Exchange
Income
Corporation

Second Quarter Report

For the three and six months ended June 30, 2020

CEO’s Message

The COVID-19 pandemic has challenged EIC and all of our operating companies with issues and problems that were unheard of just a few months ago. Our situation is no different than what a wide variety of companies in many, and in fact most, industries are experiencing. Changes in strategy and operation were required and these changes needed to be made very quickly as our society headed into uncharted territory. In our first quarter report to shareholders in May, the CEO’s message was far longer than normal as I outlined our plan as to how we were going to adapt to the pandemic. While the pandemic continues to change and shift, the focus of our team has also shifted from planning to execution. Our team has been executing on our safety plans, executing on adapting to our customers’ needs, executing on managing our costs and cash flows, and executing on our accretive acquisition and investment model. Execution is the key to making our plans effective and I am very pleased to advise that we have made significant progress in delivering on our plan.

Since the onset of COVID-19, our companies have been at the forefront of ensuring the safety of our employees and our customers. I have discussed both in the Annual Report as well as in my May CEO’s message the many ways that we have executed on this part of our plan. Safety remains our top priority and we continue to be the first movers in the airline industry. Prior to Transport Canada mandating masks, our airlines were not only ensuring all passengers wore masks but we were supplying them free of charge, which we continue to do today.

Adapting to our customers’ needs during the pandemic has meant many different things for our companies. For many of our manufacturing companies where customer demand has remained strong, it has meant finding new efficiencies to maintain production levels otherwise impacted by the implementation of COVID-19 protocols such as social distancing. For our Northern airlines, it meant working with Chiefs and Councils in the Communities we serve to adjust to their requirements and COVID-19 restrictions. This included continuing to move cargo and provide essential travel even when Communities were closed, implementing special screening processes and increasing capacity as Communities opened up so that pent-up demand for travel could be fulfilled. We have also been working with Indigenous Services Canada (“ISC”) to coordinate the movement of healthcare providers in and out of Northern Communities in all 10 provinces. Our contract with ISC showcases the collective capability of our airlines as these bi-weekly charters involve the movement of hundreds of healthcare workers over 150 flight segments through 65 airports to provide this critical need into the Northern Communities. Most of these flights are provided by our airlines, with lift outside our fleet capacity being subcontracted to third party airlines. Adapting to customer needs has also meant leveraging Regional One’s opportunistic buying capability to meet increased charter capacity demands. One of our mining customers required long-term lift capabilities best suited for Q400 aircraft. In this quarter, a buying opportunity arose for Regional One to acquire several Q400 aircraft at distressed prices, where purchases will be spread over the next several quarters. Not only did the acquisition add further depth to Regional One’s Q400 platform, it also allowed EIC to add Q400 capability to our fleet to meet customer charter demand and well position us to capture larger gauge aircraft opportunities as they arise. These are just a few examples of the nimbleness of our companies to meet our customer needs.

When the pandemic hit in March, the stock market reacted very negatively, particularly to companies with any exposure to the aviation sector and EIC was no exception. Since the market bottomed in late March, EIC has traded in a similar pattern to other airlines, both Canadian and American based. In stark contrast to traditional airlines, during the second quarter EIC has generated positive cash flow and operating results have recovered much more than these other airlines, trending week by week in a meaningful way back towards normalcy. We believe that the second quarter strongly shows the difference between our business and traditional airlines. While both EIC and the traditional airlines have seen a dramatic decline in passengers, EIC’s diversity and flexibility have allowed us to generate financial results that are very different from other airlines. Pure airline companies that trade publicly are experiencing daily cash burns in the tens of millions of dollars while EIC generated sufficient positive cash flow that not only funded our Maintenance Capital Expenditures, but also paid our dividends, maintaining a payout ratio of less than 80%. While this ratio is higher than a typical quarter, given that it occurred at the height of pandemic lockdowns it is a testament to the resilience of our business model and our subsidiary operations.

EIC generated EBITDA of $62 million in the second quarter, which was down 29% from 2019. Revenues were $244 million, down 25% from last year, and when acquisitions made late last year are excluded, revenue declined by 34%. By controlling expenses and managing capital expenditures and working capital, EIC not only funded Maintenance Capital Expenditures and dividends, but also Growth Capital Expenditures and reduced debt, net of cash, by over $10 million! A stronger Canadian Dollar also served to reduce the value of our US denominated debt, further reducing our debt by an additional $30 million. In short, in the midst of the greatest economic turmoil in our history, we were able to fund our capital needs, our dividends and pay down debt at the same time.

In no way should my comments on our results be taken to mean that they were easily accomplished and in fact quite the contrary is true. Our performance was the result of exceptional efforts by our team at EIC. Many very difficult decisions had to be made to ensure the safety of our employees and our customers, while maintaining the financial strength of EIC. Unfortunately, layoffs, reduced work hours and salary reductions were all part of the formula to get through this challenging period. While we are far from finished with the impacts of COVID-19 and it is possible, if not probable, that we will see a resurgence before an effective treatment is available, it is exciting to report that we have begun to recall laid off employees back to work and look forward to being able to return salary levels to pre-COVID-19 levels. To quote one of the world's great 20th century leaders Winston Churchill, "Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning".

As disclosed in our first quarter report, EIC subsidiaries qualified for the Canada Emergency Wage Subsidy ("CEWS"). Once the details of the program were made available, we put in place a plan to retain as many employees as possible and some employees that had been laid off due to COVID-19 were called back. Without the subsidies, these employees would not have been called back and a significant number of additional employees would have been laid off. At WesTower, for example, employees were retained while projects were delayed by customers. Without the subsidies, we would have needed to lay these employees off. With the pent-up demand from 5G construction projects, keeping these employees with the assistance of the CEWS provides WesTower the ability to quickly ramp up once construction projects resume. In addition, we would have been forced to significantly reduce our flight schedules had it not been for the support we received from the CEWS and the modest funding received from the Government of Nunavut.

While we were necessarily focused on managing the impact of COVID-19 over the last five months, we did not take our eye off of the longer term and continued to look for and analyze opportunities that would drive growth in the future. On July 31, 2020, we completed the acquisition of Window Installation Specialists, Inc. ("WIS") for an aggregate purchase price of $45 million USD. WIS installs Quest windows across the Western half of the USA and has been a fundamental part of Quest's growth in this market. The acquisition of WIS completes the vertical integration process that began with the acquisition of Advanced Window, Inc. ("AWI") last fall. By internalizing the installation, Quest has given our customers a single point of contact, while increasing Quest's share of the revenue generated by the projects it supplies. WIS has a strong multi-year order book and the purchase price is materially accretive to EIC. The acquisition of WIS will further enable Quest to take advantage of the enhanced production capacity at the new facility in Texas.

Long-term growth initiatives were not limited to acquisition. In our first quarter report to shareholders, we discussed that Provincial Aerospace continued to bid on major surveillance contracts in other parts of the world. I am very pleased to announce that Provincial was the successful bidder on a 10-year contract for the Netherlands Ministry of Defence. Partnered with JetSupport Holding, a Dutch company, Provincial will provide and operate two Dash-8-100 aircraft to provide surveillance services. This work is currently being done by the Netherlands Government. The contract is currently being finalized and service begins at the end of 2021. Work will begin in the third quarter of 2020 on adapting the Dash-8 aircraft to be ready for the contract start date.

Looking forward to the balance of 2020, we expect to see the trend toward historical financial performance continue. The passenger loads at our airlines have improved materially from the levels in April where passenger volumes were down by as much as 90%. The scale of improvement varies by geographic area as many local governments have maintained quarantines for people who are returning from trips outside of the community. The Nunavut Government, for example, requires people travelling into any Nunavut community to self-quarantine for 14 days before travelling. This has resulted in only essential travel leaving and returning to the Territory. As these restrictions are loosened, volumes will continue to improve. Currently, most routes are at 40 to 60% of normal capacity. I should point out that freight, medevac, and charter revenues were not nearly as hard hit as passenger traffic revenue and have returned to near historic levels. Our aerospace division continues to operate largely unaffected by COVID-19 other than experiencing higher costs in some areas to maintain safe operations in a COVID-19 environment. The Force Multiplier aircraft, which was idle through the second quarter as governments around the globe were focused on the pandemic, has returned to operation and has several missions scheduled in the third and fourth quarters.

Regional One is our subsidiary that has been most impacted by COVID-19. The decline in worldwide air travel has reduced flight hours and with it the need for parts and leased aircraft. The rebound for Regional One will not be as rapid as for our Northern airlines as it is dependent on the health of traditional airlines. There were signs of improvement midway through the second quarter, but the resurgence in the number of new cases in June and July has slowed the recovery. We have successfully managed cash outflows while we wait for the business to improve. The weakness in the overall aviation market is not all bad news for Regional One as it is expected to provide buying opportunities from the mismatch in supply and demand. We have made a couple of modest purchases in the second and third quarters of turbo prop aircraft and engines. We look forward to examining the opportunities to purchase assets to drive growth in the future following a normalization of the airline sector. We do not expect a material improvement in operations at Regional One until 2021.

Our manufacturing businesses have proven to be quite resilient with strong demand continuing at Quest, Stainless, Ben Machine, and WesTower. Our businesses in Alberta and British Columbia, which comprise less than 3% of EIC's total revenue, have experienced a decline in volumes as a result of COVID-19 and the weak oil markets. This weakness has not yet abated. The efficiency of our manufacturing has been negatively affected because of the steps taken to ensure safe operation for our employees. We expect continued strong performance from our Manufacturing segment.

In aggregate, we expect continued sequential quarter over quarter improvement in our consolidated results as our Northern aviation business strengthens. The new Department of Fisheries and Oceans contract goes into effect later this year, the Fixed Wing Search and Rescue contract continues to ramp up as aircraft are delivered to the Canadian Government, and the Force Multiplier will be better utilized. This improvement will be partially offset as the quantum of government support through the CEWS declines as our revenues improve.

We are all hopeful that a COVID-19 vaccine or treatment will allow our way of life to return to a sense of normalcy, but there is no way to know when, or even if, that will happen. Never has our business model been tested in such a comprehensive and unforeseen manner. Despite these challenges, we have been able to maintain our dividend and unlike most airlines, have actually improved our cash position and not had a cash burn that required additional liquidity to be injected into the company. The strength of our balance sheet, the diversity of our operations, and the dedication of our management team and our employees has enabled us to not only survive the quarter, but to thrive. The acquisition of WIS will facilitate future growth at Quest, and PAL continues to grow its worldwide footprint with the new 10-year relationship with the Netherlands Department of Defence. We are cautious of the challenges that remain with the pandemic and realize that it is very unpredictable, but we are more confident than ever in the strong foundation that has been built and look forward to returning to growth in future quarters. Thank you to all of our stakeholders for your ongoing support. Thank you to our employees around the world who consistently step up to make sure our customers are looked after in a safe manner. And finally, thank you to the front-line workers everywhere who keep us safe, healthy, and well fed. Your selfless service is remarkable.

Mike Pyle
Chief Executive Officer

August 12, 2020

TABLE OF CONTENTS

PREFACE

This MD&A supplements the unaudited interim condensed consolidated financial statements and related notes for the three and six months ended June 30, 2020 ("Consolidated Financial Statements") of Exchange Income Corporation ("EIC" or "the Corporation"). All amounts are stated in thousands of Canadian Dollars, except per share information and share data, unless otherwise stated.

This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Corporation for the three and six months ended June 30, 2020, its annual financial statements for the year ended December 31, 2019, and its annual MD&A for the year ended December 31, 2019. The interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements.

FORWARD-LOOKING STATEMENTS

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

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

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

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

EXCHANGE INCOME CORPORATION

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

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

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

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

Segment Summary

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

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

(b) **Manufacturing** – provides a variety of manufactured goods and related services in several industries and geographic markets throughout North America. **Quest** is a manufacturer and installer of an advanced unitized window wall system used primarily in high-rise multi-family residential projects in Canada and the United States. **WesTower** is focused on the engineering, design, manufacturing, and construction of communication infrastructure and the provision of technical services. **Ben Machine** is a manufacturer of precision parts and components primarily used in the aerospace and defence sector. **Stainless** manufactures specialized stainless steel tanks, vessels, and processing equipment. **LV Control** is an electrical and control systems integrator focused on the agricultural material handling segment. The **Alberta Operations** manufactures specialized heavy-duty pressure washing and steam systems, commercial water recycling systems, and custom tanks for the transportation of various products, primarily oil, gasoline, and water. **Overlanders** manufactures precision sheet metal and tubular products.

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

1. FINANCIAL HIGHLIGHTS AND SIGNIFICANT EVENTS

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

FINANCIAL PERFORMANCE	2020	per share basic	per share fully diluted	2019	per share basic	per share fully diluted
For the three months ended June 30						
Revenue	**$ 243,657**			$ 325,907		
EBITDA(1)	**62,075**			87,237		
Net earnings	**2,630**	**$ 0.08**	**$ 0.07**	21,875	$ 0.68	$ 0.65
Adjusted net earnings(1)	**5,645**	**0.16**	**0.16**	26,573	0.83	0.78
Adjusted net earnings payout ratio(1)		**356%**	**356%**		66%	70%
Free Cash Flow(1)	**42,268**	**1.21**	**1.09**	65,729	2.05	1.75
Free Cash Flow less maintenance capital expenditures(1)	**25,412**	**0.73**	**0.71**	34,533	1.08	0.97
Free Cash Flow less maintenance capital expenditures payout ratio(1)		**78%**	**80%**		51%	56%
Dividends declared	**19,867**	**0.57**		17,646	0.5475	
For the six months ended June 30						
Revenue	**$ 550,633**			$ 622,923		
EBITDA(1)	**119,329**			151,063		
Net earnings (Loss)	**(2,668)**	**$ (0.08)**	**$ (0.08)**	29,363	$ 0.93	$ 0.90
Adjusted net earnings(1)	**7,703**	**0.22**	**0.22**	39,297	1.24	1.21
Adjusted net earnings payout ratio(1)		**518%**	**518%**		88%	90%
Free Cash Flow(1)	**81,017**	**2.33**	**2.10**	109,975	3.47	3.01
Free Cash Flow less maintenance capital expenditures(1)	**27,711**	**0.80**	**0.78**	52,255	1.65	1.51
Free Cash Flow less maintenance capital expenditures payout ratio(1)		**143%**	**146%**		66%	73%
Dividends declared	**39,668**	**1.14**		34,833	1.095	
FINANCIAL POSITION	**June 30, 2020**			December 31, 2019		
Working capital	**$ 338,807**			$ 307,912		
Capital assets	**993,252**			965,018		
Total assets	**2,300,856**			2,266,557		
Senior debt	**802,001**			719,559		
Equity	**709,038**			729,843		
SHARE INFORMATION	**June 30, 2020**			December 31, 2019		
Common shares outstanding	**34,916,678**			34,703,237		
	June 30, 2020			June 30, 2019		
Weighted average shares outstanding during the period - basic	**34,779,510**			31,738,734		

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

SIGNIFICANT EVENTS

Normal Course Issuers Bid ("NCIB")

On February 19, 2020, the Corporation renewed its NCIB. Under the renewed NCIB, purchases can be made during the period commencing on February 22, 2020, and ending on February 21, 2021. The Corporation can purchase a maximum of 1,736,542 shares and daily purchases will be limited to 27,411 shares, other than block purchase exemptions. The Corporation renewed its NCIB because it believes that from time to time, the market price of the common shares may not fully reflect the value of the common shares. The Corporation believes that in such circumstances, the purchase of common shares represents an accretive use of capital. During the uncertain times created by the COVID-19 pandemic, the Corporation has chosen to conservatively manage its liquidity and not make purchases under the NCIB despite the volatility in the Corporation's common shares.

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

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, which has resulted in governments around the world imposing severe travel restrictions and social distancing measures to limit the spread of the virus. The travel restrictions have materially impacted the subsidiaries within the Aerospace & Aviation segment and the social distancing requirements have negatively impacted the efficiency of the subsidiaries in the Manufacturing segment. Additional information on the impacts of COVID-19 can be found in *Section 2 – Results of Operations* and *Section 5 – Outlook* of the MD&A.

Government Financial Aid

Governments around the world have announced significant financial support for businesses in light of the COVID-19 pandemic. The Corporation reviewed all programs in each jurisdiction in which it operates. Most notably, the Corporation qualified for the Canada Emergency Wage Subsidy ("CEWS"). The Corporation chose not to participate in the Payroll Protection Program in the United States.

Once the qualification criteria for the CEWS were made available, the Corporation immediately made plans to keep as many of its employees as possible and to minimize layoffs. During the quarter, the Corporation received $28.8 million in subsidies under the CEWS. The CEWS permitted EIC to retain a workforce, which otherwise would have been significantly reduced because of the uncertainty created by COVID-19 and the corresponding drop in demand for the Corporation's products and services, most notably in our airline subsidiaries. Many employees were either called back after being laid off or avoided being laid off altogether as the CEWS acted as a flow through of wages to those employees whose work had either disappeared or had been deferred. In addition, the subsidies received, in conjunction with modest support from the Government of Nunavut, allowed the Corporation to maintain service at a reduced level to our First Nations customers at a time when the routes were not economically feasible due to an extreme drop off in passenger volumes (approximately 90% on some routes). Without the subsidies received, the Corporation would have sought to make up a significant portion of the subsidies received through layoffs and cost reductions through other means such as a significant reduction in the frequency of service.

Moncton Flight College

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

Subsequent Event – Credit Facility Amendment

On July 15, 2020, the Corporation amended its credit facility. The amendment increased the senior leverage ratio maximum from 4.0 to 5.0 for the fiscal quarters ending December 31, 2020 through September 30, 2021. Inclusive of all announcements to date, EIC expects to be within its original 4.0 covenant.

Consistent with EIC's historical balance sheet management, the Corporation continues to be proactive in managing its liquidity so that should an opportunity present itself, EIC is able to execute where others may not be able. The increased covenant provides the Corporation the flexibility to draw further capital in the future to take advantage of opportunities as they are uncovered.

Subsequent Event – Acquisition of Window Installation Specialists, Inc. ("WIS")

On July 31, 2020, the Corporation acquired all of the shares of Window Installation Specialists, Inc. ("WIS") for US $45.0 million. WIS is a full-service glazing company specializing in sales, consultation, installation and service of pre-glazed fenestration products. WIS' operational focus is the west coast of the United States. The total purchase price before normal post-closing adjustments included US $38.0 million in cash paid at closing and shares of the Corporation issued at closing with a value of US $7.0 million.

Subsequent Event – Intelligence, Surveillance & Reconnaissance ("ISR") Contract Award

Provincial has received notice of the preliminary contract award decision regarding a performance based contract to provide Maritime Patrol Aircraft as Air Reconnaissance Capacity for the Netherlands Coastguard. This future contract, to be executed for Ministry of Defence for the Netherlands on behalf of the Netherlands Coastguard, would see Provincial and its consortium member, JetSupport Holding, modify and deliver two fully missionized DHC-8 aircraft, provide crew training on all systems and support the operation of the aircraft for an initial 10-year period with an option to extend for two additional one-year terms. Work will begin during the third quarter of 2020 on adapting the aircraft and service begins at the end of 2021.

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, 2020, and the comparative 2019 period.

	Three Months Ended June 30, 2020			
	Aerospace & Aviation	**Manufacturing**	**Head Office(2)**	**Consolidated**
Revenue	**$ 139,892**	**$ 103,765**	**$ -**	**$ 243,657**
Expenses(1)	**93,104**	**82,020**	**6,458**	**181,582**
EBITDA	**46,788**	**21,745**	**(6,458)**	**62,075**
Depreciation of capital assets				**33,866**
Amortization of intangible assets				**3,947**
Finance costs - interest				**11,993**
Depreciation of right of use assets				**6,323**
Interest expense on right of use liabilities				**1,015**
Acquisition costs				**65**
Earnings before taxes				**4,866**
Current income tax expense				**3,850**
Deferred income tax recovery				**(1,614)**
Net Earnings				**$ 2,630**
Net Earnings per share				**$ 0.08**
Adjusted Net Earnings				**$ 5,645**
Adjusted Net Earnings per share				**$ 0.16**

	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

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 $243.7 million, a decrease of $82.3 million or 25% from the comparative period. A decrease of $99.0 million in the Aerospace & Aviation segment was partially offset by an increase of $16.7 million in the Manufacturing segment.

EBITDA of $62.1 million was generated by the Corporation during the quarter, a decrease of $25.2 million or 29% from the comparative period. The decrease was attributable to the Aerospace & Aviation segment, partially offset by an increase in the Manufacturing segment and lower head office costs.

During the second quarter, the Corporation received notification of a pending reassessment of certain input tax credit claims made relating to one of its business operations over several years. While the Corporation intends to appeal the reassessment, a provision of $4.0 million was recorded during the current period. This adjustment negatively impacted EBITDA during the quarter.

During the period, the Corporation's head office costs decreased by $1.1 million over the prior period. Voluntary salary reductions at the Corporation's head office, along with a reduction in performance-based compensation, drove the decrease compared to the prior period. In addition, reduced travel costs and professional fees decreased costs compared to the prior period.

The Corporation's results were materially impacted by the COVID-19 pandemic during both the three and six month periods ending June 30, 2020. Travel restrictions and required quarantine periods reduced the demand for the Aerospace & Aviation segment's products and services. The Manufacturing segment experienced some temporary plant shutdowns as a result of COVID-19 protocols put in place and also experienced a reduction in manufacturing efficiency as employees were responsibly spaced further apart to ensure their health and safety. In both the Aerospace & Aviation segment and the Manufacturing segment, increased costs associated with keeping our employees and customers safe negatively impacted margins in the current year.

The Corporation, as indicated in the first quarter report, looked to avail itself of all government funding for which it qualified during the second quarter. Most notably, the Corporation was eligible for the CEWS offered by the Government of Canada and received $28.8 million under this program during the quarter. Once the CEWS was proclaimed into law, the Corporation put a plan in place to retain as many employees as possible and to maintain service at the highest level possible. Without these government subsidies, the Corporation would have been forced to lay off a significant number of additional employees, and materially reduce its flight schedules beyond adjustments that were already made. The Corporation kept a workforce that would have been laid off without the subsidy and flowed through the subsidy received to those employees. By having the ability to retain the workforce that the CEWS allowed us to do, it will significantly help the Corporation to be able to quickly respond with the return of demand for our subsidiaries' products and services.

<u>Aerospace & Aviation Segment</u>

Revenue generated by the Aerospace & Aviation segment decreased by $99.0 million to $139.9 million.

The COVID-19 pandemic has challenged the Aerospace & Aviation segment. Revenue in the Legacy Airlines and Provincial decreased by $60.5 million or 35% from the comparative period. Passenger volumes in the airlines were down as much as 90% early in the quarter stemming from reduced demand as a result of COVID-19 induced air travel restrictions mandated by multiple levels of government. Passenger volumes gradually improved throughout the second quarter, although the scale of improvement varied by geographic region depending on travel restrictions and quarantine periods specific to the region. Cargo volumes remained strong after the onset of COVID-19 and benefitted from our combi aircraft and flexible aircraft configuration, improving over the comparative period with communities continuing to receive essential goods and supplies. Medevac and charter operations were also impacted by COVID-19 factors early in the quarter, but gradually normalized to pre-COVID-19 levels towards the end of the quarter. The Corporation was able to capitalize on our airlines' collective capabilities and worked with Indigenous Services Canada and coordinated the movement of healthcare providers in and out of Northern communities across 10 provinces. The closure of Moncton Flight College due to COVID-19 restrictions put in place in New Brunswick commencing in the second half of March and continuing into the second quarter impacted revenues. This operation, however, has ramped up to more normalized hours later in the second quarter once government restrictions were lifted and air traffic services were fully available. The aerospace division was minimally impacted by COVID-19 due to the contractual nature of the work, except for the Force Multiplier aircraft, which was idle during the second quarter while governments globally were focused on the pandemic. The Force Multiplier aircraft has returned to operation and has several missions scheduled for the remainder of the year.

Regional One's revenue for the current period decreased by $38.5 million or 57%. The decrease was driven by declines in both sales and service revenue and lease revenue from the prior period as seen in the table below.

Regional One Revenues	Three Months Ended June 30,	**2020**	2019
Sales and service revenue		$ **22,427**	$ 44,215
Lease revenue		**6,775**	23,453
		$ **29,202**	$ 67,668

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.

Regional One's operations have been significantly impacted by COVID-19. Regional One's business is dependent on the financial stability of traditional regional air carriers and lower travel throughout the world has put pressure on all of its lines of business, including part sales, aircraft and engine sales, and lease revenues. The overall industry has improved from its lows, but volumes in all lines of business are still down significantly.

Sales and service revenue decreased by $21.8 million or 49% from the comparative period. The level of Regional One's sales bottomed out during the beginning of the quarter and gradually improved throughout the quarter. This improvement stalled, however, with the resurgence of COVID-19 in the latter stages of the quarter. Aircraft and engine sales were down significantly from the prior period as airlines looked to defer large purchases. Lease revenue decreased by $16.7 million or 71% in the current period due to a significant drop off in customer demand and utilization of the Corporation's lease assets.

In the Aerospace & Aviation segment, EBITDA decreased $32.3 million or 41% to $46.8 million.

EBITDA contributed by the Legacy Airlines and Provincial decreased by $11.1 million or 22%. The revenue reductions described above are the key drivers of the EBITDA decrease. The Corporation quickly adapted its operations to help mitigate the impacts of COVID-19 travel restrictions and implemented cost reduction measures through scheduled frequency reductions, labour rationalization and various reduction strategies, and qualified for the CEWS program. The CEWS allowed the Corporation to keep more employees than it otherwise would have without the subsidy. The Corporation provides essential services to the communities it serves. Air transportation is the only way that people and goods can get to or from many of these communities, and consequently, it is imperative that the Corporation maintains regular, albeit reduced, scheduled flights to these areas. Complete termination of our service to these communities is deemed by the Corporation to not be an option. As such, the Corporation worked collaboratively with the Government of Nunavut and the federal government to help subsidize the Nunavut scheduled passenger operation to ensure continued regular essential service into the Nunavut region. Even with these strategies and material cost reductions, continuing service with the lower passenger levels experienced after the onset of COVID-19 and into the second quarter decreased EBITDA. The subsidies, however, helped to mitigate further service and frequency reduction that would have otherwise been implemented. Since the onset of COVID-19, we have been committed to the safety of our employees, customers and the communities we serve, and enhanced safety protocols have been put in place resulting in higher costs across the segment's operations. These protocols include, but are not limited to, enhanced passenger screening processes, personal protective equipment ("PPE") for front line employees and customers, increased sanitation and deep cleaning of aircraft, other assets and facilities, and the purchase of additional equipment and supplies. The closure of Moncton Flight College due to COVID-19 restrictions put in place in New Brunswick for part of the quarter reduced EBITDA. The notification of a pending reassessment of certain input tax credit claims reduced EBITDA by $4.0 million. Lower average fuel costs benefitted EBITDA compared to the prior period. Lastly, the aerospace division operated largely unaffected by COVID-19, other than incurring costs to operate safely in a pandemic environment, and reduced Force Multiplier activity.

Regional One's EBITDA decreased by $21.2 million or 75% from the prior period. The decrease is related most significantly to the $16.7 million reduction in lease revenue where the EBITDA margins are approximately 95%. Compounding the reduction in lease revenue, decreased part sales and lower levels of aircraft and engine sales decreased EBITDA. Cost saving initiatives, including headcount reductions, partially offset the impact of lower revenues.

Manufacturing Segment

The Manufacturing segment revenue increased by $16.7 million or 19% to $103.8 million over the prior period and EBITDA increased by $6.0 million or 38% to $21.7 million.

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

EBITDA at Quest was higher than the prior period reflecting the acquisition of AWI in the fourth quarter of 2019 with no comparative in the prior period and the increased production at its Texas plant. AWI has consistently outperformed our expectations since acquisition, including outperforming pre-COVID-19 forecasts during the second quarter of 2020. The increase was offset by two temporary plant closures in Toronto, job-site delays, and inefficiencies as a result of social distancing protocols relating to the effects of COVID-19.

The balance of the segment collectively experienced an increase in EBITDA due to the acquisition of LV Control in the fourth quarter of 2019. Excluding the contribution from LV Control, the remaining subsidiaries within the segment experienced shortfalls in revenue, and margins continue to be impacted by lower efficiencies from social distancing protocols implemented in all plants and higher operating costs from sanitization and personal protective equipment.

NET EARNINGS

Three Months Ended June 30		2020		2019
Net Earnings	$	**2,630**	$	21,875
Net Earnings per share	$	**0.08**	$	0.68

Net Earnings was $2.6 million, a decrease of $19.2 million from the prior period. The decrease in EBITDA of $25.2 million almost entirely explained the reduction in Net Earnings. A reduction in interest costs and acquisition costs of $1.9 million and $1.4 million, respectively, was partially offset by increases in depreciation on capital assets and right of use assets. As discussed above, $4.0 million of the reduction in EBITDA was caused by a pending reassessment of certain input tax claims that relate to several years for which a charge was booked in the second quarter of 2020.

Income tax expense decreased by $4.5 million due to lower earnings generated in the period. The effective rate of tax was higher than the prior period due to a higher proportion of earnings being generated in higher tax jurisdictions and losses incurred in lower tax rate jurisdictions.

Net Earnings per share decreased 88% to $0.08 from the prior period. The weighted average number of shares increased by 8%, which reduced Net Earnings per share. 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		2020		2019
Net Earnings	$	**2,630**	**$**	21,875
Acquisition costs, net of tax		**65**		1,096
Amortization of intangible assets, net of tax		**2,882**		3,231
Interest accretion on acquisition contingent consideration		**68**		280
Interest accretion on redeemed debentures, net of tax		**-**		91
Adjusted Net Earnings	$	**5,645**	$	26,573
per share - Basic	$	**0.16**	$	0.83
per share - Diluted	$	**0.16**	$	0.78

Adjusted Net Earnings decreased $20.9 million from the prior period. Adjusted Net Earnings includes the add-back of acquisition-related costs, which are comprised of $2.9 million in intangible asset amortization, $0.1 million in acquisition costs, and $0.1 million in interest accretion on contingent consideration (all net of tax).

Adjusted Net Earnings per share decreased to $0.16 from $0.83 in the prior period. The weighted average number of shares outstanding increased by 8% over the prior period, which reduced Adjusted Net Earnings per share. 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		**2020**		2019
Cash flows from operations	**$**	**69,330**	$	41,137
Change in non-cash working capital items		**(21,870)**		28,479
Acquisition costs, net of tax		**65**		1,096
Principal payments on right of use lease liabilities		**(5,257)**		(4,983)
	$	**42,268**	$	65,729
per share - Basic	**$**	**1.21**	$	2.05
per share - Fully Diluted	**$**	**1.09**	$	1.75

The Free Cash Flow generated by the Corporation during the period was $42.3 million, a decrease of $23.5 million or 36% from the comparative period. The main reason for this decrease is the $25.2 million reduction in EBITDA. Free Cash Flow is discussed further in *Section 12 – Non-IFRS Financial Measures and Glossary*.

Because of the decrease in Free Cash Flow described above, Free Cash Flow on a basic per share basis decreased by 41% to $1.21. Free Cash Flow was also impacted by the 8% increase in the weighted average number of shares outstanding in the current period compared to the prior period. Details around the increase in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

Changes in non-cash working capital are included in cash flow from operations per the Statement of Cash Flow and are removed in the reconciliation to Free Cash Flow. As a result, it has no impact on the calculation of Free Cash Flow. A 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, 2020, and the comparative 2019 period.

	Six Months Ended June 30, 2020			
	Aerospace & Aviation	Manufacturing	Head Office(2)	Consolidated
Revenue	$ 340,585	$ 210,048	$ -	$ 550,633
Expenses(1)	245,159	174,178	11,967	431,304
EBITDA	95,426	35,870	(11,967)	119,329
Depreciation of capital assets				68,894
Amortization of intangible assets				7,783
Finance costs - interest				25,086
Depreciation of right of use assets				12,664
Interest expense on right of use lease liabilities				2,047
Acquisition costs				80
Impairment loss				6,117
Other				(177)
Loss before income taxes				(3,165)
Current income tax expense				3,632
Deferred income tax recovery				(4,129)
Net Loss				$ (2,668)
Net Loss per share (basic)				$ (0.08)
Adjusted Net Earnings				$ 7,703
Adjusted Net Earnings per share (basic)				$ 0.22

	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

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 $550.6 million, a decrease of $72.3 million or 12% from the comparative period. The Aerospace & Aviation segment revenue decreased $115.0 million and the Manufacturing segment revenue increased $42.7 million.

EBITDA of $119.3 million was generated by the Corporation during the period, a decrease of $31.7 million from the comparative period. The decrease in EBITDA is attributed to the impact of COVID-19, which impacted both the Aerospace & Aviation and Manufacturing segments and is discussed in more detail below, and the impact of a $4.0 million input tax credit pending reassessment as discussed in the three-month section above.

During the period, the Corporation's head office costs decreased $2.4 million from the prior period largely due to decreased performance-based compensation. Voluntary salary reductions, reduced travel costs, and decreased professional fees also resulted in lower head office costs compared to the prior period.

Aerospace & Aviation Segment

Revenue generated by the Aerospace & Aviation segment decreased by $115.0 million to $340.6 million.

Revenue in the Legacy Airlines and Provincial decreased by $57.5 million or 18% from the comparative year. Passenger volumes in the airlines were higher than in the comparative period through mid-March 2020 but were offset by an immediate and severe drop in traffic in the second half of March due to travel restrictions imposed by governments to stop the spread of COVID-19. As discussed in the quarterly commentary, passenger volumes experienced some gradual recovery through the second quarter, although the scale of improvement varied by geographic area depending on travel restrictions and quarantine periods specific to the region. Cargo volumes increased over the prior period and remained strong after the onset of COVID-19 with communities continuing to receive essential goods and supplies. Results were also impacted by reductions in revenue generated by Provincial due to a severe blizzard in Newfoundland and Labrador in January, which culminated in the issuance of a state of emergency for more than a week. This resulted in lost revenue as the airport was shut down and no revenue was earned during this time. In addition, Moncton Flight College was shut down for the second half of March and part of the second quarter due to government ordered closures of educational facilities in New Brunswick due to the COVID-19 pandemic. The Corporation's aerospace operations were largely unaffected by the pandemic where work is performed under long-term contracts with governments around the world. The only exception was the Force Multiplier aircraft, which was idle during the second quarter as governments around the world focused their attention on the pandemic and procurement processes for utilization of the Force Multiplier were put on hold.

Regional One's revenues for the current period decreased by $57.5 million or 42%. As seen in the table below, this was driven by a decrease in sales and service revenue and lease revenue from the comparative period.

Regional One Revenue	Six Months Ended June 30,		**2020**		2019
Sales and service revenue		$	**57,289**	$	97,373
Lease revenue			**22,789**		40,226
		$	**80,078**	$	137,599

Sales and service revenue decreased by 41% from the comparative period. The sales of whole aircraft and engines were materially impacted during the period due to COVID-19. There were a number of transactions pending that have now either been postponed or cancelled altogether due to the impact of COVID-19 as airlines around the world look to preserve capital. Revenue from part sales were relatively strong during the period considering the COVID-19 pandemic, with sales at approximately 90% of 2019 levels.

Lease revenue decreased by $17.4 million or 43% in the current period. The leasing portfolio experienced lower utilization of aircraft by customers starting in the month of March and continued throughout the second quarter as the impacts of COVID-19 reduced hours flown by lessees. Several large assets returned due to a customer bankruptcy in the third quarter of 2019 will take longer to deploy due to COVID-19, resulting in decreased lease revenue compared to the prior period.

In the Aerospace & Aviation segment, EBITDA decreased $41.2 million or 30% to $95.4 million.

EBITDA contributed by the Legacy Airlines and Provincial decreased by $14.7 million or 18%. Growth in scheduled services positively impacted EBITDA compared to the prior period throughout the first two and a half months of 2020 until COVID-19 induced air travel restrictions were mandated by multiple levels of government due to the pandemic. As described in the quarterly commentary, passenger, charter, and medevac volumes were materially impacted immediately after air travel restrictions were implemented, negatively impacting EBITDA. The Corporation quickly adapted its operations to mitigate the impacts of the COVID-19 travel restrictions and implemented cost reduction measures through scheduled frequency reductions, labour rationalization, and other cost reduction strategies, and also qualified for the CEWS. Even with these strategies and the benefit of government funding programs as described in the three-month discussion, continuing service with the passenger levels experienced after the onset of COVID-19 negatively impacted EBITDA. Additionally, as described in the three-month discussion, costs associated with enhanced safety protocols to ensure the health and safety of customers, employees, and communities resulted in higher costs. The closure of Moncton Flight College due to COVID-19 restrictions put in place in New Brunswick at the onset of COVID-19 continued partway into the second quarter and reduced EBITDA. The aerospace operations were largely unaffected as described in the quarterly commentary. Reduced fuel costs benefitted EBITDA compared to the prior period. Lastly, the blizzard in Newfoundland and Labrador resulted in Provincial having more than a week without any revenue being generated, while still incurring all its fixed costs in addition to increased costs to get its operations up and running again.

Regional One's EBITDA decreased $26.6 million or 50% from the prior period. Consistent with the three-month discussion above, a significant reduction in demand for its leased aircraft and engines and the reduction in sales and service revenue stream as airlines around the world look to preserve capital decreased EBITDA compared to the prior period. EBITDA was also reduced from an increased allowance for doubtful accounts recorded by Regional One due to general uncertainty in the airline industry.

Manufacturing Segment

The Manufacturing segment revenue increased by $42.7 million or 26% to $210.0 million and EBITDA increased by $7.1 million or 25% over the prior period to $35.9 million.

Consistent with the three-month discussion above, EBITDA at Quest was higher than the prior period reflecting the acquisition of AWI in the fourth quarter of 2019 and the continued ramp-up of the Texas facility. AWI has consistently outperformed our expectations since acquisition, including outperforming pre-COVID-19 forecasts during the period.

The balance of the segment collectively experienced an increase in EBITDA due to the acquisition of LV Control in the fourth quarter of 2019. Excluding the impact from LV Control, the remaining subsidiaries within the segment generated a slight increase in EBITDA over the prior period. This increase was achieved despite some of the entities within the segment experiencing reductions in demand or increased costs due to COVID-19. In Alberta, many companies have delayed or cancelled their large capital projects due to record low oil prices, which together with the impact of COVID-19 has negatively impacted the EBITDA of the Alberta Operations. As a result, the Corporation has taken a write down of intangible assets against the Alberta Operations as discussed further in *Section 8 – Critical Accounting Estimates and Judgments.*

NET EARNINGS (LOSS)

Six Months Ended June 30,		**2020**		2019
Net Earnings (Loss)	$	**(2,668)**	$	29,363
Net Earnings (Loss) per share	$	**(0.08)**	$	0.93

Net Loss was $2.7 million, a decrease of $32.0 million from the prior period. The Corporation generated lower EBITDA compared to the prior period as discussed above, which contributed to the variance to the prior period. In addition, increased depreciation on assets purchased through acquisition and Growth Capital Expenditures resulted in a $5.9 million increase in depreciation expense. As discussed above, $4.0 million of the reduction in EBITDA was caused by a pending reassessment of certain input tax claims that relate to several years for which a charge was booked in the second quarter of 2020. An impairment loss of $6.1 million was recorded at the Corporation's Alberta Operations during the first quarter of 2020 due to the impacts of the current state of the oil and gas industry and COVID-19 (*Section 8 – Critical Accounting Estimates and Judgments)*. Partially offsetting these negative impacts on Net Earnings was a $2.1 million reduction in interest expense.

Income tax expense has decreased by $8.4 million. The effective rate of tax recovery is lower than the effective rate of tax expense in the prior period and is reflective of a significant reduction in earnings generated in lower tax jurisdictions.

Net Earnings per share decreased from $0.93 per share in the prior period to a Net Loss per share of $0.08 in the current period. The weighted average shares outstanding increased by 10% over the prior period. Details around the change in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources.*

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

Six Months Ended June 30,	2020	2019
Net Earnings (Loss)	$ **(2,668)**	$ 29,363
Acquisition costs, net of tax	**80**	2,740
Amortization of intangible assets, net of tax	**5,682**	6,501
Interest accretion on acquisition contingent consideration	**136**	602
Accelerated interest accretion on redeemed debentures, net of tax	**-**	91
Impairment loss, net of tax	**4,473**	-
Adjusted Net Earnings	$ **7,703**	$ 39,297
per share - Basic	$ **0.22**	$ 1.24
per share - Diluted	$ **0.22**	$ 1.21

Adjusted Net Earnings decreased by $31.6 million from the prior period. Adjusted Net Earnings includes the add-back of acquisition-related costs, which are comprised of $5.7 million in intangible asset amortization, $0.1 million in acquisition costs, and $0.1 million in interest accretion on contingent consideration (all net of tax). In addition, Adjusted Net Earnings included a $4.5 million net of tax add-back of an impairment loss (*Section 8 – Critical Accounting Estimates and Judgments*).

Adjusted Net Earnings per share decreased to $0.22 from $1.24 in the prior period. The weighted average number of shares outstanding increased by 10% over the prior period, which reduced Adjusted Net Earnings per share. 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)*

Six Months Ended June 30,	2020	2019
Cash flows from operations	**$ 115,069**	$ 75,875
Change in non-cash working capital items	**(23,045)**	40,623
Acquisition costs, net of tax	**80**	2,740
Principal payments on right of use liabilities	**(11,087)**	(9,263)
	$ 81,017	$ 109,975
per share - Basic	**$ 2.33**	$ 3.47
per share - Fully Diluted	**$ 2.10**	$ 3.01

The Free Cash Flow generated by the Corporation during the period was $81.0 million, a decrease of $29.0 million or 26% from the comparative period. The main reasons for this decrease are the $31.7 million decrease in EBITDA and increased principal payments on right of use lease liabilities, partially offset by a decrease in current tax expense and interest expense. Free Cash Flow is discussed further in *Section 12 – Non-IFRS Financial Measures and Glossary*.

Because of the decrease in Free Cash Flow described above, Free Cash Flow per share decreased by 33% to $2.33. Free Cash Flow per share was also impacted by the 10% increase in the weighted average shares outstanding in the current period compared to the prior period. Details around the increase in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

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

CAPITAL EXPENDITURES

	Three Months Ended June 30, 2020			
CAPITAL EXPENDITURES	**Aerospace & Aviation**	**Manufacturing**	**Head Office**	**Total**
Maintenance Capital Expenditures	**$ 15,830**	**$ 719**	**$ 307**	**$ 16,856**
Growth Capital Expenditures	**10,930**	**1,371**	**-**	**12,301**
	$ 26,760	**$ 2,090**	**$ 307**	**$ 29,157**

	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

	Six Months Ended June 30, 2020			
CAPITAL EXPENDITURES	**Aerospace & Aviation**	**Manufacturing**	**Head Office**	**Total**
Maintenance Capital Expenditures	**$ 51,083**	**$ 1,169**	**$ 1,054**	**$ 53,306**
Growth Capital Expenditures	**24,410**	**2,272**	**-**	**26,682**
	$ 75,493	**$ 3,441**	**$ 1,054**	**$ 79,988**

	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

Maintenance Capital Expenditures for the six months ended June 30, 2020, decreased by 8% from the prior period, which is the result of two very different quarters. The first quarter of 2020 saw a significant increase over the comparative period in 2019, which was consistent with the guidance provided with the Corporation's year end 2019 results. The first quarter of 2019 was impacted by the timing of maintenance events and was lower than normally would be expected in the first quarter of the year. Maintenance Capital Expenditures are generally weighted more towards the first quarter as heavy overhauls and engine maintenance events are scheduled at a time when demand is lowest in the airline subsidiaries. 2020 was no different, with several heavy overhauls and engine maintenance events scheduled for the first quarter. Once the impacts of COVID-19 became apparent, the Corporation began to defer capital spending where appropriate, but this came after more than two months of scheduled maintenance had been completed. Flight hours in the second quarter were dramatically reduced due to the pandemic. The timing of Maintenance Capital Expenditures is directly impacted by flying time for the aircraft and engines. The reduction in flight hours during the second quarter led directly to a 46% reduction in the required Maintenance Capital Expenditures compared to the prior period. The first half of 2020 was also impacted by a weaker Canadian dollar, which increased Maintenance Capital Expenditures as the majority of these investments are in US dollars.

Aerospace & Aviation Segment

Maintenance Capital Expenditures for the Legacy Airlines and Provincial for the three and six months ended June 30, 2020, were $12.9 million and $37.1 million, a decrease of 32% and an increase of 6%, respectively, from 2019. The fleet of aircraft operated by the airlines has increased, resulting in increased Maintenance Capital Expenditures to maintain the growing fleet of aircraft. In addition, in 2019 the proportion of Maintenance Capital Expenditures incurred in the first quarter of the year was low, and as a result the current period has a higher number of heavy overhaul and engine maintenance events comparatively. Maintenance Capital Expenditures in the second quarter decreased materially compared to the prior period as the Corporation benefitted from work performed earlier in the year and reduced flying volumes, which both resulted in lower required maintenance. During the three and six months ended June 30, 2020, the Legacy Airlines and Provincial invested $10.7 million and $23.2 million, respectively, in Growth Capital Expenditures. The vast majority of these expenditures related to the Department of Fisheries and Oceans contract for Provincial, which goes into effect in the fourth quarter of 2020, and a small increase in capacity in the Legacy Airlines, which was committed to before the onset of COVID-19.

Regional One's Maintenance Capital Expenditures for three and six months ended June 30, 2020, were $2.9 million and $14.0 million, a decrease of 73% and 31%, respectively, from the prior year due to lower reinvestment requirements. The COVID-19 pandemic has left its fleet of aircraft and engines underutilized, and as a result, the available green time on those aircraft are not being consumed at the same rate as in past quarters. Consistent with historical practice, depreciation expense was used as a proxy for Maintenance Capital Expenditures in the first quarter and increased over the same three months in the prior period due to Growth Capital Expenditures made throughout the 2019 year. In the second quarter, actual costs of maintaining the fleet were significantly lower than the depreciation expense recorded during the comparative period. Historically, the Corporation has used depreciation as a proxy for Maintenance Capital Expenditures because the assets are being depleted as they are being flown by lessees and therefore depreciation reflects the required ongoing investment to maintain Free Cash Flow at current levels. Starting in the second quarter, the actual expenditures on assets already owned have been used as the costs of maintaining the fleet until such time the impact of COVID-19 wanes and the fleet utilization again warrants the use of depreciation as a proxy for Maintenance Capital Expenditures. All purchases of new assets, net of disposals and transfers to inventory, will be reflected as Growth Capital Expenditures during this time.

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

Regional One Lease Portfolio	**June 30, 2020**		December 31, 2019	
	Aircraft	**Engines**	Aircraft	Engines
Lease portfolio	**59** (1)	**53**	58	46

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

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

During the six months ended June 30, 2020, the Corporation invested $3.0 million in excess of Maintenance Capital Expenditures into Regional One. This investment includes both investments in inventory and Growth Capital Expenditures. Investment in inventory was $1.8 million, which is discussed further below in *Investment in Working Capital*. For the three and six months ended June 30, 2020, Regional One invested $0.2 million and $1.2 million, respectively, in Growth Capital Expenditures, which was primarily the investment in additional assets for its ERJ platform. This modest net investment into Regional One shows the discretionary nature of further net investment into Regional One's business. During the uncertain times brought on by the pandemic, Regional One remains opportunistic and made purchases at distressed prices while managing its overall investment responsibly in light of the general financial condition of the airline industry.

During the first quarter of 2020, Growth Capital Expenditures at Regional One represented the difference between net capital assets acquired (assets purchased less assets sold or transferred to inventory) and the amount of Maintenance Capital Expenditures. Starting in the second quarter of 2020, Growth Capital Expenditures represent the purchases of new assets, net of disposals and transfers to inventory. Because the timing between the removal of assets from the lease portfolio and the replacement of those assets can vary from quarter to quarter, it is possible that negative Growth Capital Expenditures may arise in a particular quarter. However, it is not expected that negative Growth Capital Expenditures would consistently occur over a longer period as it is the Corporation's intention to maintain or grow the lease portfolio.

The Corporation's modest investment in Growth Capital Expenditures reflects a couple of purchases during the year, mostly offset by disposals and transfers of assets to inventory for part out. The Corporation has been actively searching for opportunities as a result of the COVID-19 pandemic and made some smaller purchases during the quarter where the expected returns exceed historical norms. The Corporation will continue to diligently manage ongoing capital expenditures at Regional One during these uncertain times while at the same time looking for opportunities that may arise from distressed sellers. More information on future capital expenditures, including the purchase of several Q400 aircraft, is available in *Section 5 – Outlook.*

Manufacturing Segment

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

For the three and six months ended June 30, 2020, Maintenance Capital Expenditures of $0.7 million and $1.2 million, respectively, were made by the Manufacturing segment, a decrease of $0.4 million and $0.7 million from the prior period. The variance from the prior period relates primarily to investments made at Quest's Canadian plant in the prior period.

During the three and six months ended June 30, 2020, Growth Capital Expenditures of $1.4 million and $2.3 million, respectively, were made by the Manufacturing segment. Most of the investments were made in Quest's new US plant and additional equipment to support WesTower's growing wireline line of business.

INVESTMENT IN WORKING CAPITAL

During the six months ended June 30, 2020, the Corporation generated $23.0 million in cash from working capital. Details of the investment in working capital are included in Note 16 and the Statement of Cash Flows in the Corporation's Consolidated Financial Statements.

During the six months ended June 30, 2020, the Corporation benefitted from a significant collection of government receivables. During the fourth quarter of 2019, the Corporation experienced slow payment of receivables from a significant government customer. Due to a cybersecurity breach at the customer, the customer was unable to process payments for an extended period of time, which was rectified during the first quarter of 2020.

In addition to government receivables discussed above, the Corporation generated a significant cash inflow from accounts receivable during the first six months of 2020 across its Aerospace & Aviation segment. Regional One made two large collections during the period for sales that occurred in prior periods. Accounts receivable from prior periods where more normal demand existed were collected in the period and were replaced with sales at lower levels, resulting in decreased working capital required to support the current level of sales.

The Corporation continued to invest in Regional One's inventory of parts and aircraft for resale as Regional One has demonstrated an ability to generate exceptional returns on investment. The investment during the first quarter was $1.8 million, which will support increased part sales in the future. Regional One's past investment in inventory has consistently provided accretive growth from increased parts revenue.

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

4. DIVIDENDS AND PAYOUT RATIOS

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

Dividends

Month	Record date	Per Share	2020 Dividends Amount	Record date	Per Share	2019 Dividends Amount
January	January 31, 2020	$ 0.19	$ 6,596	January 31, 2019	$ 0.1825	$ 5,719
February	February 28, 2020	0.19	6,599	February 28, 2019	0.1825	5,724
March	March 31, 2020	0.19	6,606	March 29, 2019	0.1825	5,744
April	April 30, 2020	0.19	6,612	April 30, 2019	0.1825	5,877
May	May 29, 2020	0.19	6,621	May 31, 2019	0.1825	5,882
June	June 30, 2020	0.19	6,634	June 28, 2019	0.1825	5,887
Total		**$ 1.14**	**$ 39,668**		$ 1.095	$ 34,833

Dividends declared for the six months ended June 30, 2020, increased over the comparative period because of the increase in the dividend rate per month in the current period. The Corporation increased the monthly dividend rate per share by $0.0075 during the third quarter of 2019 (4% increase) to $2.28 per annum.

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

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

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

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

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

Payout Ratios

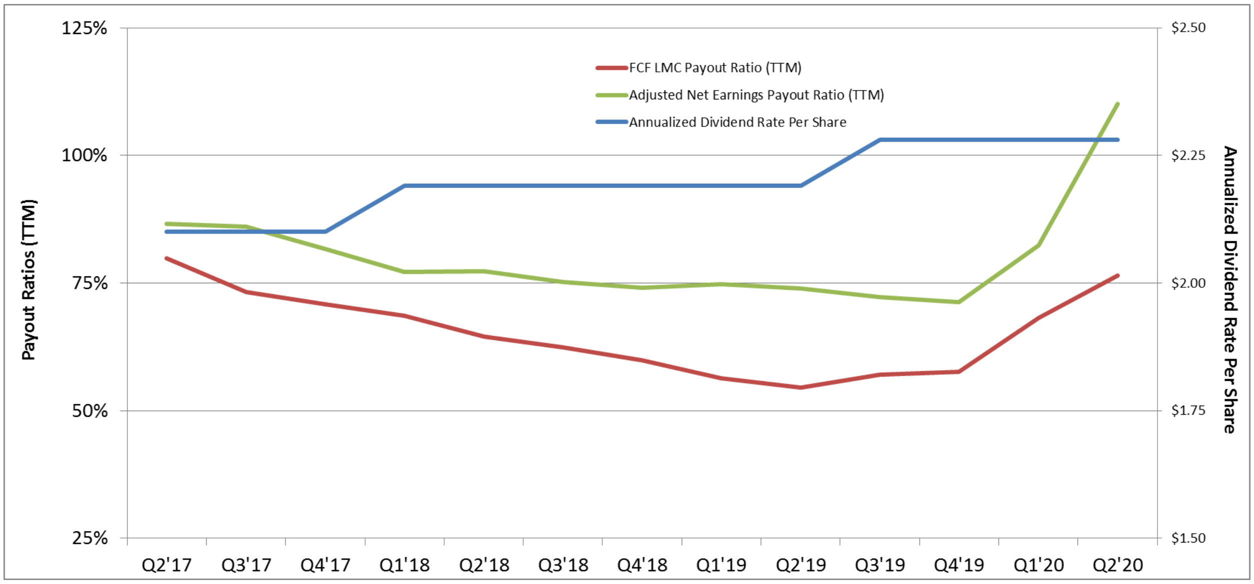
Basic per Share Payout Ratios for the Corporation	**2020**		2019	
Periods Ended June 30	**Three Months**	**Trailing Twelve Months**	Three Months	Trailing Twelve Months
Adjusted Net Earnings	***356%***	***110%***	*66%*	*74%*
Free Cash Flow less Maintenance Capital Expenditures	***78%***	***76%***	*51%*	*54%*

The Corporation's payout ratios were both impacted by COVID-19, which resulted in both trailing twelve-month payout ratios increasing at June 30, 2020. The Free Cash Flow less Maintenance Capital Expenditures payout ratio increased to 76% at June 30, 2020, from 54% at June 30, 2019. The Adjusted Net Earnings payout ratio increased over the prior period to 110% from 74%.

The Corporation's Free Cash Flow less Maintenance Capital Expenditures payout ratio was 78% for the second quarter of 2020. While this is higher than normal during a typical second quarter for the Corporation, it was a significant achievement during one of the most challenging quarters the Corporation has ever faced. During a global pandemic where passenger volumes initially fell up to 90%, the Corporation was still able to fund its Maintenance Capital Expenditures, its dividends in full, and have cash flow left over to pay down debt. This exceeds the guidance the Corporation gave with its first quarter results that had the payout ratio at 100% for the second quarter of 2020.

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

While navigating the past few months has unquestionably been challenging, it has highlighted the strength of our operating model, and demonstrated that our approach to business sets us apart and can sustain us through the worst of times.

The first challenge was to meet the safety needs of our employees and customers at all of our companies. The extent of these measures, especially in our airlines, were highlighted in our first quarter report. We were out front as early adopters of safety procedures and were innovators in our approach to safety. We have continued to lead the market on this front, with safety always being top of mind.

After meeting the safety needs, we turned our attention to operational execution to preserve the strength of our businesses and our financial performance. The diversity of our operations has served us well through the height of the pandemic and in our recovery from those depths. This not only refers to the diversity across our segments but also within specific industries. This is especially prevalent in our airlines. While some think we are dependent on passenger travel, similar to traditional airlines, that is not the case. Our airlines are diversified across scheduled passengers, charter, medevac, freight, maintenance, training and fixed based operations. Furthermore, the gauge of aircraft, geographies, and customers are diverse. That diversification of operations creates resiliency which is highlighted by our performance metrics in the quarter and will assist us in our recovery.

Within the airlines, our scheduled operations were the most impacted by the pandemic. This resulted in scheduled passenger volumes decreasing as much as 90% in April, while medevac, charters, and freight were not impacted to the same levels. Since that time, passenger levels have improved and are now at 40 to 60% of normal volumes. Medevac, charter, and freight are, on a combined basis, nearing normal levels and in some cases are exceeding historic volumes. There are still travel restrictions in many of the First Nations communities we service, as these communities diligently try to keep the virus out of their communities. As these health restrictions are removed, the passenger volumes will rapidly return to historic levels to meet the pent-up demand.

Overall demand within both our ISR operations and the Manufacturing segment were not impacted. The ISR operations are largely long-term government contracts and these services continued. Likewise, demand from our manufacturing customers remained strong. The margins have been impacted as safety measures were implemented which impacted efficiencies, however, overall these operations have performed well. The outlook for both the ISR operations and the Manufacturing segment remains strong.

Regional One's operations have been the most impacted by the pandemic and will take the longest to return to historical levels as demand for their services is dependent on the health of traditional air carriers. Lower travel throughout the world has put pressure on all their lines of business, including parts sales, engine and aircraft sales, and lease revenues. The overall industry has improved off of its lows, but the volumes are still down significantly. Market expectations are for regional jets to recover faster than the market as a whole because there will be more demand for lighter gauge aircraft as a result of lower passenger volumes. For these reasons, the expectation is the demand for the type of aircraft owned by Regional One to return faster than the market as a whole. We have not seen this materialize into a substantial recovery to date, but we are hopeful this happens towards the end of the year and into 2021. We still expect volumes to be below historic levels in 2021. The weakness in the overall market has impacted financial performance, however, the pandemic has created a buyers' market. Regional One, with their experience, data driven approach, and access to capital, is primed to take advantage of these valuations to make opportunistic investments. To date, Regional One has already made multiple modest investments and we will look for this to continue. During the year, the modest investment in Regional One's business highlights the discretionary nature of net investment into its assets for resale or lease. The team at Regional One responsibly managed their portfolio during a time of great uncertainty while still being able to purchase assets at distressed prices to drive future growth.

Challenges create opportunities. This has been very evident in the area many view as our most impacted industry, airlines. Our airlines are leaders in their niche and we have been afforded the opportunity to step up where a new need has arisen or others have failed. The diversity and breadth of our airlines have allowed us to fill these market needs. A prime example of this is the ISC contract to move healthcare workers in and out of northern communities across all 10 Canadian provinces. This involves moving hundreds of workers over 150 segments and 65 airports on a bi-weekly basis. Obtaining and executing this logistics contract, while fulfilling the majority of the charter flights with our own aircraft, highlights the strength of our operations.

Another example has been assessing the void in the market left by others. In Eastern and Atlantic Canada, other carriers have decreased service and vacated certain market segments. EIC has used this as an opportunity to expand our service into certain markets and assure the customers we will meet this demand. Likewise, in the rotary wing business, a carrier in Newfoundland ceased operations. In order to respond to this need, we moved a helicopter from Manitoba into Air Borealis, our partnership with the Innu and Inuit of Labrador, to service this market. This combined our expertise in rotary wing operations with our local expertise and relationships to create an opportunity.

We have also been able to turn our customers' increased demands into opportunities by capitalizing on the diversity of our operations. One of our mining customers required increased lift to service their growing operations in Newfoundland and Labrador. Regional One was able to procure several Q400 aircraft at distressed values. This provided both EIC airlines with the lift to meet the demand and Regional One with an enhanced portfolio of Q400 aircraft to service its customers. EIC's airlines are excited to introduce this new aircraft type into their fleet, providing them with a larger gauge of regional turboprop aircraft than previously operated. This will create charter opportunities in addition to this contract and will also allow us to support scheduled passenger segments that warrant increased lift. This highlights EIC's ability to leverage its diversity to create multiple opportunities out of one need.

The pandemic afforded us an opportunity to look inward at our operations to maximize efficiencies. A slowdown in the passenger business and increased demand for freight meant we needed to drive efficiencies in our freight operations. We modified two Dash-8-300 aircraft to increase their cargo capacity. This combi-mod is new to EIC's fleet and was designed by our internal engineers and completed in-house by our modification division. The ability to develop these enhanced aircraft and complete our internal assessment to improve service, efficiency, routing, and load factors was afforded to us as a result of the change in our product mix between passengers and freight.

These opportunities have not only created new revenues and growth for our airlines, but it has also enhanced our relationship with customers and created new customers. Industry players have looked to EIC's airlines as leaders in their niche and we have advised governments and private enterprises alike throughout this pandemic. Meeting these challenges only serves to further entrench our position and reputation in the market.

EIC has been executing on these opportunities within its operations, enhancing our long-term position in the market. These are part of the day to day successes upon which our teams execute on a regular basis. We have also had some larger wins as recently announced. The first was the acquisition of WIS on July 31, 2020. WIS is a glazer on the west coast of the US and has been Quest's installer in this market for years. WIS is not only the market leader in its own right, but the acquisition is also deliberately strategic. Combined with our installation capability in Canada and the recent acquisition of AWI in the Northeastern US, Quest is now vertically integrated in all its markets. This affords us the capability to fully service our regional and national customers with one point of accountability on supply and install projects. The acquisition is not only financially accretive but also strategically sound. It solidifies our position in the market, providing a strong foundation for further growth.

The second major win was the announcement that Provincial was the successful bidder on a 10-year ISR contract with the Netherlands Ministry of Defence. Provincial partnered with a Dutch company to win this contract. These services are being outsourced by the government for the first time. Under this contract, the partnership will provide ISR services, including surveillance, search and rescue, drug control, and other services, using two Dash-8-100 aircraft primarily over the North Sea. This increases Provincial's world reputation in the provision of maritime patrol services. It is expected that as government debt around the world grows, more governments will look to outsource similar services to lower cost options in order to shrink deficits. Provincial is primed to provide these services as it does in Canada, the UAE, Curacao, and Trinidad and Tobago through long-term contracts and in many other places on an ad hoc basis utilizing the Force Multiplier aircraft.

Both the acquisition of WIS and the provision of aircraft for the ISR contract will require capital. It is EIC's business model and our steadfast policy to maintain a strong balance sheet and ample liquidity that afforded us the ability to execute on these long-term strategic decisions that require capital, even in the midst of a global pandemic. Consistent with this policy, we revised our banking agreement after the quarter to increase our senior leverage ratio from 4.0 to 5.0. This increase is not necessary from an operations perspective as we are forecasting to stay well below 4.0. Furthermore, the WIS acquisition and the Netherlands contract will not have a material impact on our leverage because of the accretive nature of WIS and the fact that the capital for the Netherlands contract will be deployed over the next year and a half. Instead, increasing the covenant merely provides us the flexibility to draw further capital in the future to take advantage of opportunities as they are uncovered. This will continue to serve us well as we look for further opportunities to grow and execute on our long-term vision.

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

The upcoming Growth Capital Expenditures will be for the completion of the Department of Fisheries and Oceans contract, the new Netherlands ISR contract, and a new hangar in Winnipeg for the FWSAR contract. The aircraft modifications for the Department of Fisheries and Oceans contract are nearing completion and should be completed by the end of 2020. The modifications for the Netherlands contract are expected to start in the third quarter of 2020 and be finished by the end of 2021. The construction on the new hangar for FWSAR will start in 2021.

As discussed in the last quarterly report, Regional One's leased aircraft are not flying as much as a result of COVID-19. Therefore, the green time is not being consumed on these aircraft. As a result, the actual capital expenditures on assets already owned is being used as the costs of maintaining the fleet starting in the second quarter of 2020. This will continue until such time as the impact of COVID-19 wanes and the fleet utilization again warrants the use of depreciation as a proxy for Maintenance Capital Expenditures.

Overall, based on the improvement in our operations, as well as these new revenue streams and initiatives, we expect continued sequential quarter over quarter improvement in our consolidated results even as the CEWS is phased out. We are in a much stronger position today than we were in April when we first entered this chapter. We have paid down debt in the quarter after paying all our capital expenditures and dividends from cash flows, and we have an increased ability to deal with the uncertainty tied to this pandemic. This uncertainty will prevail, worldwide infections are still increasing and there may very well be a second wave, however our business model has already been tested. This is evident by our debt decreasing this quarter, the recent growth initiatives executed, and the strength of our operations and cash flows during the hardest quarter any of us have experienced. We had confidence in paying our dividend in April and that confidence has only increased based on the demonstrated resiliency of our business model in recent months.

6. LIQUIDITY AND CAPITAL RESOURCES

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

With its first quarter results, the Corporation provided guidance to the market that it did not expect a material cash burn during the second quarter of 2020, and expected to cover both its Maintenance Capital Expenditures and dividends with its Free Cash Flow. The Corporation exceeded that target by more than $5.4 million. In addition, when the cash inflow from working capital is included, the Corporation generated enough cash during the quarter to pay for its Growth Capital Expenditures and reduce its debt, net of cash, by more than $10 million. The strengthening of the Canadian dollar since March 31, 2020 reduced the converted value of the Corporation's US denominated debt by $30 million during the second quarter, and when combined with the $10 million in net cash flow identified above, the Corporation's debt, net of cash decreased by more than $40 million during the second quarter. This is in stark contrast to other entities within the Airline industry and speaks volumes to the effectiveness of EIC's diversified operations and balance sheet management during even the most trying business environments.

The Corporation took several steps to ensure it had the liquidity required during the uncertain economic times created by the COVID-19 pandemic. In a period of worldwide uncertainty, like many other large corporations, EIC made a draw on its credit facility to ensure access to capital should it be required without an imminent need for the cash. The Corporation did not expect a material cash burn and the draw was simply a precautionary measure. During the second quarter, the Corporation made several repayments on its credit facility, which reduced its cash balance in the second quarter. In addition, the Corporation took several other steps to help manage its liquidity during the COVID-19 pandemic. These actions have included layoffs, salary reductions, delays in non-essential capital expenditures, and the Corporation availing itself of the CEWS.

At June 30, 2020, our key financial covenant for our credit facility is our senior leverage ratio, and our facility allows for a maximum of 4.0. Our leverage ratio will increase as a result of the anticipated reduction in EBITDA compared to 2019 due to the impact of COVID-19. Subsequent to the end of the second quarter, the Corporation amended its credit facility to increase its allowable senior leverage ratio to 5.0 for the quarters ending December 31, 2020 through September 30, 2021. The Corporation does not, at this time, expect to require covenant relief but sought temporary waivers as a precautionary measure. Inclusive of all announcements to date, EIC expects to be within its original 4.0 covenant. Consistent with EIC's historical balance sheet management, the Corporation was proactive in managing its liquidity so that should an opportunity present itself, EIC is able to execute where others may not be able. Going forward, the increased covenant provides the Corporation the flexibility to draw additional capital to take advantage of opportunities as they are uncovered.

At June 30, 2020, the Corporation has liquidity of more than $860 million through cash on hand, its credit facility, and the credit facility accordion feature. This, combined with no material cash burn, puts the Corporation in a very strong liquidity position. The Corporation expects continued sequential quarter over quarter improvement in its consolidated results, further solidifying the Corporation's financial position during the pandemic.

As at June 30, 2020, the Corporation had a cash position of $66.2 million (December 31, 2019 - $22.1 million) and a net working capital position of $338.8 million (December 31, 2019 - $307.9 million) which represents a current ratio of 2.28 to 1 (December 31, 2019 – 2.10 to 1). Working capital increased as a result of funds drawn on the Corporation's credit facility to hold in cash during these uncertain economic times and the impact of foreign exchange. The draw made during the first quarter was partially repaid during the second quarter. The Canadian dollar weakened since December 31, 2019, increasing the translated net working capital of the Corporation's US subsidiaries. Partially offsetting these increases is a reduction in Accounts Receivable during 2020.

The Corporation aims to maintain leverage ratios at consistent levels over time. There are points where leverage temporarily rises because of a significant acquisition where the associated EBITDA has not yet been realized in the Statement of Income. The target leverage range, based on senior debt to EBITDA normalized for the full year contribution of recent acquisitions, is between 1.5 and 2.5. The reduction in EBITDA in 2020 due to the impact of COVID-19 has resulted in the Corporation moving outside of this range, and this is expected to continue until the demand within the Aerospace & Aviation segment recovers to more normal levels. With the amendment executed on the Corporation's credit facility subsequent to June 30, 2020, the leverage covenant with its lenders allows for a senior leverage ratio maximum of 5.0, including an adjustment for subsidiaries acquired partway through a given year.

Overview of Capital Structure

The Corporation's capital structure is summarized below.

	June 30 2020	December 31 2019
Total senior debt outstanding (principal value)	**$ 804,759**	$ 723,049
Convertible debentures outstanding (par value)	**335,725**	335,725
Common shares	**715,620**	709,546
Total capital	**$ 1,856,104**	$ 1,768,320

Credit facility

The size of the Corporation's credit facility as at June 30, 2020, is approximately $1.3 billion, with $1.1 billion allocated to the Corporation's Canadian head office and US $150 million allocated to EIIF Management USA, Inc. The facility allows for borrowings to be denominated in either Canadian or US funds. As of June 30, 2020, the Corporation had drawn $190.0 million and US $451.1 million (December 31, 2019 - $211.9 million and US $393.6 million).

The Corporation's long-term debt balance was impacted most significantly during the period by two items. First, as discussed above, the Corporation made a draw on its facility as a precautionary measure due to the COVID-19 pandemic without an imminent use for the funds, and partially repaid these funds during the second quarter. The Corporation has $66.2 million in cash at June 30, 2020 as a result of the net impact of this draw and repayment, which is higher than normal for the Corporation. Second, the weakening of the Canadian dollar since December 31, 2019 increased the Canadian converted amount of its US dollar long-term debt outstanding. Other actions that impacted long-term debt during the period were draws on its credit facility to fund Growth Capital Expenditures associated with the Department of Fisheries and Oceans contract and an earn out payment to the vendors of Moncton Flight College.

During the period, the Corporation used derivatives through several cross-currency basis swaps ("swap") with a member of the Corporation's lending syndicate. The swap requires that funds are exchanged back in one month at the same term unless both parties agree to extend the swap for an additional month. By entering into the swap, the Corporation can take advantage of lower interest rates. The swap mitigates the risk of changes in the value of the US dollar borrowings as it will be exchanged for the same Canadian equivalent in one month. At June 30, 2020, US $258.5 million (December 31, 2019 – US $187.8 million) of the Corporation's US denominated borrowings are hedged with these swaps.

During the second quarter, the Corporation amended its interest rate swap with members of its lending syndicate. The amendment reduced the effective fixed interest rate under the swap and extended the maturity of the swap to May 15, 2024.

Convertible Debentures

The following summarizes the convertible debentures outstanding as at June 30, 2020, and changes in the amounts of convertible debentures outstanding during the six months ended June 30, 2020:

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

Par value	Balance, beginning of period	Issued	Converted	Redeemed / Matured	Balance, end of period
Unsecured Debentures - June 2016	$ 68,975	$ -	$ -	$ -	$ 68,975
Unsecured Debentures - December 2017	100,000	-	-	-	100,000
Unsecured Debentures - June 2018	80,500	-	-	-	80,500
Unsecured Debentures - March 2019	86,250	-	-	-	86,250
Total	$ 335,725	$ -	$ -	$ -	$ 335,725

Share Capital

The following summarizes the changes in the shares outstanding of the Corporation during the six months ended June 30, 2020:

	Date issued	Number of shares
Shares outstanding, beginning of period		34,703,237
Issued under dividend reinvestment plan (DRIP)	various	156,667
Issued under employee share purchase plan	various	42,608
Issued under deferred share plan	June 26, 2020	14,166
Shares outstanding, end of period		34,916,678

The Corporation issued 156,667 shares under its dividend reinvestment plan during the period and received $4.4 million for those shares in accordance with the dividend reinvestment plan.

The Corporation issued 42,608 shares under its Employee Share Purchase Plan during the period and received $1.3 million for those shares in accordance with the Employee Share Purchase Plan.

The weighted average shares outstanding during the three and six months ended June 30, 2020, increased by 8% and 10%, respectively, compared to the prior period. The increase is attributable to debentures that have converted into shares during the first half of 2019, shares issued for the Corporation's October 2019 common share offering, and shares issued in connection with the purchase of LV Control and AWI. The increase is partially offset by shares repurchased and cancelled under the Corporation's NCIB throughout 2019.

Normal Course Issuers Bid

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

During the six months ended June 30, 2020, the Corporation did not make any purchases under its NCIB and therefore still has the full 1,736,542 shares available for repurchase.

The Corporation sought renewal of the NCIB because it believes that, from time to time, the market price of its shares may not fully reflect the value of the shares. The Corporation believes that, in such circumstances, the purchase of shares represents an accretive use of capital. During the uncertain times created by the COVID-19 pandemic, the Corporation has chosen to conservatively manage its liquidity and not make purchases under the NCIB despite the volatility in the Corporation's common shares.

7. RELATED PARTY TRANSACTIONS

The nature of related party transactions that the Corporation entered during the six months ended June 30, 2020, are consistent with those described in the Corporation's MD&A for the year ended December 31, 2019, except as noted below.

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

8. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. There were no changes to the Corporation's critical accounting estimates and judgments from those described in the MD&A of the Corporation for the year ended December 31, 2019, other than as noted below.

Contingent Consideration

The Corporation's liabilities for contingent consideration associated with the earn out portion of its acquisitions are reassessed each period end after the related acquisition. The carrying value of the liability is based on an estimate of both the amount of the potential payment and probability that the earn out will be paid. During the period, the estimated liability for additional purchase consideration associated with Moncton Flight College was reduced to reflect expected earnings levels during the remaining earn out period. This resulted in a recovery of $0.2 million and is included within "Other" of the Statement of Income.

Impairment Considerations on Long-lived Assets

Goodwill

An assessment of goodwill was performed due to the outbreak of COVID-19 during the first quarter of 2020. The Corporation updated the forecasted future cash flows for its two operating segments based on available information to determine recoverable amounts and no impairment was recorded. During the second quarter, there were no triggering events requiring a subsequent reassessment of the recoverable amount of the Corporation's goodwill. The recoverable amount will continue to be monitored and reevaluated if a triggering event occurs.

Intangible Assets

In light of the COVID-19 pandemic and the current state of the oil and gas industry, management used a discounted cash flow model to assess the recoverability of the indefinite lived intangible assets at the Corporation's subsidiaries exposed to this sector. The unprecedented drop in oil prices exacerbated by a decrease in demand due to the COVID-19 pandemic has caused many companies to delay or cancel large capital projects. Therefore, the demand for products provided by the Corporation's Alberta Operations is expected to be depressed for an extended period of time. As a result of the assessment, the Corporation recorded a $6.1 million impairment charge against intangible assets during the first quarter of 2020. During the second quarter, there were no triggering events requiring a subsequent reassessment of the recoverable amount of the Corporation's intangible assets. The recoverable amount will continue to be monitored and reevaluated if a triggering event occurs.

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

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

9. ACCOUNTING POLICIES

The accounting policies of the Corporation used in the determination of the results for these interim condensed consolidated financial statements for the three and six months ended June 30, 2020, that are discussed and analyzed in this report are described in detail in Note 3 of the Corporation's 2019 annual consolidated financial statements and Note 3 of the Corporation's interim condensed consolidated financial statements for the six months ended June 30, 2020.

10. CONTROLS AND PROCEDURES

Internal Controls over Financial Reporting

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

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

Management has evaluated the design of the Corporation's internal controls over financial reporting as at June 30, 2020, and has concluded that the design of internal controls over financial reporting is effective.

LV Control was acquired on October 4, 2019, and AWI was acquired on October 17, 2019. In accordance with section 3.3(1)(b) of National Instrument 52-109, management has limited the scope of its design of internal controls over financial reporting to exclude the controls at LV Control and AWI. These entities had revenue of $50.0 million included in the consolidated results of the Corporation for the period ended June 30, 2020. As at June 30, 2020, these entities had current assets of $41.2 million, non-current assets of $76.0 million, current liabilities of $25.6 million, and non-current liabilities of $12.8 million.

There have been no material changes to the Corporation's internal controls during the 2020 period that would have materially affected or are likely to materially affect the internal controls over financial reporting.

On July 31, 2020, subsequent to the end of the second quarter, the Corporation acquired WIS. As of the date of this MD&A, management has not completed its review of internal controls over financial reporting for this newly acquired subsidiary nor determined its potential impact, if any, on the Corporation's internal controls over financial reporting. An assessment of its impact will be completed for year-end 2020.

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, 2020.

11. RISK FACTORS

The Corporation and its subsidiaries are subject to several business risks. These risks relate to the structure of the Corporation and the operations at the subsidiary entities. There were no changes to the Corporation's principal risks and uncertainties from those reported in the Corporation's MD&A for the year ended December 31, 2019, except as noted below.

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

19 team is to ensure that the best COVID-19 risk mitigation strategies, methods, procedures, and practices developed by the Corporation or any subsidiary are shared with all of the other subsidiaries as quickly and efficiently as possible.

Access to Capital & Availability of Future Financing

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

Pandemic and COVID-19

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

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

Operational Performance and Growth

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

Laws, Regulations, and Standards

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

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

Unpredictability and Volatility of Prices of Securities

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

Reliance on Key Personnel

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

Employees and Labour Relations

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

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

12. NON-IFRS FINANCIAL MEASURES AND GLOSSARY

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

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

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

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

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

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

Regional One's purchases of operating aircraft within its lease portfolio are capital expenditures and the process used to classify those expenditures as either growth or maintenance is based on the depreciation of that portfolio. Aircraft that are leased to third parties are being consumed over time, therefore reinvestment is necessary to maintain the ability to generate future cash flows at existing levels. This depletion of the remaining green time of these aircraft is represented by depreciation. For the first quarter of 2020, and in the comparative periods, an amount equal to Regional One's depreciation is included in the Corporation's consolidated Maintenance Capital Expenditures. Only net capital expenditures more than depreciation are classified as Growth Capital Expenditures. If there were no purchases of capital assets during the period by Regional One, Maintenance Capital Expenditures would still be equal to depreciation recorded on its leased assets and Growth Capital Expenditures would be negative, representing the depletion of potential future earnings and cash flows. The aggregate of Maintenance and Growth Capital Expenditures always equals the actual cash spent on capital assets during the period. This ensures that the payout ratio reflects the necessary replacement of Regional One's leased assets.

Historically, the Corporation has used depreciation as a proxy for Maintenance Capital Expenditures at Regional One because the assets are being depleted as they are being flown by lessees and therefore depreciation reflects the required ongoing investment to maintain Free Cash Flow at current levels. Starting in the second quarter of 2020, the actual expenditures on assets already owned will be used as the costs of maintaining the fleet until such time the impact of COVID-19 wanes and the fleet utilization again warrants the use of depreciation as a proxy for Maintenance Capital Expenditures. All purchases of new assets, net of disposals and transfers to inventory, will be reflected as Growth Capital Expenditures during this time.

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

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

13. QUARTERLY INFORMATION

The following summary reflects quarterly results of the Corporation:

	2020		2019 (1)				2018		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	$ 243,657	$ 306,976	$ 363,287	$ 355,164	$ 325,907	$ 297,016	$ 315,737	$ 308,179	$ 313,449
EBITDA	62,075	57,254	88,748	89,002	87,237	63,826	69,507	79,174	75,071
Net Earnings (Loss)	2,630	(5,298)	25,283	28,990	21,875	7,488	18,446	24,162	19,547
Basic	0.08	(0.15)	0.74	0.90	0.68	0.24	0.59	0.77	0.62
Diluted	0.07	(0.15)	0.71	0.83	0.65	0.23	0.57	0.72	0.60
Adjusted Net Earnings	5,645	2,058	29,757	33,073	26,573	12,724	24,670	29,550	25,208
Basic	0.16	0.06	0.88	1.03	0.83	0.41	0.79	0.94	0.80
Diluted	0.16	0.06	0.81	0.93	0.78	0.40	0.75	0.86	0.76
Free Cash Flow ("FCF")	42,268	38,749	68,631	67,166	65,729	44,246	59,763	64,219	58,785
Basic	1.21	1.12	2.02	2.08	2.05	1.41	1.91	2.04	1.86
Diluted	1.09	1.01	1.75	1.78	1.75	1.25	1.66	1.76	1.66
FCF less Maintenance Capital Expenditures	25,412	2,299	36,935	36,885	34,533	17,722	33,743	41,103	29,679
Basic	0.73	0.07	1.09	1.14	1.08	0.57	1.08	1.31	0.94
Diluted	0.71	0.06	0.99	1.03	0.97	0.55	0.98	1.16	0.90
Maintenance Capital Expenditures	16,856	36,450	31,696	30,281	31,196	26,524	26,020	23,116	29,106
Growth Capital Expenditures	12,301	14,381	29,790	32,060	16,392	41,082	31,578	15,086	301

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 2020	December 31 2019
ASSETS		
CURRENT		
Cash and cash equivalents	$ **66,181**	$ 22,055
Accounts receivable	**240,229**	281,856
Amounts due from customers on construction contracts	**28,478**	26,698
Inventory	**238,519**	224,876
Prepaid expenses and deposits	**30,674**	31,185
Income taxes receivable	**-**	1,569
	604,081	588,239
OTHER ASSETS (Note 6)	**85,650**	80,201
CAPITAL ASSETS	**993,252**	965,018
RIGHT OF USE ASSETS	**100,017**	108,677
INTANGIBLE ASSETS	**154,443**	164,658
GOODWILL	**363,413**	359,764
	$ **2,300,856**	$ 2,266,557
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ **195,855**	$ 210,496
Income taxes payable	**967**	-
Deferred revenue	**29,191**	31,704
Amounts due to customers on construction contracts	**15,331**	14,847
Current portion of right of use lease liability	**23,930**	23,280
	265,274	280,327
LONG-TERM DEBT (Note 7)	**802,001**	719,559
OTHER LONG-TERM LIABILITIES	**31,356**	33,173
LONG-TERM RIGHT OF USE LEASE LIABILITY	**82,920**	90,575
CONVERTIBLE DEBENTURES (Note 8)	**313,170**	310,598
DEFERRED INCOME TAX LIABILITY	**97,097**	102,482
	1,591,818	1,536,714
EQUITY		
SHARE CAPITAL (Note 9)	**715,620**	709,546
CONVERTIBLE DEBENTURES - Equity Component (Note 8)	**13,214**	13,214
CONTRIBUTED SURPLUS	**9,837**	9,837
DEFERRED SHARE PLAN	**16,412**	15,854
RETAINED EARNINGS		
Cumulative Earnings	**468,901**	471,569
Cumulative Dividends	**(536,588)**	(496,920)
Cumulative impact of share cancellation under the NCIB	**(26,122)**	(26,122)
	(93,809)	(51,473)
ACCUMULATED OTHER COMPREHENSIVE INCOME	**47,764**	32,865
	709,038	729,843
	$ **2,300,856**	$ 2,266,557

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

Approved on behalf of the directors by:

Duncan Jessiman, Director
Signed

Donald Streuber, Director
Signed

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended		Six Months Ended	
For the periods ended June 30	**2020**	2019	**2020**	2019
REVENUE				
Aerospace & Aviation	$ **139,892**	$ 238,884	$ **340,585**	$ 455,628
Manufacturing	**103,765**	87,023	**210,048**	167,295
	243,657	325,907	**550,633**	622,923
EXPENSES				
Aerospace & Aviation expenses - excluding depreciation and amortization	**72,010**	128,339	**190,321**	257,631
Manufacturing expenses - excluding depreciation and amortization	**70,022**	60,221	**148,243**	117,215
General and administrative	**39,550**	50,110	**92,740**	97,014
	181,582	238,670	**431,304**	471,860
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER (Note 4)	**62,075**	87,237	**119,329**	151,063
Depreciation of capital assets	**33,866**	32,256	**68,894**	62,947
Amortization of intangible assets	**3,947**	4,425	**7,783**	8,905
Finance costs - interest	**11,993**	13,852	**25,086**	27,211
Depreciation of right of use assets	**6,323**	5,501	**12,664**	10,899
Interest expense on right of use lease liabilities	**1,015**	1,118	**2,047**	2,279
Acquisition costs	**65**	1,489	**80**	3,689
Impairment loss (Note 5)	**-**	-	**6,117**	-
Other (Note 5)	**-**	-	**(177)**	(2,182)
EARNINGS (LOSS) BEFORE INCOME TAXES	**4,866**	28,596	**(3,165)**	37,315
INCOME TAX EXPENSE (RECOVERY)				
Current	**3,850**	2,798	**3,632**	5,825
Deferred	**(1,614)**	3,923	**(4,129)**	2,127
	2,236	6,721	**(497)**	7,952
NET EARNINGS (LOSS)	$ **2,630**	$ 21,875	$ **(2,668)**	$ 29,363
EARNINGS (LOSS) PER SHARE (Note 12)				
Basic	$ **0.08**	$ 0.68	$ **(0.08)**	$ 0.93
Diluted	$ **0.07**	$ 0.65	$ **(0.08)**	$ 0.90

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		**2020**		2019		**2020**		2019
NET EARNINGS (LOSS)	$	**2,630**	$	21,875	$	**(2,668)**	$	29,363
OTHER COMPREHENSIVE INCOME (LOSS),								
Items that are or may be reclassified to the Statement of Income								
Cumulative translation adjustment, net of tax recovery for the three months ended June 30 of $16 and $8, respectively and net of tax expense (recovery) for the six months ended June 30 of $18 and $(16), respectively		**(26,307)**		(13,079)		**30,495**		(25,311)
Net loss on interest rate swap, net of tax recovery for the three months ended June 30 of $278 and $469, respectively and net of tax recovery for the six months ended June 30 of $(1,627) and $(469), respectively		**(752)**		(1,269)		**(4,398)**		(1,269)
Gain (loss) on hedge of net investment in foreign operations, for the three and six months ended June 30		**8,194**		4,708		**(9,383)**		8,902
Net gain (loss) on hedge of restricted share plan, net of tax expense for the three months ended June 30 of $456 and $128, respectively and net of tax expense (recovery) for the six months ended June 30 of $(671) and $125, respectively		**1,232**		352		**(1,815)**		339
		(17,633)		(9,288)		**14,899**		(17,339)
COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	$	**(15,003)**	$	12,587	$	**12,231**	$	12,024

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited, in thousands of Canadian dollars)

	Share Capital	Convertible Debentures - Equity Component	Contributed Surplus - Matured Debentures	Deferred Share Plan	Retained Earnings: Cumulative Earnings	Retained Earnings: Cumulative Dividends	Retained Earnings: Cumulative impact of share repurchases under NCIB	Accumulated Other Comprehensive Income (Loss)	**Total**
Balance, January 1, 2019	$ 588,498	$ 11,954	$ 9,693	$ 13,525	$ 387,933	$ (424,178)	$ (25,053)	$ 52,119	**$ 614,491**
Convertible debentures									
Converted into shares	25,087	(1,093)	-	-	-	-	-	-	**23,994**
Issued	-	2,497	-	-	-	-	-	-	**2,497**
Matured/Redeemed	-	(144)	144	-	-	-	-	-	**-**
Shares issued under dividend reinvestment plan	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	477	-	-	(477)	-	-	-	-	**-**
Shares issued under ESPP	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**
Balance, January 1, 2020	$ 709,546	$ 13,214	$ 9,837	$ 15,854	$ 471,569	$ (496,920)	$ (26,122)	$ 32,865	**$ 729,843**
Shares issued under dividend reinvestment plan (Note 9)	4,445	-	-	-	-	-	-	-	**4,445**
Deferred share plan vesting (Note 13)	-	-	-	839	-	-	-	-	**839**
Deferred share plan issuance (Note 9)	281	-	-	(281)	-	-	-	-	**-**
Shares issued under ESPP (Note 9)	1,348	-	-	-	-	-	-	-	**1,348**
Comprehensive income	-	-	-	-	(2,668)	-	-	14,899	**12,231**
Dividends declared (Note 10)	-	-	-	-	-	(39,668)	-	-	**(39,668)**
Balance, June 30, 2020	**$ 715,620**	**$ 13,214**	**$ 9,837**	**$ 16,412**	**$ 468,901**	**$ (536,588)**	**$ (26,122)**	**$ 47,764**	**$ 709,038**

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of Canadian dollars)

For the periods ended June 30	Three Months Ended **2020**	Three Months Ended 2019	Six Months Ended **2020**	Six Months Ended 2019
OPERATING ACTIVITIES				
Net Earnings (Loss) for the period	$ **2,630**	$ 21,875	$ **(2,668)**	$ 29,363
Items not affecting cash:				
Depreciation of capital assets	**33,866**	32,256	**68,894**	62,947
Amortization of intangible assets	**3,947**	4,425	**7,783**	8,905
Depreciation of right of use assets	**6,323**	5,501	**12,664**	10,899
Accretion of interest	**1,803**	1,853	**3,314**	3,545
Long-term debt discount (paid) accretion	**236**	(67)	**146**	196
Gain on sale of disposal of capital assets	**(129)**	(925)	**(759)**	(1,040)
Deferred income tax	**(1,614)**	3,923	**(4,129)**	2,127
Deferred share program share-based vesting	**398**	775	**839**	1,738
Impairment loss (Note 5)	**-**	-	**6,117**	-
Other	**-**	-	**(177)**	(2,182)
	47,460	69,616	**92,024**	116,498
Changes in non-cash current and long-term operating working capital items (Note 16)	**21,870**	(28,479)	**23,045**	(40,623)
	69,330	41,137	**115,069**	75,875
FINANCING ACTIVITIES				
Proceeds from long-term debt & finance leases, net of issuance costs (Note 7)	**-**	49,905	**128,168**	93,251
Repayment of long-term debt & finance leases (Note 7)	**(62,131)**	-	**(63,681)**	(74,100)
Principal payments on right of use lease liabilities	**(5,257)**	(4,983)	**(11,087)**	(9,263)
Proceeds from issuance of debentures, net of issuance costs	**-**	-	**-**	82,091
Redemption of convertible debentures	**-**	(3,130)	**-**	(3,130)
Issuance of shares, net of issuance costs	**3,256**	2,234	**5,793**	4,476
Cash dividends (Note 10)	**(19,867)**	(17,646)	**(39,668)**	(34,833)
	(83,999)	26,380	**19,525**	58,492
INVESTING ACTIVITIES				
Purchase of capital assets	**(28,249)**	(48,880)	**(80,165)**	(122,471)
Proceeds from disposal of capital assets	**310**	2,165	**2,593**	8,749
Purchase of intangible assets	**(1,218)**	(873)	**(2,416)**	(1,472)
Payment of contingent acquisition consideration and working capital settlements	**(1,518)**	(15,000)	**(7,255)**	(15,000)
Investment in other assets	**(3,216)**	(10,377)	**(5,836)**	(11,243)
	(33,891)	(72,965)	**(93,079)**	(141,437)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(48,560)**	(5,448)	**41,515**	(7,070)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**118,220**	39,803	**22,055**	42,970
EFFECTS OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	**(3,479)**	(1,101)	**2,611**	(2,646)
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ **66,181**	$ 33,254	$ **66,181**	$ 33,254
Supplementary cash flow information				
Interest paid	$ **13,281**	$ 8,330	$ **21,461**	$ 16,051
Income taxes paid (recovered)	$ **(4,629)**	$ 4,046	$ **692**	$ 8,169

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

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

1. ORGANIZATION

Exchange Income Corporation ("EIC" or the "Corporation") is a diversified, acquisition-oriented corporation focused on opportunities in aerospace, aviation, and manufacturing sectors. The business plan of the Corporation is to invest in profitable, well-established companies with strong cash flows operating in niche markets. The Corporation is incorporated in Canada and the address of the registered office is 101 – 990 Lorimer Boulevard, Winnipeg, Manitoba, Canada R3P 0Z9.

As at June 30, 2020, the principal operating subsidiaries of the Corporation are Calm Air International LP, Perimeter Aviation LP (including its operating division, Bearskin Airlines), Keewatin Air LP, Custom Helicopters Ltd., Regional One Inc., EIC Aircraft Leasing Limited, Provincial Aerospace Ltd., CANLink Aviation Inc. ("Moncton Flight College"), Quest Window Systems Inc., Quest USA Inc., WesTower Communications Ltd., Ben Machine Products Company Incorporated, Stainless Fabrication, Inc., LV Control Mfg. Ltd., Water Blast Manufacturing LP, and Overlanders Manufacturing LP. Regional One Inc., Quest USA Inc., and Stainless Fabrication, Inc. are wholly owned subsidiaries of EIIF Management USA Inc. Through the Corporation's subsidiaries, products and services are provided in two business segments: Aerospace & Aviation and Manufacturing.

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

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

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

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

In the Aerospace & Aviation segment, travel restrictions have had a material impact on passenger traffic and demand for the Corporation's aircraft and aftermarket parts at Regional One, Inc. and EIC Aircraft Leasing Limited has lessened as the pandemic has spread throughout the world. Moncton Flight College was forced to shut down on March 17, 2020, when the government in New Brunswick ordered non-essential businesses to close their facilities, including educational facilities, and reopened on April 25, 2020. In the Manufacturing segment, social distancing and additional actions to keep our employees safe have reduced manufacturing efficiency and reduced throughput in the production facilities. These impacts, among others as a result of COVID-19, reduced Revenue, Cash Flows from Operations, and Net Earnings during the first six months of 2020, which is expected to continue compared to the prior period as the impact of the pandemic continues to be felt by the Corporation's subsidiaries.

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

2. BASIS OF PREPARATION

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

In accordance with IFRS, these financial statements do not include all the financial statement disclosures required for annual financial statements and should be read in conjunction with the Corporation's annual consolidated financial statements for the year ended December 31, 2019. In management's opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim period presented.

These interim condensed consolidated financial statements were approved by the Board of Directors of the Corporation for issue on August 12, 2020.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Government Grants

The Corporation recognizes government grants when there is reasonable assurance that the grant will be received and that the conditions of the grant will be met. Government grants are recorded within accounts receivable when the grant becomes receivable. The Corporation recognizes government grants in the consolidated Statement of Income in the same period as the expenses for which the grant is intended to compensate. The corporation has elected to record the grants, where appropriate, as a reduction of the expenses for which those grants are intended to cover. Grants that are intended as a revenue guarantee are recorded within revenue in the period in which they are earned. Any grants that become receivable in a period that succeeds when the expenses are incurred are accrued in the period in which they become receivable.

During the six months ended June 30, 2020, the Corporation was eligible for the Canada Emergency Wage Subsidy ("CEWS"). During this period, the Corporation recorded $28.8 million related to the CEWS as a reduction to the expenses for which the grant is intended to cover. At June 30, 2020, the Corporation has $9.3 million accrued for amounts to be received under the CEWS program in Accounts Receivable.

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

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Contingent Consideration

The Corporation's liabilities for contingent consideration associated with the earn out portion of its acquisitions are reassessed each period end after the related acquisition. The carrying value of the liability is based on an estimate of both the amount of the potential payment and probability that the earn out will be paid. During the period, the estimated liability for additional purchase consideration associated with Moncton Flight College was reduced to reflect expected earnings levels during the remaining earn out period. This resulted in a recovery of $177 and is included within "Other" of the Statement of Income.

Impairment Considerations on Long-lived Assets

Goodwill

An assessment of goodwill was performed due to the outbreak of COVID-19 during the first quarter of 2020. The Corporation updated the forecasted future cash flows for its two operating segments based on available information to determine recoverable amounts and no impairment was recorded. During the second quarter, there were no triggering events requiring a subsequent reassessment of the recoverable amount of the Corporation's goodwill. The recoverable amount will continue to be monitored and reevaluated if a triggering event occurs.

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

Intangible Assets

In light of the COVID-19 pandemic and the current state of the oil and gas industry, management used a discounted cash flow model to assess the recoverability of the indefinite lived intangible assets at the Corporation's subsidiaries exposed to this sector. The unprecedented drop in oil prices exacerbated by a decrease in demand due to the COVID-19 pandemic has caused many companies to delay or cancel large capital projects. Therefore, the demand for products provided by the Corporation's operations in Alberta is expected to be depressed for an extended period of time. As a result of the assessment, the Corporation recorded a $6,117 impairment charge against intangible assets during the first quarter of 2020. During the second quarter, there were no triggering events requiring a subsequent reassessment of the recoverable amount of the Corporation's intangible assets. The recoverable amount will continue to be monitored and reevaluated if a triggering event occurs.

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

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

6. OTHER ASSETS

The other assets of the Corporation consist of the following:

	June 30 2020	December 31 2019
Long-term prepaid expenses and security deposits	$ **2,008**	$ 1,700
Long-term receivables	**13,394**	13,653
Long-term holdback receivables	**4,699**	5,687
Equity method investments	**42,822**	36,483
Other investments - Fair value through OCI (Note 15)	**7,159**	5,889
Derivative financial instruments - Fair value through profit and loss (Note 15)	**-**	1,221
Loan to Wasaya	**13,000**	13,000
Loan to Nunatsiavut Group of Companies	**2,568**	2,568
Total other assets	$ **85,650**	$ 80,201

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

7. LONG-TERM DEBT

The following summarizes the Corporation's long-term debt as at June 30, 2020, and December 31, 2019:

	June 30 2020	December 31 2019
Revolving term facility:		
Canadian dollar amounts drawn	**$ 190,000**	$ 211,900
United States dollar amounts drawn (US$451,100 and US$393,555, respectively)	**614,759**	511,149
Total credit facility debt outstanding, principal value	**804,759**	723,049
less: unamortized transaction costs	**(2,604)**	(3,190)
less: unamortized discount on outstanding Banker's Acceptances	**(154)**	(300)
Long-term debt	**$ 802,001**	$ 719,559

The Corporation's credit facility is secured by a general security agreement over the assets of the Corporation, subject to customary terms, conditions, covenants and other provisions, and includes both financial and negative covenants. The Corporation is in compliance with all financial and negative covenants as at June 30, 2020.

Interest expense recorded by the Corporation during the three and six months ended June 30, 2020, for long-term debt was $5,817 and $13,033, respectively (2019 – $7,617 and $15,837, respectively).

Credit Facility

The following is the continuity of long-term debt for the six months ended June 30, 2020:

	Six Months Ended June 30, 2020				
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar amounts	$ 211,900	$ 86,900	$ (108,800)	$ -	$ 190,000
United States dollar amounts	511,149	150,068	(63,681)	17,223	614,759
	$ 723,049				$ 804,759

In the table above, withdrawals and repayments include the impact of entering into cross currency swaps with members of the Corporation's lending syndicate whereby an exchange of Canadian and US denominated debt occurs. There is no impact on cash flow and therefore the impact has been netted on the Statement of Cash Flow. More information on the cross currency swaps can be found in Note 15 – Financial Instruments and Risk Management.

Subsequent to June 30, 2020, the Corporation amended its credit facility. Details of the amendment can be found in Note 17 – Subsequent Events.

8. CONVERTIBLE DEBENTURES

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

(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:

	2020 Balance, Beginning of Period	Debentures Issued	Accretion Charges	Debentures Converted	Redeemed / Matured	2020 Balance, End of Period
Unsecured - 2016	$ 66,314	$ -	$ 344	$ -	$ -	$ 66,658
Unsecured - 2017	96,643	-	516	-	-	97,159
Unsecured - 2018	75,922	-	352	-	-	76,274
Unsecured - 2019	82,972	-	216	-	-	83,188
						323,279
less: unamortized transaction costs						(10,109)
Convertible Debentures - Debt Component, end of period						$ 313,170

Interest expense recorded during the three and six months ended June 30, 2020, for the convertible debentures was $5,817 and $11,626, respectively (2019 – $5,955 and $10,772, respectively).

Convertible Debentures Equity Component

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

Summary of the equity component of the convertible debentures:

	June 30 2020	December 31 2019
Unsecured Debentures - 2016	$ 3,261	$ 3,261
Unsecured Debentures - 2017	3,590	3,590
Unsecured Debentures - 2018	3,866	3,866
Unsecured Debentures - 2019	2,497	2,497
Convertible Debentures - Equity Component, end of period	$ 13,214	$ 13,214

All convertible debentures outstanding at June 30, 2020, 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, 2020, are as follows:

	Number of Shares	2020 Amount
Share capital, beginning of period	34,703,237	$ 709,546
Issued under dividend reinvestment plan	156,667	4,445
Issued under employee share purchase plan	42,608	1,348
Issued under deferred share plan	14,166	281
Share capital, end of period	34,916,678	$ 715,620

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

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

During the six months ended June 30, 2020, the Corporation did not make any purchases under its NCIB and therefore still has the full 1,736,542 shares available for repurchase.

10. DIVIDENDS DECLARED

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

The amounts and record dates of the dividends during the six months ended June 30, 2020, and the comparative 2019 period are as follows:

Month	Record date	Per Share	2020 Dividends Amount	Record date	Per Share	2019 Dividends Amount
January	January 31, 2020	$ 0.19	$ 6,596	January 31, 2019	$ 0.1825	$ 5,719
February	February 28, 2020	0.19	6,599	February 28, 2019	0.1825	5,724
March	March 31, 2020	0.19	6,606	March 29, 2019	0.1825	5,744
April	April 30, 2020	0.19	6,612	April 30, 2019	0.1825	5,877
May	May 29, 2020	0.19	6,621	May 31, 2019	0.1825	5,882
June	June 30, 2020	0.19	6,634	June 28, 2019	0.1825	5,887
Total		**$ 1.14**	**$ 39,668**		$ 1.095	$ 34,833

After June 30, 2020, and before these interim condensed consolidated financial statements were authorized, the Corporation declared a monthly dividend of $0.19 per share for July 2020.

11. SEGMENTED AND SUPPLEMENTAL INFORMATION

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

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

The Corporation evaluates each segment's performance based on Earnings before Interest, Taxes, Depreciation, and Amortization ("EBITDA"). The Corporation's method of calculating EBITDA may differ from that of other corporations and therefore may not be comparable to measures utilized by them. The Corporation's method of calculating EBITDA is consistent with the Corporation's Operating Profit before Depreciation, Amortization, Finance Costs, and Other presented in the interim condensed consolidated Statement of Income. All 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 the head office of the Corporation.

Notes to the Interim Condensed Consolidated Financial Statements

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

	Three Months Ended June 30, 2020			
	Aerospace & Aviation	**Manufacturing**	**Head Office**	**Consolidated**
Revenue	**$ 139,892**	**$ 103,765**	**$ -**	**$ 243,657**
Expenses	**93,104**	**82,020**	**6,458**	**181,582**
EBITDA	**46,788**	**21,745**	**(6,458)**	**62,075**
Depreciation of capital assets				**33,866**
Amortization of intangible assets				**3,947**
Finance costs - interest				**11,993**
Depreciation of right of use assets				**6,323**
Interest expense on right of use lease liabilities				**1,015**
Acquisition costs				**65**
Earnings before income taxes				**4,866**
Current income tax expense				**3,850**
Deferred income tax recovery				**(1,614)**
Net Earnings				**$ 2,630**

	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)

	Six Months Ended June 30, 2020			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 340,585	$ 210,048	$ -	$ 550,633
Expenses	245,159	174,178	11,967	431,304
EBITDA	95,426	35,870	(11,967)	119,329
Depreciation of capital assets				68,894
Amortization of intangible assets				7,783
Finance costs - interest				25,086
Depreciation of right of use assets				12,664
Interest expense on right of use lease liabilities				2,047
Acquisition costs				80
Impairment loss				6,117
Other				(177)
Loss before income taxes				(3,165)
Current income tax expense				3,632
Deferred income tax recovery				(4,129)
Net Loss				$ (2,668)

	Six Months Ended June 30, 2019			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
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				(2,182)
Earnings before income taxes				37,315
Current income tax expense				5,825
Deferred income tax expense				2,127
Net Earnings				$ 29,363

	For the period ended June 30, 2020			
	Aerospace & Aviation	Manufacturing	Head Office[(1)]	Consolidated
Total assets	$ 1,655,905	$ 475,784	$ 169,167	$ 2,300,856
Net capital asset additions	73,660	3,058	854	77,572

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

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

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

Revenues

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

		Three Months Ended		Six Months Ended	
Revenue Streams	Periods Ended June 30	**2020**	2019	**2020**	2019
Aerospace & Aviation Segment					
Sale of goods - point in time		**$ 29,203**	$ 47,420	**$ 67,584**	$ 105,272
Sales of services - point in time		**110,347**	189,230	**271,932**	346,806
Sale of services - over time		**342**	2,234	**1,069**	3,550
Manufacturing Segment					
Sale of goods - point in time		**21,934**	21,211	**44,255**	40,816
Sale of services - over time		**81,831**	65,812	**165,793**	126,479
Total revenue		**$ 243,657**	$ 325,907	**$ 550,633**	$ 622,923

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

	Three Months Ended		Six Months Ended	
Periods Ended June 30	**2020**	2019	**2020**	2019
Net Earnings (Loss)	**$ 2,630**	$ 21,875	**$ (2,668)**	$ 29,363
Effect of dilutive securities				
Convertible debentures	**-**	2,900	**-**	-
Diluted Net Earnings (Loss)	**$ 2,630**	$ 24,775	**$ (2,668)**	$ 29,363
Basic weighted average number of Shares	**34,829,660**	32,109,744	**34,779,510**	31,738,734
Effect of dilutive securities				
Deferred shares	**912,868**	846,991	**-**	846,991
Convertible debentures	**-**	4,944,402	**-**	-
Diluted basis weighted average number of Shares	**35,742,528**	37,901,137	**34,779,510**	32,585,725
Net Earnings (Loss) per share:				
Basic	**$ 0.08**	$ 0.68	**$ (0.08)**	$ 0.93
Diluted	**$ 0.07**	$ 0.65	**$ (0.08)**	$ 0.90

13. EMPLOYEE BENEFITS

Deferred Share Plan

During the six months ended June 30, 2020, the Corporation granted 18,749 (2019 – 20,532) deferred shares to certain personnel. The fair value of the deferred shares granted was $811 (2019 - $669) 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, 2020, the Corporation recorded a compensation expense of $398 and $839, respectively for the Corporation's Deferred Share Plan within the general and administrative expenses of head office (2019 - $775 and $1,738, respectively).

Restricted Share Plan

During the six months ended June 30, 2020, the Corporation granted 104,543 (2019 – 105,588) restricted shares to certain personnel. The fair value of the restricted share units granted was $4,236 (2019 - $3,506) at the time of the grant and was based on the market price of the Corporation's shares at that time. During the three and six months ended June 30, 2020, the Corporation recorded compensation expense of $540 and $796, respectively for the Corporation's Restricted Share Plan within the general and administrative expenses of head office (2019 - $223 and $318, respectively), with a corresponding liability recorded in Accounts Payable and Accrued Expenses.

Employee Share Purchase Plan

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

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

During the six months ended June 30, 2020, employees acquired 42,608 shares from Treasury at a weighted average price of $31.64 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 $489 based on the share price and monthly dividend rate as at that time.

14. RELATED PARTY TRANSACTIONS

The nature of related party transactions that the Corporation entered during the six months ended June 30, 2020, are consistent with those described in the Corporation's most recent annual financial statements for the year ended December 31, 2019, except as noted below.

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

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation's activities expose it to a variety of financial risks: market risk (primarily currency, interest rate risk, and other price risk), credit risk, and liquidity risk. Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary. The following describes the risk management areas that have significantly changed from those described in the audited December 31, 2019, consolidated financial statements.

The Corporation strengthened its access to capital and balance sheet through several transactions in 2019 and the Corporation has no long-term debt coming due until December 2022. In 2019, the Corporation's equity offering, its new credit facility, and its March 2019 convertible debenture offering all provided the Corporation with the access to capital required during the uncertain times caused by the COVID-19 pandemic. The Corporation drew on its credit facility in March 2020 to ensure access to capital should it be required. During the second quarter, the Corporation made several repayments on its credit facility, which reduced the cash balance in the second quarter of 2020.

Market Risk

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

Currency Risk

The Corporation has US $451,100 or $614,759 (December 31, 2019 - US $393,555 or $511,149) outstanding on its credit facility. The outstanding funds in US dollar result in currency risk that the future cash flows will fluctuate with the changes in market currency rates. The exposure for the US dollar portion of its credit facility outstanding is offset by the cash generated through the operations of its US based subsidiaries. Of the total US dollar credit facility drawn, US $46,000 (December 31, 2019 - US $59,155) is drawn by EIIF Management USA, Inc., an entity that uses US dollars as its functional currency. Therefore, the currency risk on this balance is recognized in other comprehensive income.

The Corporation's investment in those subsidiaries with US dollar functional currencies are hedged partially by US $146,600 (December 31, 2019 - US $146,600) of credit facility draws, which mitigates the foreign currency translation risk arising from the subsidiary`s net assets. The loan is designated as a net investment hedge and no ineffectiveness was recognized from the net investment hedge.

During the quarter, the Corporation continued the use of derivatives through several cross-currency basis swaps ("swap") with a member of the Corporation's lending syndicate. The swap requires that funds are exchanged back in one month at the same terms unless both parties agree to extend the swap for an additional month. By borrowing in US dollars, the Corporation is able to take advantage of lower interest rates. The swap mitigates the risk of changes in the value of the Corporation's US dollar LIBOR borrowings as they will be exchanged for the same Canadian equivalent in one month. The swap is designated as a hedge of the underlying debt instrument and no ineffectiveness was recognized. The fair value of the swaps at June 30, 2020, was a financial liability of $1,516 (2019 - financial liability of $6,085). At June 30, 2020, the notional value of the swaps outstanding is US $258,500 (2019 - US $187,800). Hedging gains and losses are reclassified from other comprehensive income to the interim condensed consolidated statement of income to the extent effective. Accordingly, $1,516 was reclassified from other comprehensive income (2019 - $6,085). No hedge ineffectiveness was recorded during the period.

Interest Rates

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

The terms of the credit facility allow for the Corporation to choose the base interest rate between Prime, Bankers Acceptances, or the London Inter-Bank Offer Rate ("LIBOR"). At June 30, 2020:

- US $451,100 (December 31, 2019 – US $393,100) was outstanding under US LIBOR,
- nil (December 31, 2019 – $455) was outstanding under US Prime, and
- $190,000 (December 31, 2019 – $211,900) was outstanding under Banker's Acceptances.

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

The Corporation continued the use of its interest rate swap with certain members of its lending syndicate whereby the Corporation has fixed interest rates on $190,000 of its Canadian credit facility debt for a period of four years. The derivative financial instrument hedges the exposure to variability in cash flow associated with the future payment of interest on Bankers' Acceptance debt that would impact profit or loss and therefore qualifies as a cash flow hedge. The interest rate swap is classified as a long-term financial liability of $6,018 (2019 - other long-term financial assets of $8) is recorded as a separate line within other comprehensive income.

During the period ended June 30, 2020, the Corporation amended its interest rate swap with members of its lending syndicate. The amendment reduced the effective fixed interest rate under the swap and extended the maturity of the swap to May 15, 2024.

Other Price Risk

The Corporation's Restricted Share Plan is a cash settled plan. Participants are awarded restricted shares and the payment to the participants at the end of the vesting period fluctuates based on the change in the Corporation's share price from the grant date to the vesting date.

To mitigate the income statement impact of a change in the Corporation's share price, the Corporation entered into a derivative instrument for each of the 2019 and 2020 Restricted Share Plan grants, which fixes the cost of the plan for the Corporation. Any changes in fair value will either be paid to the counterparty or be paid to the Corporation by the counterparty at the vesting date. These derivative instruments fix the cost to the Corporation and do not impact the variability of the award received by the participant. The derivative financial instruments hedge the exposure to variability in cash flow associated with the future settlement of restricted shares issued under the Restricted Share Plan that would impact profit or loss and therefore qualifies as a cash flow hedge. On a combined basis, the initial grant date fair value for the 2019 and 2020 programs was $7,742. The instruments are classified as a long-term financial liability of $2,121 (2019 - other long-term financial assets of $1,213) and are 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:

		Fair Value		
Recurring fair value measurements	**Carrying Value June 30, 2020**	**Quoted prices in an active market Level 1**	**Significant other observable inputs Level 2**	**Significant unobservable inputs Level 3**
Financial Assets				
Other assets - Fair value through OCI (Note 6)	**$ 7,159**	**$ -**	**$ -**	**$ 7,159**
Financial Liabilities				
Consideration liabilities - Financial liability at fair value through profit and loss	**(5,578)**	**-**	**-**	**(5,578)**
Other long-term liabilities - Cross-currency basis swap - Financial liability at fair value through profit and loss	**(1,516)**	**-**	**(1,516)**	**-**
Other long term liabilities - Restricted Share hedge - Financial liability at fair value through profit and loss	**(2,121)**	**-**	**(2,121)**	**-**
Other long-term liabilities - Interest Rate Swap - Financial liability at fair value through OCI	**(6,018)**	**-**	**(6,018)**	**-**
Fair Value Disclosures				
Other assets - Amortized cost	**35,669**	**-**	**35,669**	**-**
Long-term debt - Amortized cost	**(802,001)**	**-**	**-**	**(804,759)**
Convertible debt - Amortized cost	**(313,170)**	**(303,695)**	**-**	**-**

		Fair Value		
Recurring fair value measurements	Carrying Value December 31, 2019	Quoted prices in an active market Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Financial Assets				
Other long-term assets - Restricted Share hedge - Financial asset at fair value through profit and loss	$ 1,213	$ -	$ 1,213	$ -
Other long-term assets - Interest Rate Swap - Financial asset at fair value through OCI	8	-	8	-
Other assets - Fair value through OCI	5,889	-	-	5,889
Financial Liabilities				
Consideration liabilities - Financial liability at fair value through profit and loss	(12,411)	-	-	(12,411)
Other long-term liabilities - Cross currency basis swap - Financial liability at fair value through profit and loss	(6,085)	-	(6,085)	-
Fair Value Disclosures				
Other assets - Amortized cost	36,608	-	36,608	-
Long-term debt - Amortized cost	(719,559)	-	-	(723,049)
Convertible debt - Amortized cost	(310,598)	(350,918)	-	-

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

Consideration Liability Summary For the periods ended		**June 30** **2020**		December 31 2019
Opening	$	**12,411**	$	31,173
Accretion		**136**		1,068
Settled during the period		**(7,255)**		(15,000)
Change in estimate (Note 5)		**(177)**		(10,624)
Acquisition of LV Control		**-**		5,523
Acquisition of Advanced Window, including change in estimate		**422**		271
Translation loss		**41**		-
Ending	$	**5,578**	$	12,411

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

Included in the $5,578 above is the earn out liability for LV Control. During the six months ended June 30, 2020, the Corporation settled the $6,437 earn out liability associated with Moncton Flight College. The Corporation also settled $16, US $525, and $81 for working capital amounts associated with Wings Over Kississing, AWI, and LV Control, respectively.

Financial Instrument Fair Value Disclosures

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

As at June 30, 2020, management had determined that the fair value of its long-term debt approximates its carrying value. The fair value of long-term debt has been calculated by discounting the expected future cash flows using a discount rate of 1.95%. The discount rate is determined by using a risk-free benchmark bond yield for instruments of similar maturity adjusted for the Corporation's specific credit risk. In determining the adjustment for credit risk, the Corporation considers market conditions, the underlying value of assets secured by the associated instrument, and other indicators of the Corporation's credit-worthiness.

As at June 30, 2020, management estimated the fair value of the convertible debentures based on trading values. The estimated fair value of its convertible debentures is $303,695 (December 31, 2019 - $350,918) with a carrying value of $313,170 (December 31, 2019 - $310,598).

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

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

16. CHANGES IN WORKING CAPITAL ITEMS

The changes in non-cash operating working capital items during the three and six months ended June 30, 2020, and the comparative period in 2019 are as follows:

	Three Months Ended		Six Months Ended	
Periods Ended June 30	**2020**	2019	**2020**	2019
Accounts receivable, including long-term portion	**$ 26,249**	$ (12,664)	**$ 50,436**	$ (12,523)
Amounts due from customers on construction contracts	**2,519**	(1,937)	**(1,666)**	(8,830)
Inventory	**4,550**	(17,106)	**(6,757)**	(30,167)
Prepaid expenses and deposits, including long-term portion	**56**	1,177	**599**	(398)
Accounts payable and accrued expenses, including long-term portion	**(24,125)**	4,472	**(19,843)**	13,388
Income taxes receivable/payable	**8,459**	(1,087)	**2,844**	(2,210)
Deferred revenue, including long-term portion	**(289)**	1,571	**(2,541)**	4,287
Amounts due to customers on construction contracts	**4,451**	(2,905)	**(27)**	(4,170)
Net change in working capital items	**$ 21,870**	$ (28,479)	**$ 23,045**	$ (40,623)

17. SUBSEQUENT EVENTS

Credit Facility Amendment

On July 15, 2020, the Corporation amended its credit facility. The amendment increased the senior leverage ratio maximum from 4.0 to 5.0 for the fiscal quarters ending December 31, 2020 through September 30, 2021.

Acquisition of Window Installation Specialists (“WIS”)

On July 31, 2020, the Corporation acquired all of the shares of Window Installation Specialists, Inc. (“WIS”) for US $45,000. WIS is a full-service glazing company specializing in sales, consultation, installation and service of pre-glazed fenestration products. WIS’ operational focus is the west coast of the United States. The total purchase price before normal post-closing adjustments included US $38,000 in cash paid at closing and shares of the Corporation issued at closing with a value of US $7,000.

ISR Contract Award

Provincial has received notice of the preliminary contract award decision regarding a performance based contract to provide Maritime Patrol Aircraft as Air Reconnaissance Capacity for the Netherlands Coastguard. This future contract, to be executed for Ministry of Defence for the Netherlands on behalf of the Netherlands Coastguard, would see Provincial and its consortium member, JetSupport Holding, modify and deliver two fully missionized DHC-8 aircraft, provide crew training on all systems and support the operation of the aircraft for an initial 10-year period with an option to extend for two additional one-year terms. Work will begin during the third quarter of 2020 on adapting the aircraft and service begins at the end of 2021.