over the prior period to 74% from 77% even with the negative impact of the adoption of IFRS 16.

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

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



5. OUTLOOK

EIC took major steps forward in 2019 to solidify its long-term outlook by renewing significant long-term contracts. Notably, in the first quarter, we were awarded a long-term contract by the Government of Canada to continue the provision of aerial surveillance services for Canada's inland, coastal, and offshore waters. The new five-year contract with its increased scope of operations takes effect in August 2020 with subsequent options to renew for up to five additional years. Recently, EIC announced it was chosen as the successful candidate in the Government of Nunavut Medical Transfer RFP. We are the incumbent for the Kivalliq region of this contract. The three-year contract is currently being finalized and will take effect later this year with subsequent options to renew for up to three additional years. Additionally, for the Baffin Region medevac contract, we brought online two upgraded Citation Ultra Jets this year and opened a new base in Igloolik, NU, providing enhanced coverage and increasing the scope of our work in this region.

In addition to these three contracts, EIC also secured contracts for new work. In the first quarter, EIC won an RFP with the Government of Manitoba to provide General Transportation services. This contract is to provide air travel service for the judicial system within northern Manitoba for the next five years. These services, which were previously provided on an uncontracted basis by other private carriers, will allow EIC to provide a more efficient and higher level of service to the Government of Manitoba. This will include increasing the quality, safety, and reliability of the air travel. EIC is in the process of purchasing and upgrading six King Air 200 aircraft to provide this service which will go into service by the end of the summer. After the first quarter, EIC also won two multiple-year MRO contracts. One is to provide heavy maintenance services to the Royal Canadian Air Force's CT-142 Dash-8 Fleet. The other contract is to support sensor equipment maintenance for a foreign government. EIC is well positioned to execute on these contracts based on their specialized aircraft maintenance and surveillance expertise.

While most of these contracts either solidify our current operations or have start dates post 2019, we expect to see the benefit of the Government of Manitoba Contract to provide General Transportation services when it is fully implemented by the end of this summer.

EIC is also excited about several other opportunities that will contribute to higher year over year performance in the second half of 2019. First, the joint venture with SkyWest has an agreement to deploy all 14 engines in the partnership over the remainder of the year on 10 year leases utilizing nine airframes provided by Regional One. Second, our Force Multiplier aircraft began generating revenue in the third quarter and has already secured additional missions for the remainder of the year. Although the initial deployment of the aircraft has been slower than originally anticipated, the surveillance demonstrator aircraft is now seeing strong demand. Third, we acquired additional EMS rotary-wing work as part of the Wings Over Kississing transaction in December of 2018 which has been and will continue to contribute to higher revenues. Last and of particular significance, Quest's new facility in Texas is now in production. We are taking a methodical approach, diligently training new staff, and testing all product. This has resulted in a negative earnings contribution from this new facility in the first half of 2019. This will improve in the second half of the year, as production escalates into 2020. This plant will not only lead to doubling our capacity in the long-term, but it will also help to manage the order book that now stands at $375 million. The new facility will lower the backlog enabling us to better serve our customers, as well as expand to new customers and new regions.

EIC has invested in the future and this will continue. EIC has also invested in its people. This continued with the announcement of the Life in Flight program in the second quarter. This program addresses historical challenges of becoming a successful pilot by including strategies that offer diverse recruitment, high standards of training, access to funding, mentorship, a completion award, and most of all a rewarding career path with EIC's family of air operators. The initial reaction has been very positive and EIC has been encouraged by the interest from underrepresented groups in the aviation profession. Our first EIC class is expected to enter the program by the end of the year.

We constantly consider opportunities to invest both organically and through acquisition. For instance, as part of the Life in Flight program and as a result of the demand for our pilot training expertise, we are examining investing in a third flight training base. In addition to growing the largest flight school training school in Canada, it will also bring significant aerospace investment, expertise, employment and students to the selected province. On the acquisition front, the pipeline has been robust and we have seen more opportunities for both standalone and tuck-in acquisitions. While two of these opportunities were terminated earlier in 2019 during our exclusive diligence period, we are optimistic that others will close later in the year.

Capital Expenditures

Maintenance Capital Expenditures are necessary to maintain the earning power of our subsidiaries. EIC expects Maintenance Capital Expenditures to increase in line with the overall growth of our business in 2019. Throughout the first half of 2019, Maintenance Capital Expenditures were lower than expected as several engine maintenance events moved out to later in the year which will result in higher Maintenance Capital Expenditures for the balance of 2019.

The 2018 outlook stated that we expect 2019 growth capital expenditures to continue at the 2018 levels. As specified, this included growth capital expectations required for the SkyWest transaction but not for the multiple RFP's that were to be awarded in 2019. As

EIC was awarded the RFP's for both the Government of Canada aerial surveillance contract and the Government of Manitoba General Transportation services, the required level of growth capital expenditures will increase.

6. LIQUIDITY AND CAPITAL RESOURCES

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

As at June 30, 2019, the Corporation had a cash position of $33.3 million (December 31, 2018 - $43.0 million) and a net working capital position of $319.6 million (December 31, 2018 - $301.1 million) which represents a current ratio of 2.25 to 1 (December 31, 2018 – 2.26 to 1). Working capital increased during the 2019 period as a result of investments made as discussed in *Section 3 – Investing Activities* and the impact of the seasonally busier summer months in the Corporation's airlines. Working capital has been impacted by the adoption of IFRS 16 as a portion of the lease liability is presented as a current liability. Finally, the earn out for Quest was settled during the second quarter, increasing working capital as the amount due to the vendor was recorded in Accounts Payable and Accrued Expenses at December 31, 2018.

The Corporation aims to maintain leverage ratios at consistent levels over time. There are points where leverage temporarily rises because of a significant acquisition where the associated EBITDA has not yet been realized. Our target leverage range, based on senior debt to EBITDA, is between 1.5 and 2.5. Our leverage covenant with our lenders allows for a senior leverage ratio maximum of 3.25. The Corporation's leverage ratio at June 30, 2019, as calculated under the terms of our credit facility, which is adjusted for the impact of the timing of acquisitions and is inclusive of outstanding letters of credit as of the balance sheet date, was 2.36 (December 31, 2018 – 2.46).

Overview of Capital Structure

The Corporation's capital structure is summarized below.

	June 30 2019	December 31 2018
Total senior debt outstanding (principal value)	$ 730,247	$ 727,169
Convertible debentures outstanding (par value)	335,725	277,335
Common shares	618,583	588,498
Total capital	$ 1,684,555	$ 1,593,002

Credit facility

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

The size of the Corporation's credit facility as at June 30, 2019, is approximately $1 billion, with $945 million allocated to the Corporation's Canadian head office and US $55 million allocated to EIIF Management USA Inc. The facility allows for borrowings to be denominated in either Canadian or US funds. As of June 30, 2019, the Corporation had drawn $205.0 million and US $401.4 million (December 31, 2018 - $229.1 million and US $365.1 million). During the period, the Corporation made draws on its credit facility to fund the investment in both inventory and capital assets at Regional One associated with its joint venture with SkyWest, growth capital expenditures associated with recent contract awards at the Legacy Airlines and Provincial and to fund payment of the full earn out due to the vendor of Quest. These draws were offset with a repayment made against the credit facility with the net proceeds of the March 2019 convertible debenture offering.

During the period, the Corporation used derivatives through several cross-currency basis swaps ("swap") with a member of the Corporation's lending syndicate. The swap requires that funds are exchanged back in one month at the same term unless both parties agree to extend the swap for an additional month. By entering into the swap, the Corporation can take advantage of lower interest rates. The swap mitigates the risk of changes in the value of the US Dollar borrowings as it will be exchanged for the same Canadian equivalent in one month. At June 30, 2019, US $189.5 million (December 31, 2018 – US $186.0 million) of the Corporation's US denominated borrowings are hedged with these swaps.

During the second quarter, the Corporation entered an interest rate swap with certain members of its lending syndicate whereby the Corporation has fixed interest rates on $190.0 million of its Canadian credit facility debt for a period of four years.

Convertible Debentures

The following summarizes the convertible debentures outstanding as at June 30, 2019, and the changes in the amount of convertible debentures outstanding during the six months ended June 30, 2019:

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

Par value	Balance, beginning of period	Issued	Converted	Redeemed / Matured	Balance, end of period
Unsecured Debentures - March 2014[(1)]	$ 27,860	$ -	$ (24,730)	$ (3,130)	$ -
Unsecured Debentures - June 2016	68,975	-	-	-	68,975
Unsecured Debentures - December 2017	100,000	-	-	-	100,000
Unsecured Debentures - June 2018	80,500	-	-	-	80,500
Unsecured Debentures - March 2019	-	86,250	-	-	86,250
Total	$ 277,335	$ 86,250	$ (24,730)	$ (3,130)	$ 335,725

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

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

On April 26, 2019, the Corporation exercised its right to call its 7 year 6.00% convertible debentures which were due on March 31, 2021. The redemption of the debentures was completed with cash on hand from the Corporation's issuance of its March 2019 5.75% convertible debenture offering. Prior to the redemption date, $24.7 million principal amount of debentures were converted into 780,112 common shares at a price of $31.70 per share. On April 26, 2019, the remaining outstanding debentures in the principal amount of $3.1 million were redeemed by the Corporation.

Share Capital

The following summarizes the changes in the shares outstanding of the Corporation during the six months ended June 30, 2019:

	Date issued (redeemed)	Number of shares
Shares outstanding, beginning of period		31,316,006
Issued upon conversion of convertible debentures	various	780,112
Issued under dividend reinvestment plan (DRIP)	various	119,509
Issued under employee share purchase plan	various	17,583
Issued under deferred share plan	various	18,220
Issued under First Nations community partnership agreements	April 1, 2019	3,500
Shares outstanding, end of period		32,254,930

The Corporation issued 119,509 shares under its dividend reinvestment plan ("DRIP") during the first six months of 2019 and received $3.8 million for those shares in accordance with the DRIP.

During the first six months of 2019, debentures with a face value of $24.7 million were converted into 780,112 shares of the Corporation. The Corporation issued a notice of redemption for its March 2014 convertible debenture series on March 26, 2019, and the remaining outstanding debentures were redeemed on April 26, 2019.

The weighted average shares outstanding during the three and six months ended June 30, 2019, increased by 1% and 1%, respectively. The increase is attributable to debentures that have converted into shares during the first half of 2019 and shares issued in connection with the purchase of Moncton Flight College and the investment in Wasaya, partially offset by shares repurchased and cancelled under the Corporation's NCIB throughout 2018.

Normal Course Issuers Bid

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

During the three and six months ended June 30, 2019, the Corporation did not make any purchases under its NCIB and therefore still has the full 1,567,004 shares available for repurchase.

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

7. RELATED PARTY TRANSACTIONS

The nature of related party transactions that the Corporation entered during the six months ended June 30, 2019, are consistent with those described in the Corporation's MD&A for the year ended December 31, 2018.

8. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

The Corporation's liabilities for contingent consideration associated with the earn out portion of its acquisitions are reassessed each period end after the related acquisition. The carrying value of the liability is based on an estimate of both the amount of the potential payment and probability that the earn out will be paid. During the 2019 period, the estimated liability for additional purchase consideration associated with CarteNav was reduced to reflect expected earnings levels during the remaining earn out period. This resulted in a recovery of $2.2 million and is included within "Other" in the Statement of Income.

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

9. ACCOUNTING POLICIES

The accounting policies of the Corporation used in the determination of the results for these interim condensed consolidated financial statements for the six months ended June 30, 2019 that are discussed and analyzed in this report are described in detail in Note 3 of the Corporation's 2018 annual consolidated financial statements and Note 3 of the Corporation's interim condensed consolidated financial statements for the six months ended June 30, 2019.

The significant accounting policies and methods of computation used in the preparation of these interim condensed consolidated financial statements are the same as those described in Note 3 – Significant Accounting Policies of the Corporation's 2018 annual consolidated financial statements, except as discussed below.

Adoption of IFRS 16 *Leases*

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

Adoption of IFRIC 23 *Uncertainty over Income Tax Treatments*

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

10. CONTROLS AND PROCEDURES

Internal Controls over Financial Reporting

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

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

Management has evaluated the design of the Corporation's internal controls over financial reporting as at June 30, 2019, and has concluded that the design of internal controls over financial reporting is effective. There have been no material changes to the Corporation's internal controls during the 2019 period that would have materially affected or are likely to materially affect the internal controls over financial reporting.

Disclosure Controls and Procedures

Management has established and maintained disclosure controls and procedures to provide reasonable assurance that material information relating to the Corporation is made known to management in a timely manner and that information required to be disclosed by the Corporation is reported within the time periods prescribed by applicable securities legislation. Management has concluded that disclosure controls and procedures were designed effectively as at June 30, 2019.

11. RISK FACTORS

The Corporation and its subsidiaries are subject to several business risks. These risks relate to the structure of the Corporation and the operations at the subsidiary entities. There were no changes to the Corporation's principal risks and uncertainties from those reported in the Corporation's MD&A for the year ended December 31, 2018.

12. NON-IFRS FINANCIAL MEASURES AND GLOSSARY

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

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

Adjusted Net Earnings: is defined as Net Earnings adjusted for acquisition costs, amortization of intangible assets that are purchased at the time of acquisition, interest accretion on acquisition contingent consideration, and non-recurring items. Adjusted Net Earnings is a performance measure, along with Free Cash Flow less Maintenance Capital Expenditures, which the Corporation uses to assess cash flow available for distribution to shareholders.

Free Cash Flow: for the year is equal to cash flow from operating activities as defined by IFRS, adjusted for changes in non-cash working capital, acquisition costs, principal payments on right of use liabilities and any unusual non-operating one-time items.

Free Cash Flow is a performance measure used by management and investors to analyze the cash generated from operations before the seasonal impact of changes in working capital items or other unusual items.

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

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

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

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

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

13. QUARTERLY INFORMATION

The following summary reflects quarterly results of the Corporation:

	2019 (1) Q2	2019 (1) Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2
Revenue	$ **325,907**	$ **297,016**	$ 315,737	$ 308,179	$ 313,449	$ 266,027	$ 263,910	$ 253,367	$ 273,145
EBITDA	**87,237**	**63,826**	69,507	79,174	75,071	54,013	63,315	71,964	70,071
Net Earnings	**21,875**	**7,488**	18,446	24,162	19,547	8,614	16,920	23,902	25,779
Basic	**0.68**	**0.24**	0.59	0.77	0.62	0.27	0.55	0.78	0.83
Diluted	**0.65**	**0.23**	0.57	0.72	0.60	0.27	0.53	0.72	0.77
Adjusted Net Earnings	**26,573**	**12,724**	24,670	29,550	25,208	12,932	22,260	25,716	23,943
Basic	**0.83**	**0.41**	0.79	0.94	0.80	0.41	0.72	0.84	0.77
Diluted	**0.78**	**0.40**	0.75	0.86	0.76	0.40	0.68	0.77	0.72
Free Cash Flow ("FCF")	**65,729**	**44,246**	59,763	64,219	58,785	40,596	49,745	55,849	51,731
Basic	**2.05**	**1.41**	1.91	2.04	1.86	1.29	1.61	1.81	1.66
Diluted	**1.75**	**1.25**	1.66	1.76	1.66	1.15	1.45	1.58	1.46
FCF less Maintenance Capital Expenditures	**34,533**	**17,722**	33,743	41,103	29,679	9,842	27,748	35,976	21,842
Basic	**1.08**	**0.57**	1.08	1.31	0.94	0.31	0.90	1.17	0.70
Diluted	**0.97**	**0.55**	0.98	1.16	0.90	0.31	0.86	1.05	0.66
Maintenance Capital Expenditures	**31,196**	**26,524**	26,020	23,116	29,106	30,754	21,997	19,873	29,889
Growth Capital Expenditures	**16,392**	**41,082**	31,578	15,086	301	2,040	15,768	20,771	33,048

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

ADDITIONAL INFORMATION

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited, in thousands of Canadian dollars)

As at	June 30 2019	December 31 2018
ASSETS		
CURRENT		
Cash and cash equivalents	$ **33,254**	$ 42,970
Accounts receivable	**243,133**	232,910
Amounts due from customers on construction contracts	**22,715**	13,943
Inventory	**240,372**	216,150
Prepaid expenses and deposits	**33,712**	33,666
Income taxes receivable	**2,949**	641
	576,135	540,280
OTHER ASSETS (Note 6)	**79,744**	74,078
CAPITAL ASSETS	**911,856**	877,691
RIGHT OF USE ASSETS (Note 3)	**109,447**	-
INTANGIBLE ASSETS	**136,066**	144,571
GOODWILL	**318,110**	320,678
	$ **2,131,358**	$ 1,957,298
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ **196,331**	$ 199,256
Deferred revenue	**32,857**	26,546
Amounts due to customers on construction contracts	**7,688**	12,151
Current portion of long-term debt and finance leases (Note 7)	**-**	1,186
Current portion of right of use lease liability (Note 3)	**19,618**	-
	256,494	239,139
LONG-TERM DEBT AND FINANCE LEASES (Note 7)	**727,724**	726,325
OTHER LONG-TERM LIABILITIES	**30,251**	29,881
DEFERRED REVENUE	**1,572**	3,606
LONG-TERM RIGHT OF USE LEASE LIABILITY (Note 3)	**94,716**	-
CONVERTIBLE DEBENTURES (Note 8)	**308,102**	253,823
DEFERRED INCOME TAX LIABILITY	**88,067**	87,277
	1,506,926	1,340,051
EQUITY		
SHARE CAPITAL (Note 9)	**618,583**	588,498
CONVERTIBLE DEBENTURES - Equity Component (Note 8)	**13,214**	11,954
CONTRIBUTED SURPLUS	**9,837**	9,693
DEFERRED SHARE PLAN	**14,786**	13,525
RETAINED EARNINGS		
Cumulative Earnings	**417,296**	390,689
Cumulative Dividends	**(459,011)**	(424,178)
Cumulative impact of share cancellation under the NCIB	**(25,053)**	(25,053)
	(66,768)	(58,542)
ACCUMULATED OTHER COMPREHENSIVE INCOME	**34,780**	52,119
	624,432	617,247
	$ **2,131,358**	$ 1,957,298

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

Approved on behalf of the directors by:

Duncan Jessiman, Director
Signed

Donald Streuber, Director
Signed

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended		Six Months Ended	
For the periods ended June 30	**2019**	2018	**2019**	2018
REVENUE				
Aerospace & Aviation	$ **238,884**	$ 233,402	$ **455,628**	$ 423,225
Manufacturing	**87,023**	80,047	**167,295**	156,251
	325,907	313,449	**622,923**	579,476
EXPENSES				
Aerospace & Aviation expenses - excluding depreciation and amortization	**128,339**	134,975	**257,631**	250,243
Manufacturing expenses - excluding depreciation and amortization	**60,221**	55,567	**117,215**	110,828
General and administrative	**50,110**	47,836	**97,014**	89,321
	238,670	238,378	**471,860**	450,392
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER (Note 4)	**87,237**	75,071	**151,063**	129,084
Depreciation of capital assets	**32,256**	30,383	**62,947**	58,845
Amortization of intangible assets	**4,425**	4,397	**8,905**	9,151
Finance costs - interest	**13,852**	14,121	**27,211**	25,167
Depreciation of right of use assets	**5,501**	-	**10,899**	-
Interest expense on right of use lease liabilities	**1,118**	-	**2,279**	-
Acquisition costs	**1,489**	547	**3,689**	1,062
Other (Note 5)	**-**	-	**(2,182)**	(1,471)
EARNINGS BEFORE INCOME TAXES	**28,596**	25,623	**37,315**	36,330
INCOME TAX EXPENSE (RECOVERY)				
Current	**2,798**	7,023	**5,825**	11,498
Deferred	**3,923**	(947)	**2,127**	(3,329)
	6,721	6,076	**7,952**	8,169
NET EARNINGS	$ **21,875**	$ 19,547	$ **29,363**	$ 28,161
EARNINGS PER SHARE (Note 12)				
Basic	$ **0.68**	$ 0.62	$ **0.93**	$ 0.89
Diluted	$ **0.65**	$ 0.60	$ **0.90**	$ 0.87

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	Three Months Ended		Six Months Ended	
For the periods ended June 30	**2019**	2018	**2019**	2018
NET EARNINGS	$ **21,875**	$ 19,547	$ **29,363**	$ 28,161
OTHER COMPREHENSIVE INCOME (LOSS),				
Items that are or may be reclassified to the Statement of Income				
Cumulative translation adjustment, net of tax expense (recovery) for the three months ended June 30 of $(8) and $7, respectively and net of tax expense (recovery) for the six months ended June 30 of $(16) and $14, respectively	**(13,079)**	11,792	**(25,311)**	27,146
Net loss on interest rate swap, net of tax expense (recovery) for the three months ended June 30 of $(469) and nil, respectively and net of tax recovery for the six months ended June 30 of $(469) and nil, respectively	**(1,269)**	-	**(1,269)**	-
Net gain (loss) on hedge of net investment in foreign operation, net of tax expense (recovery) for the three months ended June 30 of nil and $(514), respectively and net of tax expense (recovery) for the six months ended June 30 of nil and $(1,283), respectively	**4,708**	(3,848)	**8,902**	(9,385)
Net gain on hedge of restricted share plan, net of tax expense (recovery) for the three months ended June 30 of $128 and nil, respectively and net of tax expense (recovery) for the six months ended June 30 of $125 and nil, respectively	**352**	-	**339**	-
	(9,288)	7,944	**(17,339)**	17,761
COMPREHENSIVE INCOME FOR THE PERIOD	$ **12,587**	$ 27,491	$ **12,024**	$ 45,922

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited, in thousands of Canadian dollars)

					Retained Earnings				
	Share Capital	Convertible Debentures - Equity Component	Contributed Surplus - Matured Debentures	Deferred Share Plan	Cumulative Earnings	Cumulative Dividends	Cumulative impact of share repurchases under NCIB	Accumulated Other Comprehensive Income (Loss)	**Total**
Balance, January 1, 2018	$ 576,471	$ 14,311	$ 3,478	$ 9,867	$ 319,920	$ (355,718)	$ (12,074)	$ 21,032	**$ 577,287**
Shares issued to acquisition vendors	18,324	-	-	-	-	-	-	-	**18,324**
Convertible debentures									
Converted into shares (Note 9)	97	(7)	-	-	-	-	-	-	**90**
Issued	-	3,793	-	-	-	-	-	-	**3,793**
Matured/Redeemed	-	(3,153)	3,153	-	-	-	-	-	**-**
Shares issued under dividend reinvestment plan	3,156	-	-	-	-	-	-	-	**3,156**
Shares issued under First Nations community partnership agreements	35	-	-	-	-	-	-	-	**35**
Deferred share plan vesting	-	-	-	1,803	-	-	-	-	**1,803**
Deferred share plan issuance	171	-	-	(171)	-	-	-	-	**-**
Shares issued under ESPP	386	-	-	-	-	-	-	-	**386**
Shares cancelled under NCIB	(9,111)	-	-	-	-	-	(7,224)	-	**(16,335)**
Comprehensive income	-	-	-	-	28,161	-	-	17,761	**45,922**
Dividends declared (Note 10)	-	-	-	-	-	(34,090)	-	-	**(34,090)**
Balance, June 30, 2018	**$ 589,529**	**$ 14,944**	**$ 6,631**	**$ 11,499**	**$ 348,081**	**$ (389,808)**	**$ (19,298)**	**$ 38,793**	**$ 600,371**
Balance, December 31, 2018	$ 588,498	$ 11,954	$ 9,693	$ 13,525	$ 390,689	$ (424,178)	$ (25,053)	$ 52,119	**$ 617,247**
Restatement (Note 3)	-	-	-	-	(2,756)	-	-	-	**(2,756)**
Balance, January 1, 2019 (Restated - Note 3)	$ 588,498	$ 11,954	$ 9,693	$ 13,525	$ 387,933	$ (424,178)	$ (25,053)	$ 52,119	**$ 614,491**
Convertible debentures									
Converted into shares (Note 9)	25,087	(1,093)	-	-	-	-	-	-	**23,994**
Issued (Note 9)	-	2,497	-	-	-	-	-	-	**2,497**
Matured/Redeemed	-	(144)	144	-	-	-	-	-	**-**
Shares issued under dividend reinvestment plan (Note 9)	3,805	-	-	-	-	-	-	-	**3,805**
Shares issued under First Nations community partnership agreements (Note 9)	116	-	-	-	-	-	-	-	**116**
Deferred share plan vesting (Note 13)	-	-	-	1,738	-	-	-	-	**1,738**
Deferred share plan issuance (Note 9)	477	-	-	(477)	-	-	-	-	**-**
Shares issued under ESPP (Note 9)	600	-	-	-	-	-	-	-	**600**
Comprehensive income	-	-	-	-	29,363	-	-	(17,339)	**12,024**
Dividends declared (Note 10)	-	-	-	-	-	(34,833)	-	-	**(34,833)**
Balance, June 30, 2019	**$ 618,583**	**$ 13,214**	**$ 9,837**	**$ 14,786**	**$ 417,296**	**$ (459,011)**	**$ (25,053)**	**$ 34,780**	**$ 624,432**

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	**2019**	2018	**2019**	2018
OPERATING ACTIVITIES				
Net earnings for the period	$ **21,875**	$ 19,547	$ **29,363**	$ 28,161
Items not affecting cash:				
Depreciation of capital assets	**32,256**	30,383	**62,947**	58,845
Amortization of intangible assets	**4,425**	4,397	**8,905**	9,151
Depreciation of right of use assets	**5,501**	-	**10,899**	-
Accretion of interest	**1,853**	3,868	**3,545**	5,519
Long-term debt discount (paid) accretion	**(67)**	108	**196**	(135)
Gain on sale of disposal of capital assets	**(925)**	(103)	**(1,040)**	(207)
Deferred income tax	**3,923**	(947)	**2,127**	(3,329)
Deferred share program share-based vesting	**775**	1,003	**1,738**	1,803
Other (Note 5)	**-**	-	**(2,182)**	(1,471)
	69,616	58,256	**116,498**	98,337
Changes in non-cash current and long-term operating working capital items (Note 15)	**(28,479)**	(29,203)	**(40,623)**	(53,670)
	41,137	29,053	**75,875**	44,667
FINANCING ACTIVITIES				
Proceeds from long-term debt & finance leases, net of issuance costs (Note 7)	**49,905**	73,078	**93,251**	194,096
Repayment of long-term debt & finance leases (Note 7)	**-**	(41,216)	**(74,100)**	(98,788)
Principal payments on right of use lease liabilities (Note 3)	**(4,983)**	-	**(9,263)**	-
Proceeds from issuance of debentures, net of issuance costs (Note 8)	**-**	76,597	**82,091**	76,597
Redemption of convertible debentures	**(3,130)**	-	**(3,130)**	(56,753)
Issuance of shares, net of issuance costs	**2,234**	1,977	**4,476**	3,577
Payment for repurchase of Shares under NCIB	**-**	(11,854)	**-**	(16,341)
Cash dividends (Note 10)	**(17,646)**	(17,357)	**(34,833)**	(34,090)
	26,380	81,225	**58,492**	68,298
INVESTING ACTIVITIES				
Purchase of capital assets	**(48,880)**	(51,854)	**(122,471)**	(92,407)
Proceeds from disposal of capital assets	**2,165**	23,348	**8,749**	32,033
Purchase of intangible assets	**(873)**	(605)	**(1,472)**	(1,249)
Cash outflow for acquisitions - settlement of contingent consideration	**(15,000)**	-	**(15,000)**	(23,912)
Investment in other assets	**(10,377)**	(11,357)	**(11,243)**	(14,372)
Finance lease receivable payments, net of reserves and other	**-**	(5)	**-**	(1,406)
	(72,965)	(40,473)	**(141,437)**	(101,313)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(5,448)**	69,805	**(7,070)**	11,652
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**39,803**	14,394	**42,970**	72,315
EFFECTS OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	**(1,101)**	1,264	**(2,646)**	1,496
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ **33,254**	$ 85,463	$ **33,254**	$ 85,463
Supplementary cash flow information				
Interest paid	$ **8,330**	$ 11,840	$ **16,051**	$ 18,260
Income taxes paid	$ **4,046**	$ 6,392	$ **8,169**	$ 7,453

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

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

1. ORGANIZATION

Exchange Income Corporation ("EIC" or the "Corporation") is a diversified, acquisition-oriented corporation focused on opportunities in aerospace, aviation services and equipment, and manufacturing sectors. The business plan of the Corporation is to invest in profitable, well-established companies with strong cash flows operating in niche markets. The Corporation is incorporated in Canada and the address of the registered office is 1067 Sherwin Road, Winnipeg, Manitoba, Canada R3H 0T8.

As at June 30, 2019, the principal operating subsidiaries of the Corporation are Perimeter Aviation LP (including its operating division, Bearskin Airlines), Keewatin Air LP, Calm Air International LP, Custom Helicopters Ltd., Overlanders Manufacturing LP, Water Blast Manufacturing LP, WesTower Communications Ltd., R1 Canada LP, Provincial Aerospace Ltd., Ben Machine Products Company Inc., EIC Aircraft Leasing Limited, Quest Window Systems Inc., CANLink Aviation Inc. ("Moncton Flight College") and EIIF Management USA Inc. Stainless Fabrication, Inc., Dallas Sailer Enterprises, Inc., Regional One Inc., and Quest USA Inc. are wholly owned subsidiaries of EIIF Management USA Inc. Through the Corporation's subsidiaries, products and services are provided in two business segments: Aerospace & Aviation and Manufacturing.

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

2. BASIS OF PREPARATION

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

In accordance with IFRS, these financial statements do not include all the financial statement disclosures required for annual financial statements and should be read in conjunction with the Corporation's annual consolidated financial statements for the year ended December 31, 2018. In management's opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim period presented.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Adoption of IFRS 16 *Leases*

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

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

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

						June 30, 2019
Net Book Value	January 1, 2019 Opening	Additions	Disposals	Depreciation	Exchange Differences	Ending
Land	$ 21,470	$ -	$ -	$ (623)	$ -	$ 20,847
Building	65,325	-	-	(5,282)	(1,072)	58,971
Aircraft	25,878	-	-	(3,697)	-	22,181
Equipment	1,412	-	-	(166)	-	1,246
Other	5,504	1,907	(73)	(1,131)	(5)	6,202
Total	$ 119,589	$ 1,907	$ (73)	$ (10,899)	$ (1,077)	$ 109,447

Right of Use Lease Liability	June 30, 2019
Opening balance on transition, January 1, 2019	$ 122,906
Additions to right of use lease liabilities	1,907
Disposals of right of use assets and derecognition of lease liabilities	(73)
Principal payments on right of use lease liabilities	(9,263)
Exchange differences	(1,143)
Closing balance, June 30, 2019	$ 114,334

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

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

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

- Lease liabilities (current and long term portion) – increase of $122,906
- Intangible assets – decrease of $509
- Cumulative earnings – decrease of $2,756

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

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

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

Accounting Policy – Leases and Right of Use Assets

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

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

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

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

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

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

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

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

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

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

The Corporation's liabilities for contingent consideration associated with the earn out portion of its acquisitions are reassessed each period end after the related acquisition. The carrying value of the liability is based on an estimate of both the amount of the potential payment and probability that the earn out will be paid. During the 2019 period, the estimated liability for additional purchase consideration associated with CarteNav was reduced to reflect expected earnings levels during the remaining earn out period. This resulted in a recovery of $2,182 and is included within "Other" of the Statement of Income.

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

6. OTHER ASSETS

The other assets of the Corporation consist of the following:

	June 30 2019	December 31 2018
Long term prepaid expenses and security deposits	$ **1,628**	$ 1,597
Long term receivables	**10,821**	13,155
Long term holdback receivables	**4,875**	4,609
Equity method investments	**42,747**	30,472
Other investments - Fair value through OCI	**3,573**	3,914
Derivative financial instruments - Fair value through profit and loss	**527**	3,741
Loan to Wasaya	**13,000**	13,000
Loan to NGC	**2,573**	3,590
Total other assets	$ **79,744**	$ 74,078

On February 19, 2019, the Corporation announced that it had completed a joint venture with SkyWest, Inc. ("SkyWest") to acquire, lease and sell CF34 engines. During the second quarter, the Corporation invested in a 25% share of a joint venture which purchased 14 engines and will account for its investment using the equity method. Subsequent to the end of the quarter, the joint venture announced that the engines, along with airframes that would be provided by Regional One, have been placed on a 10 year lease with a US operator.

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

7. LONG-TERM DEBT

The following summarizes the Corporation's long-term debt and finance leases as at June 30, 2019, and December 31, 2018:

	June 30 2019	December 31 2018
Revolving term facility:		
Canadian dollar amounts drawn	$ 205,000	$ 229,100
United States dollar amounts drawn (US$401,350 and US$365,100 respectively)	525,247	498,069
Total credit facility debt outstanding, principal value	730,247	727,169
less: unamortized transaction costs	(2,199)	(2,019)
less: unamortized discount on outstanding Banker's Acceptances	(324)	(520)
Net credit facility debt	727,724	724,630
Finance leases	-	2,881
Total net credit facility debt and finance leases	727,724	727,511
less: current portion of finance leases	-	(1,186)
Long-term debt and finance leases	$ 727,724	$ 726,325

The Corporation's credit facility is secured by a general security agreement over the assets of the Corporation, subject to customary terms, conditions, covenants and other provisions, and includes both financial and negative covenants. The Corporation is in compliance with all financial and negative covenants as at June 30, 2019.

The Corporation amended its credit facility to obtain more favourable pricing and extended its term during the six months ended June 30, 2019. The credit facility includes improved pricing on both amounts borrowed under the facility and standby charges paid for the unutilized portion of the facility. The maturity of the facility has been extended to May 7, 2023.

Interest expense recorded by the Corporation during the three and six months ended June 30, 2019, for the long-term debt and finance leases was $7,617 and $15,837, respectively (2018 – $6,955 and $13,010, respectively).

Credit Facility

The following is the continuity of long-term debt for the six months ended June 30, 2019:

	Six Months Ended June 30, 2019				
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar amounts	$ 229,100	$ 50,000	$ (74,100)	$ -	$ 205,000
United States dollar amounts	498,069	43,922	-	(16,744)	525,247
	$ 727,169				$ 730,247

8. CONVERTIBLE DEBENTURES

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

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

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

Summary of the debt component of the convertible debentures:

	2019 Balance, Beginning of Period	Debentures Issued	Accretion Charges	Debentures Converted	Redeemed / Matured	2019 Balance, End of Period
Unsecured - 2014	$ 27,143	$ -	$ 156	$ (24,169)	$ (3,130)	$ -
Unsecured - 2016	65,657	-	323	-	-	65,980
Unsecured - 2017	95,659	-	484	-	-	96,143
Unsecured - 2018	75,251	-	330	-	-	75,581
Unsecured - 2019	-	82,658	103	-	-	82,761
						320,465
less: unamortized transaction costs						(12,363)
Convertible Debentures - Debt Component, end of period						$ 308,102

During the six months ended June 30, 2019, convertible debentures totaling a face value of $24,730 were converted by the holders at various times into 780,112 shares of the Corporation (2018 – $90 face value into 2,445 shares). On April 26, 2019, the Corporation redeemed its 7 year 6.0% convertible debentures which were to mature on March 31, 2021. On the redemption date, the remaining outstanding debentures in the principal amount of $3,130 were redeemed by the Corporation.

Interest expense recorded during the three and six months ended June 30, 2019, for the convertible debentures was $5,955 and $10,772, respectively (2018 – $6,841 and $11,499, respectively).

March 2019 Unsecured Convertible Debenture Offering

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

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

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

The March 2019 convertible unsecured debentures have $86,250 of principal outstanding as at June 30, 2019, and mature in March 2026.

Convertible Debentures Equity Component

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

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

Summary of the equity component of the convertible debentures:

		June 30 2019		December 31 2018
Unsecured Debentures - 2014	$	-	$	1,237
Unsecured Debentures - 2016		3,261		3,261
Unsecured Debentures - 2017		3,590		3,590
Unsecured Debentures - 2018		3,866		3,866
Unsecured Debentures - 2019		2,497		-
Convertible Debentures - Equity Component, end of period	$	13,214	$	11,954

All convertible debentures outstanding at June 30, 2019, 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, 2019, are as follows:

	Number of Shares		2019 Amount
Share capital, beginning of period	31,316,006	$	588,498
Issued upon conversion of convertible debentures	780,112		25,087
Issued under dividend reinvestment plan	119,509		3,805
Issued under First Nations community partnership agreements	3,500		116
Issued under employee share purchase plan	17,583		600
Issued under deferred share plan	18,220		477
Share capital, end of period	32,254,930	$	618,583

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

During the six months ended June 30, 2019, the Corporation did not make any purchases under its NCIB and therefore still has the full 1,567,004 shares available for repurchase (2018 – 493,059 shares were repurchased at an average cost of $33.14 per share for aggregate consideration of $16,341, excluding tax of $6). All of the shares purchased in the prior period were cancelled. The excess of the cost over the average book value was charged to retained earnings in the prior period.

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.

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

The amounts and record dates of the dividends during the six months ended June 30, 2019, and the comparative 2018 period are as follows:

			2019 Dividends			2018 Dividends
Month	**Record date**	**Per Share**	**Amount**	**Record date**	**Per Share**	**Amount**
January	January 31, 2019	**$ 0.1825**	**$ 5,719**	January 31, 2018	$ 0.175	$ 5,484
February	February 28, 2019	**0.1825**	**5,724**	February 28, 2018	0.175	5,517
March	March 29, 2019	**0.1825**	**5,744**	March 29, 2018	0.1825	5,732
April	April 30, 2019	**0.1825**	**5,877**	April 30, 2018	0.1825	5,807
May	May 31, 2019	**0.1825**	**5,882**	May 31, 2018	0.1825	5,791
June	June 28, 2019	**0.1825**	**5,887**	June 29, 2018	0.1825	5,759
Total		**$ 1.095**	**$ 34,833**		$ 1.08	$ 34,090

After June 30, 2019, and before these interim condensed consolidated financial statements were authorized, the Corporation declared a monthly dividend of $0.1825 per share for July 2019.

11. SEGMENTED AND SUPPLEMENTAL INFORMATION

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

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

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

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

				Three Months Ended June 30, 2019
	Aerospace & Aviation	**Manufacturing**	**Head Office**	**Consolidated**
Revenue	**$ 238,884**	**$ 87,023**	**$ -**	**$ 325,907**
Expenses	**159,838**	**71,271**	**7,561**	**238,670**
EBITDA	**79,046**	**15,752**	**(7,561)**	**87,237**
Depreciation of capital assets				**32,256**
Amortization of intangible assets				**4,425**
Finance costs - interest				**13,852**
Depreciation of right of use assets				**5,501**
Interest expense on right of use lease liabilities				**1,118**
Acquisition costs				**1,489**
Earnings before income taxes				**28,596**
Current income tax expense				**2,798**
Deferred income tax expense				**3,923**
Net Earnings				**$ 21,875**

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

	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
				Three Months Ended June 30, 2018
Revenue	$ 233,402	$ 80,047	$ -	$ 313,449
Expenses	166,092	65,501	6,785	238,378
EBITDA	67,310	14,546	(6,785)	75,071
Depreciation of capital assets				30,383
Amortization of intangible assets				4,397
Finance costs - interest				14,121
Acquisition costs				547
Earnings before income taxes				25,623
Current income tax expense				7,023
Deferred income tax recovery				(947)
Net Earnings				$ 19,547

	Aerospace & Aviation	**Manufacturing**	**Head Office**	**Consolidated**
				Six Months Ended June 30, 2019
Revenue	**$ 455,628**	**$ 167,295**	**$ -**	**$ 622,923**
Expenses	**318,956**	**138,530**	**14,374**	**471,860**
EBITDA	**136,672**	**28,765**	**(14,374)**	**151,063**
Depreciation of capital assets				**62,947**
Amortization of intangible assets				**8,905**
Finance costs - interest				**27,211**
Depreciation of right of use assets				**10,899**
Interest expense on right of use lease liabilities				**2,279**
Acquisition costs				**3,689**
Other (Note 5)				**(2,182)**
Earnings before income taxes				**37,315**
Current income tax expense				**5,825**
Deferred income tax expense				**2,127**
Net Earnings				**$ 29,363**

	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
				Six Months Ended June 30, 2018
Revenue	$ 423,225	$ 156,251	$ -	$ 579,476
Expenses	309,197	129,207	11,988	450,392
EBITDA	114,028	27,044	(11,988)	129,084
Depreciation of capital assets				58,845
Amortization of intangible assets				9,151
Finance costs - interest				25,167
Acquisition costs				1,062
Other				(1,471)
Earnings before income taxes				36,330
Current income tax expense				11,498
Deferred income tax recovery				(3,329)
Net Earnings				$ 28,161

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

				For the period ended June 30, 2019
	Aerospace & Aviation	**Manufacturing**	**Head Office(1)**	**Consolidated**
Total assets	**$ 1,675,668**	**$ 361,728**	**$ 93,962**	**$ 2,131,358**
Net capital asset additions	**105,331**	**7,939**	**452**	**113,722**

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

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

Revenues

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

		Three Months Ended		**Six Months Ended**	
Revenue Streams	Periods Ended June 30	**2019**	2018	**2019**	2018
Aerospace & Aviation Segment					
Sale of goods - point in time		**$ 47,420**	$ 63,958	**$ 105,272**	$ 104,413
Sales of services - point in time		**189,230**	168,303	**346,806**	315,937
Sale of services - over time		**2,234**	1,141	**3,550**	2,875
Manufacturing Segment					
Sale of goods - point in time		**51,577**	45,096	**97,682**	88,548
Sale of services - over time		**35,446**	34,951	**69,613**	67,703
Total revenue		**$ 325,907**	$ 313,449	**$ 622,923**	$ 579,476

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.

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

The computation for basic and diluted earnings per share for the Corporation for the three and six months ended June 30, 2019, and comparative periods in 2018 are as follows:

	Three Months Ended		Six Months Ended	
Periods Ended June 30	**2019**	2018	**2019**	2018
Net earnings for the period, available to common shareholders	**$ 21,875**	$ 19,547	**$ 29,363**	$ 28,161
Effect of dilutive securities				
Convertible debentures	**2,900**	1,244	**-**	867
Diluted earnings for the period	**$ 24,775**	$ 20,791	**$ 29,363**	$ 29,028
Basic weighted average number of Shares	**32,109,744**	31,652,600	**31,738,734**	31,518,107
Effect of dilutive securities				
Deferred shares	**846,991**	796,345	**846,991**	796,345
Convertible debentures	**4,944,402**	2,420,836	**-**	973,308
Diluted basis weighted average number of Shares	**37,901,137**	34,869,781	**32,585,725**	33,287,760
Earnings per share:				
Basic	**$ 0.68**	$ 0.62	**$ 0.93**	$ 0.89
Diluted	**$ 0.65**	$ 0.60	**$ 0.90**	$ 0.87

13. EMPLOYEE BENEFITS

Deferred Share Plan

During the six months ended June 30, 2019, the Corporation granted deferred shares to certain personnel. The fair value of the deferred shares granted was $669 (2018 - $4,229) 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, 2019, the Corporation recorded compensation expense of $775 and $1,738, respectively for the Corporation's Deferred Share Plan within the general and administrative expenses of head office (2018 - $1,003 and $1,803, respectively).

Employee Share Purchase Plan

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

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

During the six months ended June 30, 2019, employees acquired 17,583 shares from Treasury at a weighted average price of $34.13 per share. The grant date fair value of the shares that will be awarded upon the vesting conditions of the plan being attained is estimated at $194 based on the share price and monthly dividend rate as at that time.

Restricted Share Plan

During the six months ended June 30, 2019, the Corporation granted restricted shares to certain personnel. The fair value of the restricted share units granted was $3,506 (2018 - nil) at the time of the grant and was based on the market price of the Corporation's shares at that time. During the three and six months ended June 30, 2019, the Corporation recorded compensation expense of $223 and $318, respectively, for the Corporation's Restricted Share Plan within the general and administrative expenses of head office (2018 - nil and nil, respectively).

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation's activities expose it to a variety of financial risks: market risk (primarily currency risk and interest rate risk), credit risk, and liquidity risk. Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary. The following describes the risk management areas that have significantly changed from those described in the audited December 31, 2018, consolidated financial statements.

Market Risk

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

Currency Risk

The Corporation has US $401,350 or $525,247 (December 31, 2018 - US $365,100 or $498,069) outstanding on its credit facility. The outstanding funds in USD results in currency risk that the future cash flows will fluctuate with the changes in market currency rates. The exposure for the USD portion of its credit facility outstanding is offset by the cash generated through the operations of its US based subsidiaries. Of the total US credit facility drawn, US $41,250 (December 31, 2018 - US $23,500) is drawn by EIIF USA, an entity that uses US dollars as its functional currency. Therefore, the currency risk on this balance is recognized in other comprehensive income.

The Corporation`s investment in those subsidiaries with USD functional currencies are hedged partially by US $170,550 (December 31, 2018 - US $155,550) of credit facility draws, which mitigates the foreign currency translation risk arising from the subsidiary`s net assets. The loan is designated as a net investment hedge and no ineffectiveness was recognized from the net investment hedge.

During the 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 can take advantage of lower interest rates. The swap mitigates the risk of changes in the value of the Corporation's US dollar LIBOR borrowings as they will be exchanged for the same Canadian equivalent in 30 days. The swap is designated as a hedge of the underlying debt instrument and no ineffectiveness was recognized. The fair value of the swaps at June 30, 2019, was a loss of $2,001 (December 31, 2018 - gain of $3,741). At June 30, 2019, the notional value of the swaps outstanding is US $189,500 (December 31, 2018 - US $186,000).

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, 2019:

- US $401,350 (December 31, 2018 – US $365,100) was outstanding under US LIBOR, and
- $205,000 (December 31, 2018 – $229,100) was outstanding under Banker's Acceptances.

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

During the second quarter, the Corporation entered into an interest rate swap with certain members of its lending syndicate whereby the Corporation has fixed interest rates on $190,000 of its Canadian credit facility debt for a period of four years. The derivative financial instrument hedges the exposure to variability in cash flow associated with the future payment of interest on Bankers Acceptance debt that would impact profit or loss and therefore qualifies as a cash flow hedge. The mark to market is recorded as a separate line within other comprehensive income.

Other Price Risk

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

To mitigate the income statement impact of a change in the Corporation's share price, the Corporation entered into a derivative instrument in the first quarter which fixes the cost of the plan for the Corporation. Any changes in fair value will either be paid to the counterparty or be paid to the Corporation by the counterparty at the vesting date. This derivative fixes the cost to the Corporation and does not impact the variability of the award received by the participant. The derivative financial instrument hedges the exposure to variability in cash flow associated with the future settlement of restricted shares issued under the Restricted Share Plan that would impact profit or loss and therefore qualifies as a cash flow hedge. The mark to market is recorded as a separate line within other comprehensive income.

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

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:

Recurring fair value measurements	Carrying Value June 30, 2019	Fair Value: Quoted prices in an active market Level 1	Fair Value: Significant other observable inputs Level 2	Fair Value: Significant unobservable inputs Level 3
Financial Assets				
Other long term assets - Restricted share hedge - Financial asset at fair value through profit and loss	$ 527	$ -	$ 527	$ -
Other assets - Fair value through OCI	3,573	-	-	3,573
Financial Liabilities				
Consideration liabilities - Financial liability at fair value through profit and loss	(14,593)	-	-	(14,593)
Other long term liabilities - Cross currency basis swap - Financial liability at fair value through profit and loss	(2,001)	-	(2,001)	-
Other long term liabilities - Interest Rate Swap - Financial liability at fair value through profit and loss	(1,739)	-	(1,739)	-
Fair Value Disclosures				
Other assets - Amortized cost	32,897	-	32,897	-
Long term debt - Amortized cost	(727,724)	-	-	(730,247)
Convertible debt - Amortized cost	(308,102)	(336,836)	-	-

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

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

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

The following table summarizes the changes in the consideration liabilities recorded on the acquisitions of Regional One, CarteNav, Quest, Moncton Flight College, and Wings Over Kississing, 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	**2019**	2018
Opening	**$ 31,173**	$ 17,410
Accretion	**602**	2,569
Settled during the period	**(15,000)**	(108)
Change in estimate (Note 5)	**(2,182)**	(4,616)
Acquisition of Moncton Flight College	**-**	15,902
Acquisition of Wings Over Kississing	**-**	16
Ending	**$ 14,593**	$ 31,173

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

Included in the $14,593 above is the earn out liability for Moncton Flight College and an estimated working capital settlement for Wings Over Kississing. During the second quarter of 2019, the Corporation settled the earn out liability of $15,000 associated with the acquisition of Quest.

Financial Instrument Fair Value Disclosures

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

As at June 30, 2019, management had determined that the fair value of its long-term debt approximates its carrying value. The fair value of long-term debt has been calculated by discounting the expected future cash flows using a discount rate of 4.00%. The discount rate is determined by using a risk-free benchmark bond yield for instruments of similar maturity adjusted for the Corporation’s specific credit risk. In determining the adjustment for credit risk, the Corporation considers market conditions, the underlying value of assets secured by the associated instrument and other indicators of the Corporation’s credit-worthiness.

As at June 30, 2019, management estimated the fair value of the convertible debentures based on trading values. The estimated fair value of its convertible debentures is $336,836 (December 31, 2018 - $269,332) with a carrying value of $308,102 (December 31, 2018 - $253,823).

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

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

15. CHANGES IN WORKING CAPITAL ITEMS

The changes in non-cash operating working capital items during the three and six months ended June 30, 2019, and the comparative period in 2018 are as follows:

	Three Months Ended		Six Months Ended	
Periods Ended June 30	**2019**	2018	**2019**	2018
Accounts receivable, including long-term portion	**$ (12,664)**	$ (45,656)	**$ (12,523)**	$ (49,714)
Amounts due from customers on construction contracts	**(1,937)**	(1,267)	**(8,830)**	(5,713)
Inventory	**(17,106)**	(7,197)	**(30,167)**	(12,952)
Prepaid expenses and deposits, including long-term portion	**1,177**	(4,949)	**(398)**	(6,570)
Accounts payable and accrued expenses	**4,472**	30,156	**13,388**	22,926
Income taxes receivable/payable	**(1,087)**	535	**(2,210)**	3,950
Deferred revenue, including long-term portion	**1,571**	(1,031)	**4,287**	(1,733)
Amounts due to customers on construction contracts	**(2,905)**	206	**(4,170)**	(3,864)
Net change in working capital items	**$ (28,479)**	$ (29,203)	**$ (40,623)**	$ (53,670)