Exchange
Income
Corporation

Second Quarter Report

For the six months ended

June 30, 2021

CEO’s Message

The rollout of vaccines accelerated in the second quarter of the year, and while we are certainly not finished with the pandemic, we are seeing the economy expand and there is a true sense of optimism we are nearing the end of this very difficult period. We are excited about a return to growth and a sense of normalcy as we move through the balance of 2021.

EIC has performed very well throughout the pandemic as our diverse, essential niche operations have provided a steady cash flow and allowed us to maintain our dividend while most others in the aviation space have not. In addition to managing the short-term operations and financial performance, we have maintained a focus on the long-term by strengthening our balance sheet to facilitate accretive acquisition and organic growth. I will come back to those initiatives later in this message, but first I would like to address the remarkable financial performance in the second quarter.

The second quarter marks the first time the comparative quarter was also fully impacted by the pandemic. These results clearly illustrate the success of the adaptations we have made within our businesses to deal with the pandemic.

Highlights from EIC’s second quarter financial performance include:

- Revenue grew by 32% to $322 million
- EBITDA increased by 31% to $81 million
- Net Earnings per share increased by 450% to $0.44
- Adjusted Net Earnings per share improved by 231% to $0.53
- Free Cash Flow less Maintenance Capital Expenditures per share rose 34% to $0.98
- Trailing twelve-month Free Cash Flow less Maintenance Capital Expenditures payout ratio improved to 58% from 76%

The payout ratio of 58% is the best since the year end of 2019, which were wholly pre-pandemic operations.

The improvement in the results was achieved in spite of a decline of more than $14 million in government support when compared to 2020. Absent the government support in both periods, EBITDA increased 110% in the quarter.

Another way to evaluate our second quarter is to compare it to 2019, which was the last pre-pandemic second quarter. The strength of the 2021 second quarter is evident in this comparison as both revenue and EBITDA are within 10% of 2019 results and Free Cash Flow less Maintenance Capital Expenditures is higher than 2019. This is not an exact comparison as we have completed three acquisitions which are in the 2021 results, but not in 2019. These acquisitions are modest in size however, and the comparison is being made to show we have recovered substantially and are on track to meet and subsequently exceed pre-pandemic levels over the next few quarters. We have learned over the last 18 months it is impossible to accurately predict the pandemic and as such there may still be some bumps in the road.

Our scheduled airline business experienced a slow and steady recovery as passenger numbers improved throughout the quarter. The rate and extent of the recovery varied greatly by geographic area. Passenger volumes in the Maritimes have improved significantly and may reach pre-pandemic levels in the third quarter. Improvement in central Canada and Nunavut has been much more subdued as an overwhelmed medical system has limited access to diagnostic appointments and treatment, which has in turn reduced travel for medical procedures. Vaccination rates in these communities are high and travel will rapidly resume as soon as the medical system can handle more normal volumes. Restricted access to the medical system over the last 18 months has created a significant backlog of patients waiting to be treated. Accordingly, we expect demand to be robust for a prolonged period as soon as access normalizes.

Regional One has experienced an increase in orders for parts and larger aircraft components as major airlines have begun to increase flying in response to greater consumer demand. The recovery in the United States has been faster than in the balance of the world. Regional One’s parts and components business is more focused in the United States than other geographies, and as a result we have seen this part of our business rebound the quickest. Our aircraft leasing business is focused outside of North America and the recovery in this geography has been slower, meaning it will likely take several more quarters to return to historical levels.

Our ISR and medevac operations have continued to operate at or near pre-pandemic levels as they have through most of the last 18 months. They have shown to be very resilient throughout the pandemic and thus we decided to increase our investment in these areas. Between the investment in the Netherlands maritime surveillance contract and the acquisition of Carson Air, we will invest over $100 million. I will return to this topic later in this message.

Our Manufacturing segment continues to experience strong demand, although Quest is dealing with challenges related to deferred construction projects and the corresponding dislocation in their production schedule. Longer term, Quest has seen robust demand for future projects, and we are excited about fully deploying the investments in new production and installation capacity in upcoming quarters.

One of the hallmarks of EIC’s strategy since our inception 20 years ago is maintaining a strong, liquid balance sheet that will enable us to move quickly on opportunities when they present themselves while continuing to provide flexibility in times of economic uncertainty. Adherence to our strategy allowed us to complete the acquisition of WIS last summer in the early stages of the COVID-19 pandemic. We have seen significant acquisition opportunities even with the travel challenges created by COVID-19, and therefore decided to complete a share offering during the second quarter. The offering generated gross proceeds of $88 million at $39.40 per share. On July 12, 2021, we announced a new issue of Convertible Debentures that generated gross proceeds of $144 million and closed on July 30, 2021. The proceeds will be used to retire existing Convertible Debenture series that come due over the next two years. On July 30, 2021, we announced we would be redeeming the June 2023 debentures on September 2, 2021, utilizing approximately $69 million of the proceeds of the recent offering. The balance will be temporarily utilized to reduce our senior debt facility until deployed to retire other series in the future. We also extended our $1.3 billion syndicated debt facility to August 6, 2025. These three transactions ensure we have the necessary financial resources to continue to successfully execute our business model and weather any economic uncertainties that may arise.

On July 5, 2021, we announced the acquisition of Carson Air in British Columbia for an aggregate purchase price of $61 million. Carson, in addition to being in the freight and pilot training business, is British Columbia's leader in providing medevac services. EIC has seen the resilience of the medevac business throughout the pandemic, and Carson is the ideal candidate to increase our medevac business and expand our geographic coverage. The proven management team led by Kevin Hillier maintains one of the best reputations in the industry. When added to our existing medevac business, Carson further establishes EIC as the premier provider of medical evacuation services in Canada.

At the same time as we announced the acquisition of Carson, we announced we have entered into Letters of Intent to acquire three additional companies for aggregate consideration of $53 million. These are smaller tuck-in acquisitions that are closely related to our existing operations and are expected to be immediately accretive and synergistic. On August 11, 2021, we closed the first of these transactions with the purchase of Macfab Manufacturing for $11 million. The company is closely aligned with our Ben Machine operations and will add capacity and efficiencies to both operations. The remaining transactions are still in the final due diligence phase and assuming no issues are uncovered, are expected to close over the next 60 days. Between Carson, Macfab Manufacturing, and the two remaining acquisitions in progress, we expect to deploy approximately $114 million in accretive acquisitions during 2021.

We are also investing in growing our existing operations, and our airlines in particular. As we exit the pandemic, we have seen a significant increase in demand from our remote mining customers and remote freight customers. By the end of 2021, we will add a net of four larger gauge aircraft (ATR 72 and Dash-8 Q400) to our fleet to meet this demand. Our model is indifferent to organic growth or growth by acquisition, and as long as the investment meets our stringent criteria, we are prepared to deploy our balance sheet to grow accretively.

Managing through the pandemic has been a great challenge as we have first focused on keeping our staff and customers safe while maintaining essential services. We also worked hard to manage our cash flow and maintain our dividend which our shareholders have been able to rely on since our inception almost 2 decades ago. However, a purely short-term focus would have prevented us from continuing our growth trajectory as the pandemic comes to a close and we return to a more normal operating environment. We have kept our eyes on the horizon while dealing with the innumerable challenges of COVID-19. We have added major contracts, completed accretive acquisitions, and strengthened our balance sheet to facilitate further growth. We are genuinely excited about the future. I want to thank our Board, management team, and employees around the globe who have made this possible. I also want to thank our shareholders and all stakeholders for their support, during the last 18 months in particular. I look forward to speaking with you again in November when we release our third quarter results.

Mike Pyle
Chief Executive Officer

August 12, 2021

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PREFACE

This Management's Discussion and Analysis ("MD&A") supplements the unaudited interim condensed consolidated financial statements and related notes for the three and six months ended June 30, 2021 ("Consolidated Financial Statements") of Exchange Income Corporation ("EIC" or "the Corporation"). All amounts are stated in thousands of Canadian dollars, except per share information and share data, unless otherwise stated.

This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Corporation for the three and six months ended June 30, 2021, its annual financial statements for the year ended December 31, 2020, and its annual MD&A for the year ended December 31, 2020. The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of the interim financial statements.

FORWARD-LOOKING STATEMENTS

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

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

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

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

EXCHANGE INCOME CORPORATION

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

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

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

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

Segment Summary

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

(a) **Aerospace & Aviation** – includes a variety of operations within the aerospace and aviation industries. It includes providing scheduled airline, charter service, and emergency medical services to communities located in Manitoba, Ontario, and Nunavut. These services are provided by: **Calm Air**, **Perimeter**, **Bearskin** (as a division of Perimeter), **Keewatin**, **Custom Helicopters**, the equity investment in **Wasaya**, and other aviation supporting businesses ("**the Legacy Airlines**"). **Regional One** is focused on supplying regional airline operators around the world with various after-market aircraft, engines, and component parts. **Provincial** (comprised of PAL Airlines, the equity investment in Air Borealis, PAL Aerospace, and MFC Training) 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 MFC Training, 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. Subsequent to the end of the quarter, the Corporation acquired Carson Air, which will be reported within the Aerospace & Aviation segment as of the date of its acquisition.

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

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

1. FINANCIAL HIGHLIGHTS AND SIGNIFICANT EVENTS

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

FINANCIAL PERFORMANCE	2021	per share basic	per share fully diluted	2020	per share basic	per share fully diluted
For the three months ended June 30						
Revenue	$ 322,070			$ 243,657		
EBITDA(1)	81,061			62,075		
Net Earnings	16,506	$ 0.44	$ 0.43	2,630	$ 0.08	$ 0.07
Adjusted Net Earnings(1)	19,781	0.53	0.52	5,645	0.16	0.16
Adjusted Net Earnings payout ratio(1)		108%	110%		356%	356%
Free Cash Flow(1)	57,283	1.54	1.37	42,268	1.21	1.09
Free Cash Flow less Maintenance Capital Expenditures(1)	36,517	0.98	0.91	25,412	0.73	0.71
Free Cash Flow less Maintenance Capital Expenditures payout ratio(1)		58%	63%		78%	80%
Dividends declared	21,533	0.57		19,867	0.57	
For the six months ended June 30						
Revenue	622,816			$ 550,633		
EBITDA(1)	145,183			119,329		
Net Earnings (Loss)(1)	23,633	0.65	0.63	(2,668)	$ (0.08)	$ (0.08)
Adjusted Net Earnings(1)	30,332	0.83	0.81	7,703	0.22	0.22
Adjusted Net Earnings payout ratio(1)		137%	141%		518%	518%
Free Cash Flow(1)	98,925	2.72	2.43	81,017	2.33	2.10
Free Cash Flow less Maintenance Capital Expenditures(1)	56,095	1.54	1.46	27,711	0.80	0.78
Free Cash Flow less Maintenance Capital Expenditures payout ratio(1)		74%	78%		143%	146%
Dividends declared	41,780	1.14		39,668	1.14	
FINANCIAL POSITION	**June 30, 2021**			December 31, 2020		
Working capital	$ 292,980			$ 323,625		
Capital assets	976,258			950,037		
Total assets	2,317,597			2,294,184		
Senior debt	727,310			794,194		
Equity	751,288			685,946		
SHARE INFORMATION	**June 30, 2021**			December 31, 2020		
Common shares outstanding	37,883,792			35,471,758		
	June 30, 2021			June 30, 2020		
Weighted average shares outstanding during the period - basic	36,332,992			34,779,510		

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

SIGNIFICANT EVENTS

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

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

Normal Course Issuers Bid ("NCIB")

On February 22, 2021, the Corporation renewed its NCIB for common shares and received approval for a new NCIB for certain series of convertible debentures. Under the renewed NCIB for common shares, purchases can be made during the period commencing on February

24, 2021, and ending on February 23, 2022. The Corporation can purchase a maximum of 3,253,765 shares and daily purchases will be limited to 27,845 shares, other than block purchase exemptions. The Corporation renewed its NCIB because it believes that from time to time, the market price of the common shares may not fully reflect the value of the common shares. The Corporation believes that in such circumstances, the purchase of common shares represents an accretive use of capital.

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

Government Financial Aid

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

Bought Deal Financing of Common Shares

On April 26, 2021, the Corporation closed a bought deal financing of common shares, which, inclusive of the over-allotment exercised by the underwriters, resulted in the issuance of 2,236,000 shares of the Corporation at $39.40 per share, for gross proceeds of approximately $88.1 million. The net proceeds of the offering were used to repay debt under the Corporation's credit facility during the second quarter and will create further availability under the credit facility until required for future acquisitions or other growth opportunities. Subsequent to the end of the quarter, a large portion was used to fund the acquisitions of Carson Air and Macfab Manufacturing. The Corporation is experiencing increased acquisition opportunities and wishes to be able to act quickly to take advantage of opportunities should the situation warrant.

SUBSEQUENT EVENTS

Acquisition of Carson Air

On July 5, 2021, the Corporation acquired Carson Air ("Carson") for $61 million. The purchase price was funded by issuance of $3 million of the Corporation's common shares to the vendor and cash in the amount of $58 million that was available from the Corporation's credit facility. Carson was established in 1990 and has a long history of being the primary provider of fixed wing air ambulance services in British Columbia. In addition to air ambulance services, which is Carson Air's primary business, it provides dedicated cargo services in B.C. and Alberta and operates a flight school, Southern Interior Flight Centre.

Bought Deal Financing of Convertible Debentures

On July 30, 2021, the Corporation closed a bought deal offering of convertible debentures. At the closing of the offering, the Corporation issued $143.75 million principal amount of debentures including the exercise of the full $18.75 million overallotment option that was granted to the underwriters. The debentures bear interest at 5.25% per annum, payable semi-annually. The debentures are convertible at the holder's option into common shares of the Corporation at a conversion price of $52.70 per share. The maturity of the debentures is July 31, 2028.

Credit Facility Extension

On August 6, 2021, the Corporation completed the extension of the maturity of its credit facility to August 6, 2025. The remaining terms included within the facility were virtually unchanged from the Corporation's previous credit facility.

Early Redemption of Convertible Debentures

On July 30, 2021, the Corporation provided notice of its intent to call the 7 year 5.25% convertible debentures which are due on June 30, 2023. The redemption will occur on September 2, 2021. The redemption of the debentures will be completed with cash on hand from the Corporation's issuance of its July 2021 5.25% convertible debenture offering.

Acquisition of Macfab Manufacturing

On August 11, 2021, the Corporation acquired Macfab Manufacturing Inc. ("Macfab") for $11 million. The purchase price was funded by the issuance of $2 million of the Corporation's common shares to the vendor and cash in the amount of $9 million that was available from the Corporation's credit facility. Macfab was founded in 1987 and is a contract manufacturer of precision custom components and sub-assemblies for medical, life sciences, aviation security, avionics, and space instruments. Serving customers across Canada, US and the UK, Macfab provides prototype and production volumes, and offers a complete suite of precision machining, finishing, cleaning, and assembly solutions.

2. RESULTS OF OPERATIONS

Three Month Results

The following section analyzes the financial results of the Corporation for the three months ended June 30, 2021, and the comparative 2020 period.

	Three Months Ended June 30, 2021			
	Aerospace & Aviation	Manufacturing	Head Office [2]	Consolidated
Revenue	$ 197,934	$ 124,136	$ -	$ 322,070
Expenses [1]	129,371	104,410	7,228	241,009
EBITDA	68,563	19,726	(7,228)	81,061
Depreciation of capital assets				34,939
Amortization of intangible assets				3,868
Finance costs - interest				11,178
Depreciation of right of use assets				6,098
Interest expense on right of use liabilities				811
Acquisition costs				379
Earnings before taxes				23,788
Current income tax expense				4,975
Deferred income tax expense				2,307
Net Earnings				$ 16,506
Net Earnings per share (basic)				$ 0.44
Adjusted Net Earnings				$ 19,781
Adjusted Net Earnings per share (basic)				$ 0.53

	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 lease 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 (basic)				$ 0.08
Adjusted Net Earnings				$ 5,645
Adjusted Net Earnings per share (basic)				$ 0.16

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 $322.1 million, an increase of $78.4 million, or 32% over the comparative period. The Aerospace & Aviation segment increased by $58.0 million and the Manufacturing segment increased by $20.4 million.

EBITDA of $81.1 million was generated by the Corporation during the quarter, an increase of $19.0 million or 31% over the comparative period. The increase was attributable to the Aerospace & Aviation segment, partially offset by a decrease in the Manufacturing segment and slightly higher head office costs. The consolidated increase was achieved despite overall government funding in the second quarter of 2021 decreasing by $14.4 million compared to the prior period. When government subsidies are excluded from both periods, EBITDA increased by 110%.

During the period, the Corporation's head office costs increased by $0.8 million or 12% over the prior period primarily due to increased compensation. Compensation reductions in the prior period, including voluntary salary reductions, resulted in comparatively higher head office costs in 2021.

The Corporation's results continued to be impacted by the COVID-19 pandemic during the three months ended June 30, 2021, although to a lesser extent than in the prior period. Travel restrictions and required quarantine periods reduced the demand for some of the Aerospace & Aviation segment's products and services compared to the pre-pandemic operating environment. The Manufacturing segment experienced a reduction in manufacturing efficiency as employees were responsibly spaced further apart to ensure their health and safety and required employee absenteeism disrupted production. In both the Aerospace & Aviation segment and the Manufacturing segment, increased costs associated with keeping our employees and customers safe negatively impacted margins in the current and prior periods. The financial impact in our airline operations was partially offset with the announcement of support from the Manitoba and Ontario Provincial governments during 2021 and the continued support of the Government of Nunavut. The Provincial governments in Manitoba and Ontario announced during 2021 they had reached agreements with the Government of Canada to support essential air access into remote communities. This support ensures continued service to remote communities that otherwise would not be economical.

The Corporation was eligible for the CEWS offered by the Government of Canada and received $7.2 million under this program during the period. The Corporation continued to use the proceeds from the CEWS to offset salary costs that would have otherwise been reduced without the CEWS program, and to help offset increased health and safety costs across both segments and costs associated with inefficiencies in the Manufacturing segment.

Aerospace & Aviation Segment

Revenue generated by the Aerospace & Aviation segment increased by $58.0 million to $197.9 million.

Revenue in the Legacy Airlines and Provincial increased by $49.5 million or 45% over the comparative period. In the prior period, the onset of the pandemic had a materially negative impact on the Corporation's airline operations, including decreases in passenger volumes of 90% in some markets. As the vaccination rate in Canada has recently accelerated, passenger volumes have quickly rebounded, and in eastern Canada, are close to pre-pandemic levels. Passenger revenue and charter revenue drove the most significant increases in revenue from the prior period. Medevac and cargo revenue, which remained strong throughout the pandemic, also contributed to the increase in revenue during the second quarter. The Corporation's rotary wing operations delivered strong increases over the prior period, with revenue driven by an increase in forest fire activity in 2021. Demand for the Corporation's ISR assets remained strong, contributing to revenue growth over the prior period.

Regional One's revenue for the current period increased by $8.5 million or 29%. The improvement was driven by an increase in sales and service revenue over the prior period as seen in the table below.

Regional One Revenue Three Months Ended June 30,		**2021**		2020
Sales and service revenue	**$**	**30,893**	$	22,427
Lease revenue		**6,814**		6,775
	$	**37,707**	$	29,202

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

Regional One's operations have been significantly impacted by COVID-19. Regional One's business is dependent on the volume of passengers at traditional regional air carriers and therefore lower travel throughout the world has put pressure on all of its lines of business, including part sales, aircraft and engine sales, and lease revenues. The overall industry has improved from its lows and travel in certain jurisdictions, most notably in the United States, has started to resume. This has resulted in a sequential improvement in revenue compared to the first quarter of 2021 and the highest quarterly revenue since the onset of the pandemic.

Sales and service revenue increased by $8.5 million or 38% over the comparative period, which includes the impact of increased parts sales and increased sales of larger assets. As airlines around the world are either resuming flights or are preparing to resume operations, Regional One has seen increased activity in its sales and service revenue stream. A large portion of these types of sales are historically made in the United States, and the acceleration of the return of air travel in the United States compared to the rest of the world has been a positive development for Regional One.

Lease revenue was flat to the prior period as a 13% increase in lease revenue on a US dollar basis was mostly offset by a stronger Canadian dollar. The Corporation's lease customers are generally located in regions that are still experiencing some form of travel restrictions, and therefore a return of lease revenue to historical levels is still several quarters away. The Corporation has no lease revenue recorded for deferred lease payments during the period. Regional One has been working with lease customers during the pandemic and continues to look for lease opportunities.

In the Aerospace & Aviation segment, EBITDA increased by $21.8 million or 47% to $68.6 million.

EBITDA contributed by the Legacy Airlines and Provincial increased by $17.4 million or 44%. While scheduled passenger operations remained lower compared to the pre-pandemic operating environment, a strong increase compared to 2020 drove the improved EBITDA. In addition, robust cargo, charter, and rotary wing operations also contributed to the increased EBITDA compared to 2020. Our rotary wing operations have been particularly busy in the second quarter as they work with the Province of Manitoba to help address recent forest fire activity, which also increased EBITDA compared to the prior period. Provincial's aerospace operations benefitted from contract scope escalators and increased on demand ISR aircraft utilization. Additionally, cost reduction measures through scheduled frequency reductions, labour rationalization, and various other strategies that took some time to implement in 2020 were meaningfully realized in 2021. The Corporation provides essential services to the communities it serves as air transportation is the only way that people and goods can get to or from many of these remote regions. From this perspective, it is imperative the Corporation continues to maintain regular, albeit reduced, scheduled flights to these communities during the pandemic. Complete termination of our service to these communities is deemed by the Corporation not to be an option. As such, the Corporation worked collaboratively with the Government of Nunavut, the Federal government, and the Provincial governments of Manitoba and Ontario to help support the scheduled passenger operation to ensure continued regular essential services to the remote communities in these regions. The Corporation was also able to access funds under the CEWS program which helped offset higher health and safety costs and to offset salary costs that would have otherwise been reduced without the CEWS program. These factors collectively helped to mitigate the impact of pandemic induced reductions in demand compared to the pre-pandemic operating environment.

Regional One's EBITDA increased by $4.3 million or 60% over the prior period. Regional One's whole aircraft and engine sales increased compared to the prior period, and the margin realized on those sales also increased, which drove the increase in EBITDA. An increase in parts sales also contributed to the increase in EBITDA. In addition, the impact of cost reduction initiatives undertaken throughout the pandemic that took time to fully realize, including headcount reductions, improved EBITDA compared to the prior period.

Manufacturing Segment

The Manufacturing segment revenue increased by $20.4 million or 20% to $124.1 million over the prior period and EBITDA decreased by $2.0 million or 9% to $19.7 million. The decrease in EBITDA compared to the prior period is caused by decreased CEWS received by the segment in 2021.

All of the Corporation's subsidiaries within the Manufacturing segment have been deemed essential businesses during the COVID-19 pandemic and have continued to operate. Social distancing and required employee absenteeism have reduced the efficiency and throughput in the short-term despite robust demand. Increased employee screening and increased frequency of cleaning and sanitization of the facilities are all realities the manufacturing subsidiaries are facing in light of COVID-19 that will continue to impact efficiency for an unknown period of time.

EBITDA at Quest was higher than the prior period reflecting the acquisition of WIS in the third quarter of 2020 with no comparative in the prior period. Our installation businesses in the United States continue to perform above our expectations since acquisition. The benefit from the acquisition of WIS was partially offset by job-site delays and inefficiencies as a result of social distancing protocols implemented to mitigate the effects of COVID-19 compared to the pre-pandemic operating environment.

The balance of the segment collectively experienced an increase in EBITDA excluding the impact of reduced CEWS received in 2021. Demand continues to be strong, and while the benefit of CEWS is lower than in the prior period, it helped to offset higher safety costs and inefficiencies associated with COVID-19.

NET EARNINGS

Three Months Ended June 30,		2021		2020
Net Earnings	**$**	**16,506**	$	2,630
Net Earnings per share	**$**	**0.44**	$	0.08

Net Earnings was $16.5 million, an increase of $13.9 million over the prior period. The $19.0 million increase in EBITDA during the current period increased Net Earnings. In addition, a reduction in interest costs increased Net Earnings. An increase in depreciation on capital assets during the current period slightly offset these improvements to Net Earnings.

Income tax expense increased by $5.0 million due to increased earnings before tax compared to the prior period. The Corporation's effective rate of tax decreased compared to the prior period as losses in lower tax rate jurisdictions were a lower proportion of the Corporation's earnings before tax in the current period.

Net Earnings per share increased by 450% over the prior period to $0.44 due to increased Net Earnings generated in the period. The weighted average number of shares increased by 7%, which partially offset the increased Net Earnings. Details around the change in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

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

Three Months Ended June 30,		2021		2020
Net Earnings	**$**	**16,506**	$	2,630
Acquisition costs, net of tax		**379**		65
Amortization of intangible assets, net of tax		**2,824**		2,882
Interest accretion on acquisition contingent consideration		**72**		68
Adjusted Net Earnings	**$**	**19,781**	$	5,645
per share - Basic	**$**	**0.53**	$	0.16
per share - Diluted	**$**	**0.52**	$	0.16

Adjusted Net Earnings was $19.8 million, an increase of $14.1 million over the prior period. Adjusted Net Earnings includes the add-back of acquisition-related costs, which are comprised of $2.8 million in intangible asset amortization, $0.4 million in acquisition costs, and $0.1 million in interest accretion on contingent consideration (all net of tax).

Adjusted Net Earnings per share increased by 231% over the prior period to $0.53 due to higher Adjusted Net Earnings generated in the period. The weighted average number of shares increased by 7%, which partially offset the increased Adjusted Net Earnings. Details around the change in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

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

FREE CASH FLOW Three Months Ended June 30		2021		2020
Cash flows from operations	**$**	**39,341**	$	69,330
Change in non-cash working capital		**23,362**		(21,870)
Acquisition costs, net of tax		**379**		65
Principal payments on right of use lease liabilities		**(5,799)**		(5,257)
	$	**57,283**	$	42,268
per share - Basic	**$**	**1.54**	$	1.21
per share - Fully Diluted	**$**	**1.37**	$	1.09

The Free Cash Flow generated by the Corporation during the period was $57.3 million, an increase of $15.0 million, or 36% over the comparative period. The main reason for this increase is the $19.0 million increase in EBITDA, partially offset by higher current taxes. Free Cash Flow is discussed further in *Section 12 – Non-IFRS Financial Measures and Glossary*.

Because of the increase in Free Cash Flow described above, Free Cash Flow on a basic per share basis increased by 27% to $1.54. The weighted average number of shares increased by 7%, which partially offset the increased Free Cash Flow. Details around the increase in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

Changes in non-cash working capital are included in cash flow from operations per the Statement of Cash Flow and are removed in the reconciliation to Free Cash Flow. As a result, it has no impact on the calculation of Free Cash Flow. A detailed discussion of changes in working capital is included in *Section 3 – Investing Activities*.

Six Month Results

The following section analyzes the financial results of the Corporation for the six months ended June 30, 2021, and the comparative 2020 period.

								Six Months Ended June 30, 2021
		Aerospace & Aviation		**Manufacturing**		**Head Office (2)**		**Consolidated**
Revenue	$	**381,077**	$	**241,739**	$	**-**	$	**622,816**
Expenses (1)		**259,692**		**203,919**		**14,022**		**477,633**
EBITDA		**121,385**		**37,820**		**(14,022)**		**145,183**
Depreciation of capital assets								**65,682**
Amortization of intangible assets								**8,319**
Finance costs - interest								**22,569**
Depreciation of right of use assets								**12,222**
Interest expense on right of use liabilities								**1,684**
Acquisition costs								**483**
Earnings before taxes								**34,224**
Current income tax expense								**11,069**
Deferred income tax recovery								**(478)**
Net Earnings							$	**23,633**
Net Earnings per share (basic)							$	**0.65**
Adjusted Net Earnings							$	**30,332**
Adjusted Net Earnings per share (basic)							$	**0.83**

								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 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

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

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

REVENUE AND EBITDA

On a consolidated basis, the Corporation generated revenue of $622.8 million, an increase of $72.2 million, or 13% over the prior period. The Aerospace & Aviation segment revenue increased by $40.5 million and the Manufacturing segment revenue increased by $31.7 million.

EBITDA of $145.2 million was generated by the Corporation during the period, an increase of $25.9 million over the prior period. The increase in EBITDA is attributed to the lessening impact of COVID-19 compared to the prior period, particularly on the Corporation's Aerospace & Aviation segment subsidiaries.

During the period, the Corporation's head office costs increased by $2.1 million or 17% over the prior period primarily due to increased compensation. Compensation reductions in the prior period, including voluntary salary reductions, resulted in comparatively higher head office costs in 2021.

The Corporation's results for the six months ended June 30, 2021, compared to the prior period vary significantly depending on the period identified, owing to the timing of the onset of the COVID-19 pandemic. In the first two and a half months in 2020, the Corporation experienced normal operations and therefore the results for the first two and a half months of 2021 are much lower than in 2020. Starting in mid-March 2021, the Corporation experienced returning demand, particularly within its Aerospace & Aviation segment, generating significantly improved results compared to the prior period.

The Corporation was eligible for the CEWS offered by the Government of Canada and received $16.2 million under this program during the period. The Corporation continued to use the proceeds from the CEWS to offset salary costs that would have otherwise been reduced without the CEWS program, and to help offset increased health and safety costs across both segments and costs associated with inefficiencies in the Manufacturing segment.

Aerospace & Aviation Segment

Revenue generated by the Aerospace & Aviation segment increased by $40.5 million to $381.1 million.

Revenue in the Legacy Airlines and Provincial increased by $47.8 million or 18% over the prior period. The increase reflects the combination of improving demand for air travel in the second quarter of 2021 compared to the prior period, where the onset of the pandemic had the largest impact on operations. Partially offsetting this impact was the pre-pandemic results for most of the first quarter in the prior period, whereas operations in the first quarter of 2021 experienced material negative COVID-19 impacts throughout the quarter. The Corporation continued to see strong demand in its cargo and medevac operations, and demand in its passenger and charter operations during the second quarter of 2021 more than offset decreases experienced early in 2021. EMS and firefighting revenue within our rotary wing operations contributed strong period over period growth. Our on-demand ISR platform continued to positively contribute to our results as the Corporation continues to benefit from previous investments in that area. Finally, government financial assistance supporting the continuation of essential service into remote northern communities served to offset areas where service has not been economical throughout the pandemic.

Regional One's revenues for the current year decreased by $7.3 million or 9%. As seen in the table below, this was driven by a decrease in lease revenue from the prior period.

Regional One Revenue	Six Months Ended June 30		**2021**		2020
Sales and service revenue		**$**	**58,536**	$	57,289
Lease revenue			**14,193**		22,789
		$	**72,729**	$	80,078

Sales and service revenue increased by 2% over the prior period. The prior period includes approximately two and a half months of normal operations, including part sales, which historically are the most predictable portion of Regional One's sales and service revenue and make up the largest proportion of this revenue stream. The reduced revenue experienced in the first quarter of 2021 was more than offset by improvements in the second quarter compared to 2020. The sales of whole aircraft and engines were materially impacted during the prior period due to COVID-19, as many sales that were expected to occur after the onset of the pandemic were cancelled or postponed. Regional One saw some recovery in these larger sales during the second quarter, which is driving the increase in sales and service revenue over the prior period, and more than offset a reduction in parts sales. Regional One's business has been materially impacted by COVID-19 as its business is dependent on the volume of passengers at traditional regional air carriers. As travel has slowly started to pick up around the world, most notably in the United States, Regional One has experienced growth compared to prior quarters impacted by the pandemic.

Lease revenue decreased by $8.6 million or 38% in the current period. Lease revenues in 2020 included approximately two and a half months of pre-pandemic utilization by the lessees, resulting in decreases in lease revenue in 2021 compared to that period. Lease revenue in US dollars in the second quarter increased 13% compared to 2020, but was mostly offset by a stronger Canadian dollar in 2021. The leasing portfolio experienced lower utilization of aircraft by customers starting in March of 2020 and many of the regions where our lessees operate continue to experience varying degrees of travel restrictions and quarantine requirements, all of which continued to depress lease revenue compared to the pre-pandemic operating environment. The Corporation has no lease revenue recorded for deferred lease payments during the period. Regional One has been working with lease customers during the pandemic and continues to look for lease opportunities.

In the Aerospace & Aviation segment, EBITDA increased $26.0 million or 27% to $121.4 million.

EBITDA in the Legacy Airlines and Provincial increased by $33.9 million or 49% over the comparative period. As identified above, the Corporation experienced an increase in demand during the quarter, driving both revenue and EBITDA increases compared to the prior period. Compared to the prior period, EBITDA shortfalls experienced in the first quarter were more than offset during the second quarter of 2021, where demand was much stronger. Consistent with the three month discussion, cost reduction measures through scheduled frequency reductions, labour rationalization, and various other strategies that took some time to implement in 2020 were meaningfully realized in 2021 and continue to benefit our operations. The Corporation provides essential services to the communities it serves as air transportation is the only way that people and goods can get to or from many of these remote regions. From this perspective, it is imperative the Corporation continues to maintain regular, albeit reduced, scheduled flights to these communities during the pandemic. Complete termination of our service to these communities is deemed by the Corporation not to be an option. As such, the Corporation worked collaboratively with the Government of Nunavut, the Federal government, and the Provincial governments of Manitoba and Ontario to help support the scheduled passenger operation to ensure continued regular essential services to the remote communities in these regions. The Corporation was also able to access funds under the CEWS program which helped offset higher health and safety costs and to offset salary costs that would have otherwise been reduced without the CEWS program. These factors collectively helped to mitigate the impact of pandemic induced reductions in demand compared to the pre-pandemic operating environment.

Regional One's EBITDA decreased $7.9 million or 29% from the prior period. This was driven by two and a half months of normal operations in the first quarter of 2020. The decrease is attributable to the $8.6 million reduction in lease revenue where the EBITDA margins are approximately 95%. This was caused by regional airlines around the world experiencing lower passenger volumes compared to the prior period, driving decreased utilization of our aircraft by lessees.

<u>Manufacturing Segment</u>

The Manufacturing segment revenue increased by $31.7 million or 15% to $241.7 million and EBITDA increased by $2.0 million or 5% over the prior year to $37.8 million.

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

Consistent with the three month discussion above, the balance of the segment collectively experienced an increase in EBITDA excluding the impact of reduced CEWS received in 2021. Demand continues to be strong, and while the benefit of CEWS is lower than the prior period, it helped to offset higher safety costs and inefficiencies associated with COVID-19.

NET EARNINGS (LOSS)

Six Months Ended June 30,		**2021**		2020
Net Earnings (Loss)	**$**	**23,633**	$	(2,668)
Net Earnings (Loss) per share	**$**	**0.65**	$	(0.08)

Net Earnings was $23.6 million, an increase of $26.3 million over the prior period. The $25.9 million increase in EBITDA during the current period increased Net Earnings. In addition, a reduction in depreciation on capital assets and a decrease in interest costs during the current period contributed to the increase in Net Earnings, and were partially offset by increased income tax expense during the period. In the prior period, a non-recurring $6.1 million impairment loss on certain intangible assets decreased Net Earnings.

Income tax expense increased by $11.1 million due to increased earnings before tax compared to the prior period.

Net Earnings per share increased over the prior period from a Net Loss of $0.08 to Net Earnings of $0.65 due to increased Net Earnings generated in the period. The weighted average number of shares increased by 4%, which partially offset the increased Net Earnings. Details around the change in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

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

Six Months Ended June 30,		2021		2020
Net Earnings (Loss)	**$**	**23,633**	$	(2,668)
Acquisition costs, net of tax		**483**		80
Amortization of intangible assets, net of tax		**6,073**		5,682
Interest accretion on acquisition contingent consideration		**143**		136
Impairment loss, net of tax		**-**		4,473
Adjusted Net Earnings	**$**	**30,332**	$	7,703
per share - Basic	**$**	**0.83**	$	0.22
per share - Diluted	**$**	**0.81**	$	0.22

Adjusted Net Earnings was $30.3 million, an increase of $22.6 million over the prior period. Adjusted Net Earnings includes the add-back of acquisition-related costs, which are comprised of $6.1 million in intangible asset amortization, $0.5 million in acquisition costs, and $0.1 million in interest accretion on contingent consideration (all net of tax).

Adjusted Net Earnings per share increased by 277% to $0.83 over the prior period due to higher Adjusted Net Earnings generated in the period. The weighted average number of shares increased by 4%, which partially offset the increased Adjusted Net Earnings. Details around the change in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

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

FREE CASH FLOW Six Months Ended June 30,		2021		2020
Cash flows from operations	**$**	**107,611**	$	115,069
Change in non-cash working capital items		**2,367**		(23,045)
Acquisition costs, net of tax		**483**		80
Principal payments on right of use lease liabilities		**(11,536)**		(11,087)
	$	**98,925**	$	81,017
per share - Basic	**$**	**2.72**	$	2.33
per share - Fully Diluted	**$**	**2.43**	$	2.10

The Free Cash Flow generated by the Corporation during the period was $98.9 million, an increase of $17.9 million, or 22% over the comparative period. The main reasons for this increase is the $25.9 million increase in EBITDA and decreased interest costs, partially offset by higher current taxes. Free Cash Flow is discussed further in *Section 12 – Non-IFRS Financial Measures and Glossary*.

Because of the increase in Free Cash Flow described above, Free Cash Flow on a basic per share basis increased by 17% to $2.72. The weighted average number of shares increased by 4%, which partially offset the increased Free Cash Flow. Details around the increase in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

Changes in non-cash working capital are included in cash flow from operations per the Statement of Cash Flow and are removed in the reconciliation to Free Cash Flow. As a result, it has no impact on the calculation of Free Cash Flow. A detailed discussion of changes in working capital is included in *Section 3 – Investing Activities*.

3. INVESTING ACTIVITIES

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

CAPITAL EXPENDITURES

		Three Months Ended June 30, 2021						
CAPITAL EXPENDITURES		**Aerospace & Aviation**		**Manufacturing**		**Head Office**		**Total**
Maintenance Capital Expenditures	**$**	**19,793**	**$**	**949**	**$**	**24**	**$**	**20,766**
Growth Capital Expenditures		**33,150**		**846**		**-**		**33,996**
	$	**52,943**	**$**	**1,795**	**$**	**24**	**$**	**54,762**

		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

		Six Months Ended June 30, 2021						
CAPITAL EXPENDITURES		**Aerospace & Aviation**		**Manufacturing**		**Head Office**		**Total**
Maintenance Capital Expenditures	**$**	**40,847**	**$**	**1,931**	**$**	**52**	**$**	**42,830**
Growth Capital Expenditures		**55,328**		**1,200**		**-**		**56,528**
	$	**96,175**	**$**	**3,131**	**$**	**52**	**$**	**99,358**

		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

Maintenance Capital Expenditures for the six months ended June 30, 2021, decreased by 20% from the prior period. The decrease in required reinvestment in the Corporation's leasing assets primarily drove the reduction compared to the prior period. Maintenance Capital Expenditures are generally weighted more towards the first quarter as heavy overhauls and engine maintenance events are scheduled at a time when demand is lowest in the airline subsidiaries. During the prior period, Maintenance Capital Expenditures for the first two and a half months reflected pre-pandemic reality, whereas in the current period Maintenance Capital Expenditures reflect current levels of flying, which were slower for the first two and a half months of 2021 comparatively but increased thereafter in 2021 compared to 2020. As flight hours increased in the second quarter of 2021, so did the Maintenance Capital Expenditures for our air operators. In 2020, a weak Canadian dollar also increased Maintenance Capital Expenditures as the majority of these investments are in US dollars. The Corporation expects to experience a significant sequential increase in Maintenance Capital Expenditures in the third quarter of 2021 compared to the second quarter of 2021 and also expects the second half of 2021 to be higher than the first half of 2021, returning Maintenance Capital Expenditures towards normalized pre-pandemic levels. Further discussion of future Maintenance Capital Expenditures is included in *Section 5 – Outlook*.

Aerospace & Aviation Segment

Maintenance Capital Expenditures for the Legacy Airlines and Provincial for the three and six months ended June 30, 2021, were $18.3 million and $37.8 million, respectively, an increase of 42% and 2%, respectively over the prior period. As previously indicated, the Corporation expects that as flying hours increase, Maintenance Capital Expenditures will also increase, which is what occurred during the second quarter of 2021. During the three and six months ended June 30, 2021, the Legacy Airlines and Provincial invested $16.1 million and $22.9 million, respectively, in Growth Capital Expenditures. Substantially all the investments made on a year-to-date basis relate to aircraft modifications in preparation for the Netherlands Coast Guard ISR contract for Provincial. The second quarter Growth Capital Expenditures includes the replacement of an aircraft in the Legacy Airlines that was disposed of in the first quarter. The proceeds from disposal in the first quarter were recorded as negative Growth Capital Expenditures.

Regional One's Maintenance Capital Expenditures for the three and six months ended June 30, 2021, were $1.5 million and $3.1 million, respectively, a decrease of 49% and 78%, respectively from the prior period. The COVID-19 pandemic has left its fleet of aircraft and engines underutilized, and as a result, the available green time on those aircraft is not being consumed at the same rate as in prior periods. Historically, the Corporation has used depreciation as a proxy for Maintenance Capital Expenditures because the assets are being depleted as they are being flown by lessees and therefore depreciation reflects the required ongoing investment to maintain Free Cash Flow at current levels. As the fleet is currently underutilized, the historical approach is not appropriate. The actual costs of maintaining the fleet were significantly lower than the depreciation expense recorded during the period. Starting in the second quarter of 2020, 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, which has been the case since the second quarter of 2020. 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, 2021**		December 31, 2020	
	Aircraft	**Engines**	Aircraft	Engines
Lease portfolio	**67 (1)**	**57**	58 (1)	51

Note 1) The aircraft total above includes 10 airframes (2020 – 10 airframes) that do not have engines and will be leased out in conjunction with engines owned by Aero Engines LLC, the joint venture between the Corporation and SkyWest.

The Regional One lease portfolio is comprised of several different types of aircraft and engines, but the predominant platforms are the Bombardier CRJ aircraft, the GE CF34 engines that are used on those aircraft, the Embraer ERJ aircraft, and the Dash-8 Q400 aircraft. Regional One is not a traditional leasing company. Regional One does not acquire assets with the intention of owning them for a long duration and deriving earnings solely from the financing spread. Regional One typically acquires assets with the intent of leasing them for a shorter duration, consuming available green time and producing cash flows, and then generating further profits once the aircraft have been retired from the active fleet and parted out. It is important to note not all the aircraft and engines in the portfolio will be on lease at any given time.

During the six months ended June 30, 2021, Regional One invested $32.4 million in Growth Capital Expenditures. Regional One took an opportunity to purchase some larger assets at attractive prices due to the impact COVID-19 has had on the aviation industry. These assets are currently being marketed for lease and will contribute to lease revenue in future periods when the impacts of COVID-19 on the aviation industry wane. Partially offsetting the Growth Capital Expenditures, Regional One's inventory decreased by $2.8 million in the first six months of 2021.

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

The Corporation has been actively searching for opportunities arising from the impact of the COVID-19 pandemic on the aviation industry and made some purchases during the period. The Corporation will continue to diligently manage ongoing capital expenditures at Regional One during these uncertain times while at the same time looking for opportunities that may arise from distressed sellers. More information on future capital expenditures is available in *Section 5 – Outlook*.

Manufacturing Segment

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

For the three and six months ended June 30, 2021, Maintenance Capital Expenditures of $0.9 million and $1.9 million, respectively, were made by the Manufacturing segment, an increase of $0.2 million and $0.8 million, respectively, over the prior period.

For the three and six months ended June 30, 2021, Growth Capital Expenditures of $0.8 million and $1.2 million, respectively, were made by the Manufacturing segment. The investments were made to increase capacity within the segment to support the growth in demand currently experienced by the segment subsidiaries.

INVESTMENT IN WORKING CAPITAL

During the period ended June 30, 2021, the Corporation invested $2.4 million in working capital. Details of the investment in working capital are included in Note 15 and the Statement of Cash Flows in the Corporation's Consolidated Financial Statements.

During the first quarter of 2021, the Corporation generated cash from working capital as business volumes necessitated lower levels of working capital. During the second quarter, particularly within the Corporation's Aerospace & Aviation segment, increased business volumes drove required investments in working capital, which will continue as our subsidiaries move through a recovery from the pandemic. Most notably, Accounts Receivable increased as revenue increased during the second quarter.

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

4. DIVIDENDS AND PAYOUT RATIOS

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

Dividends

Month	**Record date**	**Per Share**	**2021 Dividends Amount**	Record date	Per Share	2020 Dividends Amount
January	January 29, 2021	**$ 0.19**	**$ 6,744**	January 31, 2020	$ 0.19	$ 6,596
February	February 26, 2021	**0.19**	**6,748**	February 28, 2020	0.19	6,599
March	March 31, 2021	**0.19**	**6,755**	March 31, 2020	0.19	6,606
April	April 30, 2021	**0.19**	**7,146**	April 30, 2020	0.19	6,612
May	May 31, 2021	**0.19**	**7,189**	May 29, 2020	0.19	6,621
June	June 30, 2021	**0.19**	**7,198**	June 30, 2020	0.19	6,634
Total		**$ 1.14**	**$ 41,780**		$ 1.14	$ 39,668

Dividends declared for the six months ended June 30, 2021, increased over the comparative period. The increase was primarily driven by the issuance of shares under the Corporation's equity offering in the second quarter of 2021 and shares issued as part of the acquisition of WIS in the third quarter of 2020. Further information on shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

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

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

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

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

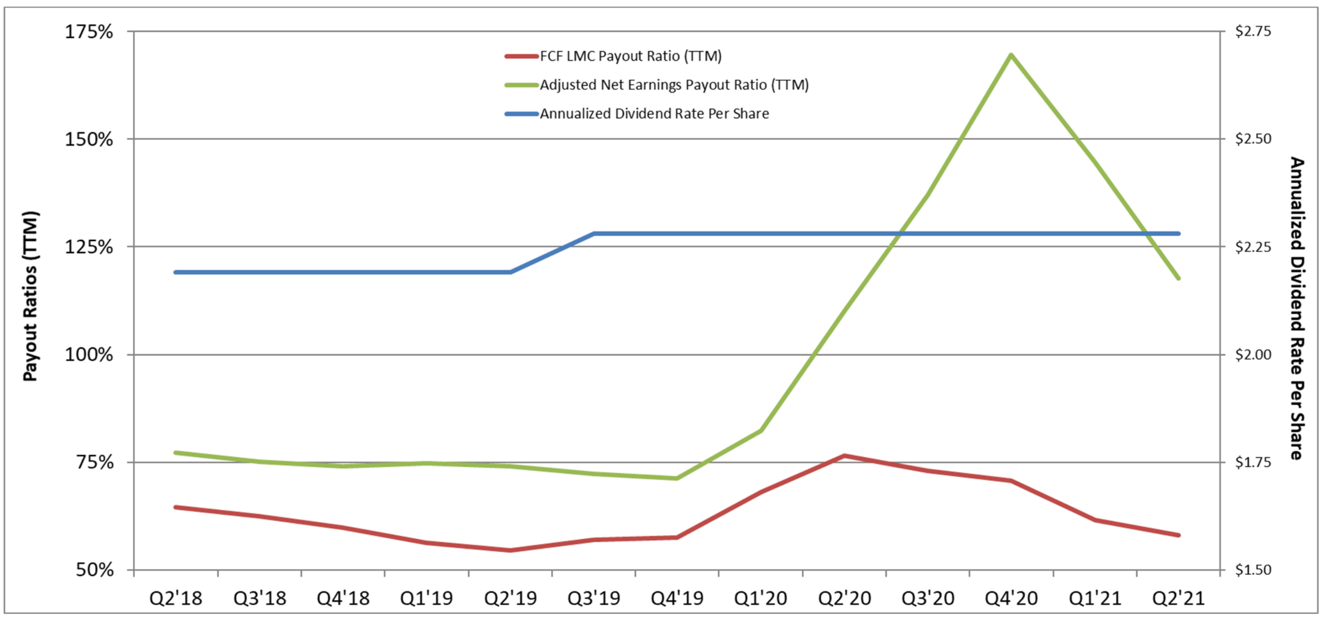
Payout Ratios

Basic per Share Payout Ratios for the Corporation	**2021**		2020	
Periods Ended June 30	**Three Months**	**Trailing Twelve Months**	Three Months	Trailing Twelve Months
Adjusted Net Earnings	**108%**	**118%**	356%	110%
Free Cash Flow less Maintenance Capital Expenditures	**58%**	**58%**	78%	76%

The Corporation's payout ratios were impacted by COVID-19 to differing degrees, where management's efforts to manage cash flow are more immediately reflected in the Free Cash Flow less Maintenance Capital Expenditures payout ratio. The trailing twelve month Adjusted Net Earnings payout ratio increased over the prior period to 118% from 110% at June 30, 2020, due to the impacts of COVID-19. Since June 30, 2020, however, the trailing twelve month Free Cash Flow less Maintenance Capital Expenditures payout ratio improved from 76% to 58% at June 30, 2021, and was achieved through the diligent management of cash flow in general and capital expenditures specifically during the pandemic. The payout ratio at this level is a significant achievement as it is only slightly higher than the payout ratio at December 31, 2019 of 57%.

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

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



5. OUTLOOK

EIC has always invested for the future, in both good times and challenging times. This approach did not change during the pandemic, but we didn't expect to be reaching the tail end of the pandemic in a better position than we were when it started. We've invested across all our segments, both organically and through acquisition, creating a stronger more diversified company. Additionally, we adapted to the challenges of the pandemic, which has given us capabilities and perspectives we didn't have when it began.

The aviation industry has been one of the hardest hit industries by the pandemic. Fortunately, the diversified nature of our aviation operations provided us the opportunity to focus on other areas besides scheduled passenger travel. As the scheduled passenger demand decreased, we focused on both our charter and cargo operations. We reached out to new customers and industries who were showing an increased desire to travel by chartered aircraft, including the health market, governments, commercial industries and resource companies. This has led to new relationships and contracts, including the ISC contract to move health care professionals across the country. We also added new aircraft type, including the Q-400 and ATR 72-500, which enables us to meet more customer needs. In our cargo operations, we modified aircraft into combi aircraft providing a more efficient way to move both passengers and cargo into our northern communities. In our passenger operations, we added new routes as the schedule changes of other airlines created opportunities for us to service certain communities more effectively. Passenger travel is close to pre-pandemic levels in our east coast passenger operations. However, it will likely take another couple of quarters to return to historical passenger volumes in our central and northern Canada passenger markets where the passenger levels are still behind as the medical system has been delayed in scheduling elective procedures. This will lead to prolonged demand in passenger travel because of this backlog of medical appointments. As we look to move past the pandemic to see our passenger volumes fully return, we will benefit from the expertise, capabilities, equipment, and relationships built through the pandemic, which will continue to benefit both our charter and cargo operations.

Regional One also used the opportunity to expand their product lines. Historically the cornerstone of the Regional One portfolio was the CRJ platform and the associated CF34-8 engines. However, the pandemic has provided sourcing opportunities with attractive pricing enabling Regional One to grow additional asset classes, including the Q400, ERJ-190, and the CF34-10 engines. This has also provided the opportunity to transition into additional CRJ-900 aircraft for our customers. Regional One has shown patience through the first year of the pandemic with fewer purchases and is now seeing the attractive pricing opportunities for sourcing in 2021. We expect asset purchases to continue at an increased cadence from the first half of 2021.

Investment into our ISR aerospace operations continues to expand our presence as a world leader in this field. We have started to modify the aircraft for the Netherlands Coast Guard contract that was awarded in late 2020. Recent partnerships with De Havilland Canada to develop and support a Dash 8 P-4 Special Mission Aircraft for the ISR space and with Viking to support the Twin Otter Fire Attack System, further expands Provincial's capabilities. We also await the decision from Curacao on the ISR contract we bid as the incumbent and the decision from Malaysia on a new ISR opportunity bid in late 2020.

In addition to the significant organic investment in our operations, EIC completed three acquisitions during the pandemic and announced we have two other LOIs signed. All five of these opportunities are closely related to our existing companies and further strengthen our operations. The first acquisition was the purchase of WIS, which was completed 12 months ago. This US$45 million acquisition increased the geographic scope of our window wall operations, providing vertical integration with our largest glazier.

The acquisition of Carson was completed after the end of the quarter on July 5, 2021, for a purchase price of $61 million. Carson is the primary provider of medevacs in British Columbia with a fleet of eight fixed wing medevac aircraft operating out of bases in Kelowna and Vancouver. Carson also provides dedicated cargo services in B.C. and Alberta and operates a flight school, Southern Interior Flight Centre. The addition of Carson further expands our leading medevac position across Canada and positions us well for future opportunities.

The third acquisition was the purchase of Macfab on August 11, 2021 for $11 million. Similar to Ben Machine, Macfab is a manufacturer that provides complex precision-machined components and assemblies in the Greater Toronto Area. Macfab is focused on providing custom solutions for their customers and offers a complete suite of precision machining and turning, finishing, cleaning, and assembly services. Macfab has a leading presence in the medical and security industries. This is a strategic acquisition as it further adds to our precision machining operations, providing new capabilities, expertise, customer relationships, and capacity.

Similar to Macfab, the other two companies for which EIC has signed LOIs would be strategic acquisitions for our existing operations. Subject to the successful completion of due diligence and negotiation of definitive purchase agreements, these two acquisitions would close later this year.

The horizon is not without uncertainty. The pace of the recovery across our business segments and geographies is different and still may change. For instance, in our passenger business, the east coast market is getting close to pre-pandemic levels while the passenger business in central and northern Canada is still well behind. Likewise, at Regional One, their parts and aircraft business in North America has shown strong signs of recovery while the overseas markets are further behind and have higher levels of travel restrictions. The pandemic will result in some production gaps and lower revenue at Quest in 2021 and into the first half of 2022 as construction projects schedules were stretched to deal with government restrictions and health protocols in different regions. New inquiries, however, have returned to pre-pandemic levels resulting in bookings in 2022 and beyond. The increased prevalence of variants of the COVID-19 virus and varying restrictions around the globe could cause a setback to these recoveries.

Additionally, the impact of the pandemic is stressing various business inputs. More specifically, supply chain and labour challenges are starting to appear. Supply of parts from overseas, fluctuations in commodity prices, and shortages of certain inputs have added complexity to the supply chain. To date, we have found solutions to manage through these challenges, but there are signs they will continue to persist or even increase. Likewise, the availability of labour in several of our manufacturing companies has been challenging and has led to more aggressive hiring strategies, including increased wages, in order to meet our production obligations. The availability of pilot and maintenance personnel is currently sufficient, however there have been many industry reports of the major airlines bringing back their staff over the next year. This, combined with the number of aviation personnel who retired or found a different career path, will likely lead to a more acute shortage in the future than anticipated before the pandemic. EIC is planning for this likelihood and our Life in Flight Program, supported by MFC Training and now Southern Interior Flight Training (acquired as part of Carson transaction), will be a vital component of this strategy.

The pandemic has resulted in one of the most challenging and unpredictable business environments over the past 18 months, however EIC has been able to make significant investments both organically and through multiple acquisitions. These investments were only made possible because of our financial position heading into the pandemic. EIC has always kept a pristine balance sheet. Significant focus and attention are put on this attribute to ensure we can execute on our business model. It's what enabled us to invest in our business and also close three acquisitions during the pandemic. This focus has continued as EIC recently completed a series of transactions to further strengthen our financial position. The first was the $88 million share offering that closed on April 26, 2021. The second was the $144 million convertible debenture offering completed on July 30, 2021, and the associated announcement these funds would be used to retire two existing convertible debentures series that are coming due over the next two years. The third was the extension of our $1.3 billion credit facility that was completed on August 6, 2021. After these proactive steps, EIC does not have any debt maturities until 2025. This series of recent transactions have again ensured we have a foundational balance sheet that will enable us to execute on our business model through investing in both organic and acquisitive growth.

<u>Capital Expenditures</u>

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 Maintenance Capital Expenditures to match the level of flying. This resulted in much lower Maintenance Capital Expenditures in the recent quarters. Maintenance Capital Expenditures are expected to increase as our flight hours increase, which will result in a significant increase in the Maintenance Capital Expenditures in the second half of 2021 as compared to the first half of the year, returning Maintenance Capital Expenditures towards normalized pre-pandemic levels.

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

Growth Capital Expenditures in the remainder of 2021 will focus on the new Netherlands ISR contract and a new hangar in Winnipeg for the FWSAR contract. The modifications for the Netherlands contract started in the fourth quarter of 2020 and are expected to be finished in the second quarter of 2022. The site preparation for the new hangar is expected to start in the third quarter of this year.

Regional One has executed on a number of asset acquisitions through the first half of 2021 and expects the pace of acquisition to accelerate as the pipeline continues to provide sourcing opportunities at attractive prices. The current environment is creating interesting opportunities for Regional One's leadership team with EIC's ability to support them with capital. Regional One's ability to be opportunistic is a key aspect of their business model and our long-term investment strategy.

A key tenet to EIC's business model is to continue to invest in our subsidiaries. As such, EIC will continue to assess prospects to grow through additional investment as opportunities are developed by our subsidiaries throughout the year. Regional One is the most fluid example as their business opportunities can arise and be acted upon in short order.

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. During the second quarter, the Corporation completed a bought deal equity offering, which increased the Corporation's access to capital to make acquisitions, invest in its operating subsidiaries, and provides the ability to weather economic downturns. In addition, subsequent to the end of the quarter, the Corporation completed a convertible debenture offering. Part of the proceeds from this offering will be used to exercise its right to call its June 2016 debentures that were set to mature in June 2023 as announced subsequent to the quarter end. The balance of the proceeds from the convertible debenture offering will be utilized to repay indebtedness under its credit facility, and subsequently provide the financial flexibility to redeem, when permitted, other upcoming convertible debenture maturities, specifically those maturing on December 31, 2022. Finally, subsequent to the end of the quarter, the Corporation extended its credit facility to August 6, 2025. The overall result, after considering our expectation of using the remaining net proceeds of the July 2021 convertible debenture offering to redeem the convertible debentures maturing in December 2022, is that the Corporation will not have any long term debt due until June 30, 2025. This provides exceptional flexibility while giving the Corporation the capital to invest for future growth.

Since the onset of COVID-19, the Corporation has taken several steps to manage its liquidity through the pandemic and continued to successfully execute on plans put in place in 2020. The Corporation's diligent management of both capital expenditures and working capital has left the Corporation in an excellent position. During 2021, the Corporation has generated sufficient cash flow to cover its Maintenance Capital Expenditures, its dividend to shareholders, and a portion of its Growth Capital Expenditures, which will contribute to future growth in Free Cash Flow. Investment in working capital in 2021 was modest and reflects the working capital required to support increased business volumes as the impacts of COVID-19 lessen. These results continue to demonstrate the ability to manage cash flow during the pandemic to meet current demand and invest in the future growth of the Corporation. This is in stark contrast to other entities with exposure to the airline industry and speaks volumes to the effectiveness of EIC's diversified operations and balance sheet management during even the most trying business environments.

At June 30, 2021, the Corporation's key financial covenant for its credit facility is its senior leverage ratio, and its facility allows for a maximum of 5.0x. Due to the initial uncertainty surrounding the impacts of COVID-19, the Corporation proactively approached its syndicate of lenders in the prior period. An amendment to the Corporation's credit facility increased its allowable senior leverage ratio from 4.0x to 5.0x for the quarters ending December 31, 2020, through September 30, 2021 and was precautionary as there was no expectation of exceeding our 4.0x covenant at the time. The Corporation has not required, and is not expecting to require, the additional flexibility permitted under this amendment. Although the Corporation's leverage is near the top end of its historical norms caused by the reduction in EBITDA compared to 2019 due to the impact of COVID-19 (senior debt to EBITDA has historically ranged from 1.5-2.5x), the Corporation's current leverage ratio is 2.41x and has not substantially changed since the onset of the pandemic, when it was 2.44x. The acquisition activity of the Corporation subsequent to the end of the quarter is expected to slightly increase the leverage ratio in the third quarter of 2021 from the second quarter of 2021. Consistent with EIC's historical balance sheet management, the Corporation was proactive in managing its liquidity so that should an opportunity present itself, EIC has the capability and financial resources to execute where others may not be able.

At June 30, 2021, the Corporation has liquidity of approximately $900 million through cash on hand, its credit facility, and the credit facility accordion feature, which when combined with no expected material cash burn, maintains the Corporation's very strong liquidity position.

As at June 30, 2021, the Corporation had a cash position of $43.5 million (December 31, 2020 - $69.9 million) and a net working capital position of $293.0 million (December 31, 2020 - $323.6 million) which represents a current ratio of 1.86 to 1 (December 31, 2020 – 2.10 to 1).

Overview of Capital Structure

The Corporation's capital structure is summarized below.

		June 30 2021		December 31 2020
Total senior debt outstanding (principal value)	**$**	**729,883**	$	797,444
Convertible debentures outstanding (par value)		**335,725**		335,725
Common shares		**822,993**		731,343
Total capital	**$**	**1,888,601**	$	1,864,512

Credit facility

The size of the Corporation's credit facility as at June 30, 2021, is approximately $1.3 billion, with $1.1 billion allocated to the Corporation's Canadian head office and US $150 million allocated to EIIF Management USA, Inc. The facility allows for borrowings to be denominated in either Canadian or US funds. As of June 30, 2021, the Corporation had drawn $190.0 million and US $435.6 million (December 31, 2020 - $190.0 million and US $477.1 million). On August 6, 2021, the Corporation completed the extension of the maturity of its credit facility to August 6, 2025. The remaining terms included within the facility were virtually unchanged from the Corporation's previous credit facility.

The Corporation's long-term debt, net of cash, decreased by $40.5 million since December 31, 2020. The Corporation used the net proceeds from its bought deal equity offering to repay its credit facility, which was partially offset by the use of cash on hand to fund Growth Capital Expenditures during the period. In addition, the strengthening of the Canadian dollar since December 31, 2020, decreased the Canadian converted amount of its US dollar long-term debt outstanding.

During the period, the Corporation used derivatives through several cross-currency basis swaps ("swap") with a member of the Corporation's lending syndicate. The swap requires that funds are exchanged back in one month at the same term unless both parties agree to extend the swap for an additional month. By entering into the swap, the Corporation can take advantage of lower interest rates. The swap mitigates the risk of changes in the value of the US dollar borrowings as it will be exchanged for the same Canadian equivalent in one month. At June 30, 2021, US $208.0 million (December 31, 2020 – US $257.2 million) of the Corporation's US denominated borrowings are hedged with these swaps.

Convertible Debentures

The following summarizes the convertible debentures outstanding as at June 30, 2021, and changes in the amounts of convertible debentures outstanding during the six months ended June 30, 2021:

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

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

On July 30, 2021, subsequent to the end of the period, the Corporation closed a bought deal offering of convertible debentures. At the closing of the offering, the Corporation issued $143.75 million principal amount of debentures including the exercise of the full $18.75 million overallotment option that was granted to the underwriters. The debentures bear interest at 5.25% per annum, payable semi-annually. The debentures are convertible at the holder's option into common shares of the Corporation at a conversion price of $52.70 per share. The maturity of the debentures is July 31, 2028.

On July 30, 2021, subsequent to the end of the period, the Corporation provided notice of its intent to call the 7 year 5.25% convertible debentures which were due on June 30, 2023. The redemption will occur on September 2, 2021. The redemption of the debentures will be completed with cash on hand from the Corporation's issuance of its July 2021 5.25% convertible debenture offering.

Share Capital

The following summarizes the changes in the shares outstanding of the Corporation during the six months ended June 30, 2021:

	Date issued (redeemed)	Number of shares
Shares outstanding, beginning of period		35,471,758
Issued under dividend reinvestment plan (DRIP)	various	143,333
Issued under employee share purchase plan	various	30,701
Issued under First Nations community partnership agreements	various	2,000
Prospectus offering, including over-allotment	various	2,236,000
Shares outstanding, end of period		37,883,792

On April 26, 2021, the Corporation closed a bought deal financing of common shares, which, inclusive of the over-allotment exercised by the underwriters, resulted in the issuance of 2,236,000 shares of the Corporation at $39.40 per share, for gross proceeds of approximately $88.1 million.

The Corporation issued 143,333 shares under its dividend reinvestment plan during the period and received $5.4 million for those shares in accordance with the dividend reinvestment plan.

The Corporation issued 30,701 shares under its Employee Share Purchase Plan during the period and received $1.2 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, 2021, increased by 7% and 4%, respectively, compared to the prior period. The increase is primarily attributable to shares issued under the Corporation's bought deal financing of common shares.

Normal Course Issuer Bid

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

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

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

During the six months ended June 30, 2021, the Corporation did not make any purchases under either NCIB and therefore still has the full amounts detailed above available for repurchase.

7. RELATED PARTY TRANSACTIONS

The nature of related party transactions that the Corporation entered during the six months ended June 30, 2021, are consistent with those described in the Corporation's MD&A for the year ended December 31, 2020.

8. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. There were no changes to the Corporation's critical accounting estimates and judgments from those described in the MD&A of the Corporation for the year ended December 31, 2020.

9. ACCOUNTING POLICIES

The accounting policies of the Corporation used in the determination of the results for the interim condensed consolidated financial statements for the three and six months ended June 30, 2021, that are discussed and analyzed in this report are described in detail in Note 3 of the Corporation's 2020 annual consolidated financial statements and Note 3 of the Corporation's interim condensed consolidated financial statements for the six months ended June 30, 2021.

10. CONTROLS AND PROCEDURES

Internal Controls over Financial Reporting

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

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

Management has evaluated the design of the Corporation's internal controls over financial reporting as at June 30, 2021, and has concluded that the design of internal controls over financial reporting is effective.

In accordance with section 3.3(1)(b) of National Instrument 52-109, management has limited the scope of its design of internal controls over financial reporting to exclude the controls at WIS, acquired on July 31, 2020. WIS had revenue of $54.1 million included in the consolidated results of the Corporation for the six months ended June 30, 2021. As at June 30, 2021, it had current assets of $34.0 million, non-current assets of $48.8 million, current liabilities of $8.5 million, and non-current liabilities of $0.3 million.

There have been no material changes to the Corporation's internal controls during the 2021 period that would have materially affected or are likely to materially affect the internal controls over financial reporting.

On July 5, 2021, subsequent to the end of the second quarter, the Corporation acquired Carson Air. 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 2021.

On August 11, 2021, subsequent to the end of the second quarter, the Corporation acquired Macfab. 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 2021.

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, 2021.

11. RISK FACTORS

The Corporation and its subsidiaries are subject to several business risks. These risks relate to the structure of the Corporation and the operations at the subsidiary entities. There were no changes to the Corporation's principal risks and uncertainties from those reported in the Corporation's MD&A for the year ended December 31, 2020.

12. NON-IFRS FINANCIAL MEASURES AND GLOSSARY

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

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

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

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

Maintenance and Growth Capital Expenditures: Maintenance Capital Expenditures is defined as the capital expenditures made by the Corporation to maintain the operations of the Corporation at its current level and, prior to the onset of COVID-19, depreciation recorded on assets in the Corporation's leasing pool. Other capital expenditures are classified as Growth Capital Expenditures as they will generate new cash flows and are not considered by management in determining the cash flows required to sustain the current operations of the Corporation.

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

Regional One's purchases of operating aircraft within its lease portfolio are capital expenditures and, prior to the onset of COVID-19, the process used to classify those expenditures as either growth or maintenance is based on the depreciation of that portfolio. Aircraft that are leased to third parties are being consumed over time, therefore reinvestment is necessary to maintain the ability to generate future cash flows at existing levels. This depletion of the remaining green time of these aircraft was historically represented by depreciation. For the first quarter of 2020, an amount equal to Regional One's depreciation is included in the Corporation's consolidated Maintenance Capital Expenditures. Only net capital expenditures more than depreciation were classified as Growth Capital Expenditures. If there were no purchases of capital assets during the period by Regional One, Maintenance Capital Expenditures would still be equal to depreciation recorded on its leased assets and Growth Capital Expenditures would be negative, representing the depletion of potential future earnings and cash flows. The aggregate of Maintenance and Growth Capital Expenditures always equals the actual cash spent on capital assets during the period. This ensures that the payout ratio reflects the necessary replacement of Regional One's leased assets.

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

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

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

13. QUARTERLY INFORMATION

The following summary reflects quarterly results of the Corporation:

		2021				2020			2019
	Q2	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	**$ 322,070**	**$ 300,746**	$ 301,710	$ 297,286	$ 243,657	$ 306,976	$ 363,287	$ 355,164	$ 325,907
EBITDA	**81,061**	**64,122**	81,971	83,235	62,075	57,254	88,748	89,002	87,237
Net Earnings (Loss)	**16,506**	**7,127**	13,479	17,244	2,630	(5,298)	25,283	28,990	21,875
Basic	**0.44**	**0.20**	0.38	0.49	0.08	(0.15)	0.74	0.90	0.68
Diluted	**0.43**	**0.20**	0.37	0.48	0.07	(0.15)	0.71	0.83	0.65
Adjusted Net Earnings	**19,781**	**10,551**	18,847	20,626	5,645	2,058	29,757	33,073	26,573
Basic	**0.53**	**0.30**	0.53	0.59	0.16	0.06	0.88	1.03	0.83
Diluted	**0.52**	**0.29**	0.52	0.57	0.16	0.06	0.81	0.93	0.78
Free Cash Flow ("FCF")	**57,283**	**41,642**	59,497	57,886	42,268	38,749	68,631	67,166	65,729
Basic	**1.54**	**1.17**	1.68	1.64	1.21	1.12	2.02	2.08	2.05
Diluted	**1.37**	**1.06**	1.48	1.45	1.09	1.01	1.75	1.78	1.75
FCF less Maintenance Capital Expenditures	**36,517**	**19,578**	41,270	44,350	25,412	2,299	36,935	36,885	34,533
Basic	**0.98**	**0.55**	1.17	1.26	0.73	0.07	1.09	1.14	1.08
Diluted	**0.91**	**0.54**	1.05	1.23	0.71	0.06	0.99	1.03	0.97
Maintenance Capital Expenditures	**20,766**	**22,064**	18,227	13,536	16,856	36,450	31,696	30,281	31,196
Growth Capital Expenditures	**33,996**	**22,532**	14,434	6,807	12,301	14,381	29,790	32,060	16,392

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 2021		December 31 2020
ASSETS				
CURRENT				
Cash and cash equivalents	$	43,464	$	69,862
Accounts receivable		290,944		263,885
Amounts due from customers on construction contracts		25,125		21,372
Inventory		236,945		235,870
Prepaid expenses and deposits		36,095		27,967
		632,573		618,956
OTHER ASSETS (Note 6)		77,295		75,347
CAPITAL ASSETS		976,258		950,037
RIGHT OF USE ASSETS		81,871		90,483
INTANGIBLE ASSETS		154,887		161,772
GOODWILL		394,713		397,589
	$	2,317,597	$	2,294,184
LIABILITIES				
CURRENT				
Accounts payable and accrued expenses	$	240,893	$	214,504
Income taxes payable		3,382		5,253
Deferred revenue		44,163		27,973
Amounts due to customers on construction contracts		28,354		24,997
Current portion of right of use lease liability		22,801		22,604
		339,593		295,331
OTHER LONG-TERM LIABILITIES		18,461		31,427
LONG-TERM DEBT (Note 7)		727,310		794,194
CONVERTIBLE DEBENTURES (Note 8)		318,568		315,830
LONG-TERM RIGHT OF USE LEASE LIABILITY		65,583		73,794
DEFERRED INCOME TAX LIABILITY		96,794		97,662
		1,566,309		1,608,238
EQUITY				
SHARE CAPITAL (Note 9)		822,993		731,343
CONVERTIBLE DEBENTURES - Equity Component (Note 8)		13,214		13,214
CONTRIBUTED SURPLUS		9,837		9,837
DEFERRED SHARE PLAN		17,563		16,893
RETAINED EARNINGS				
Cumulative Earnings		523,257		499,624
Cumulative Dividends		(618,712)		(576,932)
Cumulative impact of share cancellation under the NCIB		(26,122)		(26,122)
		742,030		667,857
ACCUMULATED OTHER COMPREHENSIVE INCOME		9,258		18,089
		751,288		685,946
	$	2,317,597	$	2,294,184

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

Approved on behalf of the directors by:

Duncan Jessiman, Director
Signed

Donald Streuber, Director
Signed

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended		Six Months Ended	
For the periods ended June 30	2021	2020	2021	2020
REVENUE				
Aerospace & Aviation	**$ 197,934**	$ 139,892	**$ 381,077**	$ 340,585
Manufacturing	**124,136**	103,765	**241,739**	210,048
	322,070	243,657	**622,816**	550,633
EXPENSES				
Aerospace & Aviation expenses - excluding depreciation and amortization	**106,445**	72,010	**210,581**	190,321
Manufacturing expenses - excluding depreciation and amortization	**91,962**	70,022	**180,332**	148,243
General and administrative	**42,602**	39,550	**86,720**	92,740
	241,009	181,582	**477,633**	431,304
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER (Note 4)	**81,061**	62,075	**145,183**	119,329
Depreciation of capital assets	**34,939**	33,866	**65,682**	68,894
Amortization of intangible assets	**3,868**	3,947	**8,319**	7,783
Finance costs - interest	**11,178**	11,993	**22,569**	25,086
Depreciation of right of use assets	**6,098**	6,323	**12,222**	12,664
Interest expense on right of use lease liabilities	**811**	1,015	**1,684**	2,047
Acquisition costs	**379**	65	**483**	80
Impairment loss	**-**	-	**-**	6,117
Other	**-**	-	**-**	(177)
EARNINGS (LOSS) BEFORE INCOME TAXES	**23,788**	4,866	**34,224**	(3,165)
INCOME TAX EXPENSE (RECOVERY)				
Current	**4,975**	3,850	**11,069**	3,632
Deferred	**2,307**	(1,614)	**(478)**	(4,129)
	7,282	2,236	**10,591**	(497)
NET EARNINGS (LOSS)	**$ 16,506**	$ 2,630	**$ 23,633**	$ (2,668)
NET EARNINGS (LOSS) PER SHARE (Note 12)				
Basic	**$ 0.44**	$ 0.08	**$ 0.65**	$ (0.08)
Diluted	**$ 0.43**	$ 0.07	**$ 0.63**	$ (0.08)

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

Exchange Income Corporation

INTERIM 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	2021	2020	2021	2020
NET EARNINGS (LOSS)	**$ 16,506**	$ 2,630	**$ 23,633**	$ (2,668)
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that are or may be reclassified to the Statement of Income				
Cumulative translation adjustment, net of tax expense for the three months ended June 30 of $(5) and $(16), respectively, and net of tax expense (recovery) for the six months ended June 30 of $(9) and $18, respectively	**(8,733)**	(26,307)	**(16,205)**	30,495
Net gain (loss) on hedge of net investment in foreign operations net of tax expense for the three months ended June 30 of $220 and $nil, respectively and net of tax expense for the six months ended June 30 of $240 and $nil, respectively	**2,576**	8,194	**4,774**	(9,383)
Net gain (loss) on hedge of restricted share plan, net of tax expense (recovery) for the three months ended June 30 of $(35) and $456, respectively and net of tax expense (recovery) for the six months ended June 30 of $56 and $(671), respectively	**(97)**	1,232	**152**	(1,815)
Net gain (loss) on interest rate swap, net of tax expense (recovery) for the three months ended June 30 of $280 and $(278), respectively and net of tax expense (recovery) for the six months ended June 30 of $905 and $(1,627), respectively	**757**	(752)	**2,448**	(4,398)
	(5,497)	(17,633)	**(8,831)**	14,899
COMPREHENSIVE INCOME (LOSS)	**$ 11,009**	$ (15,003)	**$ 14,802**	$ 12,231

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited, in thousands of Canadian dollars)

	Share Capital	Convertible Debentures - Equity Component	Contributed Surplus - Matured Debentures	Deferred Share Plan	Retained Earnings: Cumulative Earnings	Retained Earnings: Cumulative Dividends	Retained Earnings: Cumulative impact of share repurchases under NCIB	Accumulated Other Comprehensive Income (Loss)	**Total**
Balance, January 1, 2020	$ 709,546	$ 13,214	$ 9,837	$ 15,854	$ 471,569	$ (496,920)	$ (26,122)	$ 32,865	$ 729,843
Shares issued under dividend reinvestment plan	4,445	-	-	-	-	-	-	-	4,445
Deferred share plan vesting (Note 13)	-	-	-	839	-	-	-	-	839
Deferred share plan issuance	281	-	-	(281)	-	-	-	-	-
Shares issued under ESPP	1,348	-	-	-	-	-	-	-	1,348
Comprehensive income (loss)	-	-	-	-	(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**
Balance, January 1, 2021	$ 731,343	$ 13,214	$ 9,837	$ 16,893	$ 499,624	$ (576,932)	$ (26,122)	$ 18,089	**$ 685,946**
Prospectus offering, April 2021 (Note 9)	84,946	-	-	-	-	-	-	-	**84,946**
Shares issued under dividend reinvestment plan (Note 9)	5,402	-	-	-	-	-	-	-	**5,402**
Shares issued under First Nations community partnership agreements	79	-	-	-	-	-	-	-	**79**
Deferred share plan vesting (Note 13)	-	-	-	670	-	-	-	-	**670**
Shares issued under ESPP (Note 9)	1,223	-	-	-	-	-	-	-	**1,223**
Comprehensive income (loss)	-	-	-	-	23,633	-	-	(8,831)	**14,802**
Dividends declared (Note 10)	-	-	-	-	-	(41,780)	-	-	**(41,780)**
Balance, June 30, 2021	**$ 822,993**	**$ 13,214**	**$ 9,837**	**$ 17,563**	**$ 523,257**	**$ (618,712)**	**$ (26,122)**	**$ 9,258**	**$ 751,288**

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of Canadian Dollars)

	Three Months Ended		Six Months Ended	
For the periods ended June 30	**2021**	2020	**2021**	2020
OPERATING ACTIVITIES				
Net earnings (loss) for the period	**$ 16,506**	$ 2,630	**$ 23,633**	$ (2,668)
Items not affecting cash:				
Depreciation of capital assets	**34,939**	33,866	**65,682**	68,894
Amortization of intangible assets	**3,868**	3,947	**8,319**	7,783
Depreciation of right of use assets	**6,098**	6,323	**12,222**	12,664
Accretion of interest	**1,756**	1,803	**3,548**	3,314
Long-term debt discount	**(6)**	236	**(2)**	146
Impairment loss	**-**	-	**-**	6,117
Gain on disposal of capital assets	**(3,064)**	(129)	**(3,616)**	(759)
Deferred income tax expense (recovery)	**2,307**	(1,614)	**(478)**	(4,129)
Deferred share program share-based vesting	**299**	398	**670**	839
Other	**-**	-	**-**	(177)
	62,703	47,460	**109,978**	92,024
Changes in non-cash current and long-term working capital (Note 15)	**(23,362)**	21,870	**(2,367)**	23,045
	39,341	69,330	**107,611**	115,069
FINANCING ACTIVITIES				
Proceeds from long-term debt, net of issuance costs (Note 7)	**4,350**	-	**22,848**	128,168
Repayment of long-term debt (Note 7)	**(89,151)**	(62,131)	**(89,151)**	(63,681)
Principal payments on right of use lease liabilities	**(5,799)**	(5,257)	**(11,536)**	(11,087)
Issuance of shares, net of issuance costs	**87,276**	3,256	**90,485**	5,793
Cash dividends (Note 10)	**(21,533)**	(19,867)	**(41,780)**	(39,668)
	(24,857)	(83,999)	**(29,134)**	19,525
INVESTING ACTIVITIES				
Purchase of capital assets	**(54,007)**	(28,249)	**(110,497)**	(80,165)
Proceeds from disposal of capital assets	**586**	310	**13,483**	2,593
Purchase of intangible assets	**(1,341)**	(1,218)	**(2,344)**	(2,416)
Investment in other assets	**803**	(3,216)	**(3,401)**	(5,836)
Payment of contingent acquisition consideration and working capital settlements	**-**	(1,518)	**-**	(7,255)
	(53,959)	(33,891)	**(102,759)**	(93,079)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(39,475)**	(48,560)	**(24,282)**	41,515
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**83,711**	118,220	**69,862**	22,055
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(772)**	(3,479)	**(2,116)**	2,611
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 43,464**	$ 66,181	**$ 43,464**	$ 66,181
Supplementary cash flow information				
Interest paid	**$ 11,702**	$ 13,281	**$ 19,158**	$ 21,461
Income taxes paid	**$ 4,658**	$ (4,629)	**$ 13,079**	$ 692

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 the aerospace, aviation, and manufacturing sectors. The business plan of the Corporation is to invest in profitable, well-established companies with strong cash flows operating in niche markets. The Corporation is incorporated in Canada and the address of the registered office is 101 – 990 Lorimer Boulevard, Winnipeg, Manitoba, Canada R3P 0Z9.

As at June 30, 2021, the principal operating subsidiaries of the Corporation are Calm Air International LP, Perimeter Aviation LP (including its operating division, Bearskin Airlines), Keewatin Air LP, Custom Helicopters Ltd., Regional One Inc., EIC Aircraft Leasing Limited, Provincial Aerospace Ltd., CANLink Aviation Inc. ("MFC Training"), Quest Window Systems Inc., WesTower Communications Ltd., Ben Machine Products Company Incorporated, Stainless Fabrication, Inc., LV Control Mfg. Ltd., Water Blast Manufacturing LP, and Overlanders Manufacturing LP. Regional One Inc., Quest USA Inc., and Stainless Fabrication, Inc. are wholly owned subsidiaries of EIIF Management USA Inc. Through the Corporation's subsidiaries, products and services are provided in two business segments: Aerospace & Aviation and Manufacturing. Subsequent to the end of the quarter, the Corporation acquired Carson Air (Note 16), which will be reported within the Aerospace & Aviation segment as of the date of the acquisition.

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

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

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

The Corporation is unable to predict with accuracy the duration of the virus, actions governments will take, and customer sentiment during and after the pandemic with any certainty. The recent development and deployment of vaccines could result in more travel around the world.

In the Aerospace & Aviation segment, travel restrictions and required quarantine periods have had a material impact on passenger traffic, and demand for the Corporation's aircraft and aftermarket parts at Regional One Inc. and EIC Aircraft Leasing Limited has lessened as the pandemic has spread throughout the world. In the Manufacturing segment, social distancing, additional actions to keep our employees safe and required employee absenteeism have reduced manufacturing efficiency and reduced throughput in the production facilities. The Corporation has also incurred additional costs associated with personal protective equipment, sanitization, and other health and safety costs across both segments as a result of COVID-19. These impacts, among others as a result of COVID-19, reduced Revenue, Cash Flows from Operations (before the impact of working capital), and Net Earnings.

The Corporation took several steps to ensure it had the liquidity required during the uncertain economic times created by the COVID-19 pandemic as discussed in Note 7 and Note 14.

2. BASIS OF PREPARATION

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

In accordance with IFRS, these financial statements do not include all the financial statement disclosures required for annual financial statements and should be read in conjunction with the Corporation's annual consolidated financial statements for the year ended December 31, 2020. In management's opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim period presented.

These interim condensed consolidated financial statements were approved by the Board of Directors of the Corporation for issue on August 12, 2021.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and methods of computation used in the preparation of these interim condensed consolidated financial statements are the same as those followed in the most recent annual financial statements. Note 3 of the Corporation's 2020 audited financial statements includes a comprehensive listing of the Corporation's significant accounting policies.

Government Grants

During the six months ended June 30, 2021, the Corporation was eligible for the Canada Emergency Wage Subsidy ("CEWS"). During this period, the Corporation recorded $16,192 (2020 - $28,832) related to the CEWS as a reduction to the expenses for which the grant is intended to cover. At June 30, 2021, the Corporation has $794 (2020 - $9,270) 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.

6. OTHER ASSETS

The other assets of the Corporation consist of the following:

	June 30 2021	December 31 2020
Long-term prepaid expenses and security deposits	$ 1,834	$ 1,929
Long-term receivables	5,882	5,458
Long-term holdback receivables	1,564	5,060
Equity method investments	45,177	41,019
Other investments - Fair value through OCI (Note 14)	7,740	7,975
Derivative financial instruments - Fair value through profit and loss (Note 14)	2,786	-
Loan to Wasaya	11,758	12,363
Loan to Nunatsiavut Group of Companies ("NGC")	554	1,543
Total other assets	$ 77,295	$ 75,347

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

7. LONG-TERM DEBT

The following summarizes the Corporation's long-term debt as at June 30, 2021, and December 31, 2020:

		June 30 2021		December 31 2020
Revolving term facility:				
Canadian dollar amounts drawn	$	190,000	$	190,000
United States dollar amounts drawn (US$435,600 and US$477,100 respectively)		539,883		607,444
Total credit facility debt outstanding, principal value		729,883		797,444
less: unamortized transaction costs		(2,409)		(3,087)
less: unamortized discount on outstanding Banker's Acceptances		(164)		(163)
Long-term debt	$	727,310	$	794,194

The Corporation's credit facility is secured by a general security agreement over the assets of the Corporation, subject to customary terms, conditions, covenants, and other provisions, and includes both financial and negative covenants. The Corporation is in compliance with all financial and negative covenants as at June 30, 2021.

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

Interest expense recorded by the Corporation during the three and six months ended June 30, 2021, for long-term debt was $5,181 and $10,640 respectively (2020 – $5,817 and $13,033).

Subsequent to the end of the period, the Corporation amended its credit facility as described in Note 16.

Credit Facility

The following is the continuity of long-term debt for the six months ended June 30, 2021:

									Six Months Ended June 30, 2021
		Opening		Withdrawals		Repayments		Exchange Differences	Ending
Credit facility amounts drawn									
Canadian dollar amounts	$	190,000	$	-	$	-	$	-	$ 190,000
United States dollar amounts		607,444		22,848		(89,151)		(1,258)	539,883
	$	797,444							$ 729,883

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

8. CONVERTIBLE DEBENTURES

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

Summary of the debt component of the convertible debentures:

	2021 Balance, Beginning of Period	Debentures Issued	Accretion Charges	Debentures Converted	Redeemed / Matured	2021 Balance, End of Period
Unsecured Debentures - 2016	$ 67,014	$ -	$ 368	$ -	$ -	$ 67,382
Unsecured Debentures - 2017	97,692	-	549	-	-	98,241
Unsecured Debentures - 2018	76,638	-	374	-	-	77,012
Unsecured Debentures - 2019	83,413	-	230	-	-	83,643
						326,278
less: unamortized transaction costs						(7,710)
Convertible Debentures - Debt Component, end of period						$ 318,568

Interest expense recorded during the three and six months ended June 30, 2021, for the convertible debentures was $5,925 and $11,786, respectively (2020 – $5,817 and $11,626, respectively).

Subsequent to June 30, 2021, the Corporation completed a Bought Deal Offering of Convertible Debentures as described in Note 16.

Subsequent to June 30, 2021, the Corporation announced its intention to redeem the 2016 unsecured debentures as described in Note 16.

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 2021	December 31 2020
Unsecured Debentures - 2016	$ 3,261	$ 3,261
Unsecured Debentures - 2017	3,590	3,590
Unsecured Debentures - 2018	3,866	3,866
Unsecured Debentures - 2019	2,497	2,497
Convertible Debentures - Equity Component, end of period	$ 13,214	$ 13,214

All convertible debentures outstanding at June 30, 2021, represent direct unsecured debt obligations of the Corporation.

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

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$19,392 principal amount of Debentures (June 2018), and $19,338 principal amount of Debentures (March 2019), other than block purchase exemptions.

During the six months ended June 30, 2021, the Corporation did not make any purchases under its convertible debenture NCIB and therefore has the full amounts detailed above available for repurchase.

9. SHARE CAPITAL

Changes in the shares issued and outstanding during the six months ended June 30, 2021, are as follows:

	Number of Shares		2021 Amount
Share capital, beginning of period	**35,471,758**	**$**	**731,343**
Issued under dividend reinvestment plan	**143,333**		**5,402**
Issued under employee share purchase plan	**30,701**		**1,223**
Issued under First Nations community partnership agreements	**2,000**		**79**
Prospectus offering, including over-allotment	**2,236,000**		**84,946**
Share capital, end of period	**37,883,792**	**$**	**822,993**

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

During the six months ended June 30, 2021, the Corporation did not make any purchases under its common share NCIB and therefore has the full 3,253,765 shares available for repurchase.

On April 26, 2021, the Corporation closed a bought deal financing of common shares, which, inclusive of the over-allotment exercised by the underwriters, resulted in the issuance of 2,236,000 shares of the Corporation at $39.40 per share, for gross proceeds of approximately $88,098.

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, 2021, and the comparative 2020 period are as follows:

Month	Record date		Per Share		2021 Dividends Amount	Record date		Per Share		2020 Dividends Amount
January	January 29, 2021	$	**0.19**	$	**6,744**	January 31, 2020	$	0.19	$	6,596
February	February 26, 2021		**0.19**		**6,748**	February 28, 2020		0.19		6,599
March	March 31, 2021		**0.19**		**6,755**	March 31, 2020		0.19		6,606
April	April 30, 2021		**0.19**		**7,146**	April 30, 2020		0.19		6,612
May	May 31, 2021		**0.19**		**7,189**	May 29, 2020		0.19		6,621
June	June 30, 2021		**0.19**		**7,198**	June 30, 2020		0.19		6,634
Total		**$**	**1.14**	**$**	**41,780**		$	1.14	$	39,668

After June 30, 2021, and before these interim condensed consolidated financial statements were authorized, the Corporation declared a monthly dividend of $0.19 per share for July 2021.

11. SEGMENTED AND SUPPLEMENTAL INFORMATION

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

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

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.

				Three Months Ended June 30, 2021
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 197,934	$ 124,136	$ -	$ 322,070
Expenses	129,371	104,410	7,228	241,009
EBITDA	68,563	19,726	(7,228)	81,061
Depreciation of capital assets				34,939
Amortization of intangible assets				3,868
Finance costs - interest				11,178
Depreciation of right of use assets				6,098
Interest expense on right of use lease liabilities				811
Acquisition costs				379
Earnings before income taxes				23,788
Current income tax expense				4,975
Deferred income tax expense				2,307
Net Earnings				$ 16,506

				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

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)

	Six Months Ended June 30, 2021			
	Aerospace & Aviation	**Manufacturing**	**Head Office**	**Consolidated**
Revenue	**$ 381,077**	**$ 241,739**	**$ -**	**$ 622,816**
Expenses	**259,692**	**203,919**	**14,022**	**477,633**
EBITDA	**121,385**	**37,820**	**(14,022)**	**145,183**
Depreciation of capital assets				**65,682**
Amortization of intangible assets				**8,319**
Finance costs - interest				**22,569**
Depreciation of right of use assets				**12,222**
Interest expense on right of use lease liabilities				**1,684**
Acquisition costs				**483**
Earnings before income taxes				**34,224**
Current income tax expense				**11,069**
Deferred income tax recovery				**(478)**
Net Earnings				**$ 23,633**

	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)

	For the period June 30, 2021			
	Aerospace & Aviation	**Manufacturing**	**Head Office (1)**	**Consolidated**
Total assets	**$ 1,673,690**	**$ 529,723**	**$ 114,184**	**$ 2,317,597**
Net capital asset additions	**94,242**	**2,720**	**52**	**97,014**

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

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

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

Revenues

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

		Three Months Ended		Six Months Ended	
Revenue Streams	Periods Ended June 30	**2021**	**2020**	**2021**	2020
Aerospace & Aviation Segment					
Sale of goods - point in time		**$ 35,856**	$ 29,203	**$ 66,206**	$ 67,584
Sale of services - point in time		**160,673**	110,347	**313,178**	271,932
Sale of services - over time		**1,405**	342	**1,693**	1,069
Manufacturing Segment					
Sale of goods - point in time		**24,162**	21,934	**47,887**	44,255
Sale of goods and services - over time		**99,974**	81,831	**193,852**	165,793
Total revenue		**$ 322,070**	$ 243,657	**$ 622,816**	$ 550,633

12. EARNINGS PER SHARE

Basic earnings per share for the Corporation is calculated by dividing the Net Earnings by the weighted average number of common shares outstanding during the period.

Diluted Net Earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive securities to common shares. The Corporation has two categories of dilutive potential common shares: deferred shares under the Corporation's Deferred Share Plan and convertible debentures. For the convertible debentures, the convertible debt is assumed to have been converted into common shares and Net Earnings is adjusted to eliminate the interest expense from the convertible debt less the tax effect.

The computation for basic and diluted earnings per share for the three and six months ended June 30, 2021, and the comparative for the 2020 period are as follows:

	Three Months Ended		Six Months Ended	
Periods Ended June 30	**2021**	2020	**2021**	2020
Net earnings (loss)	**$ 16,506**	$ 2,630	**$ 23,633**	$ (2,668)
Effect of dilutive securities				
Convertible debenture interest	**-**	-	**-**	-
Diluted Net Earnings (Loss)	**$ 16,506**	$ 2,630	**$ 23,633**	$ (2,668)
Basic weighted average number of shares	**37,148,707**	34,829,660	**36,332,992**	34,779,510
Effect of dilutive securities				
Deferred Shares	**987,089**	912,868	**987,089**	-
Convertible debentures	**-**	-	**-**	-
Diluted basis weighted average number of shares	**38,135,796**	35,742,528	**37,320,081**	34,779,510
Net Earnings (Loss) per share:				
Basic	**$ 0.44**	$ 0.08	**$ 0.65**	$ (0.08)
Diluted	**$ 0.43**	$ 0.07	**$ 0.63**	$ (0.08)

13. EMPLOYEE BENEFITS

Deferred Share Plan

During the six months ended June 30, 2021, the Corporation granted 30,607 (2020 – 18,749) deferred shares to certain personnel. The fair value of the deferred shares granted was $1,214 (2020 - $811) at the time of the grant and was based on the market price of the Corporation's shares at that time. During the three and six months ended June 30, 2021, the Corporation recorded a compensation expense of $299 and $670, respectively for the Corporation's Deferred Share Plan within the general and administrative expenses of head office (2020 - $398 and $839, respectively).

Restricted Share Plan

During the six months ended June 30, 2021, the Corporation granted 121,408 (2020 – 104,543) restricted shares to certain personnel. The fair value of the restricted share units granted was $4,881 (2020 - $4,236) at the time of the grant and was based on the market price of the Corporation's shares at that time. During the three and six months ended June 30, 2021, the Corporation recorded compensation expense of $1,347 and $2,389, respectively for the Corporation's Restricted Share Plan within the general and administrative expenses of head office (2020 - $540 and $796, 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, 2021, employees acquired 30,701 shares from treasury at a weighted average price of $39.85 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 $425 based on the share price and monthly dividend rate at that time.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation's activities expose it to a variety of financial risks: market risk (primarily currency, interest rate risk, and other price risk), credit risk, and liquidity risk. Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary. The following describes the risk management areas that have significantly changed from those described in the audited December 31, 2020, consolidated financial statements.

During the prior period, the Corporation amended its credit facility to provide additional flexibility during the uncertain times brought on by the COVID-19 pandemic. The amendment increased the senior leverage ratio maximum from 4.0x to 5.0x for fiscal quarters through September 30, 2021. This amendment was sought as a precautionary measure. Since the onset of the pandemic, the Corporation has enhanced processes surrounding its working capital management. The Corporation will continue to manage its working capital to reflect its current level of operations. The Corporation has also managed capital investments during the 2021 period where appropriate as part of its overall cash management due to the ongoing impact of COVID-19.

Market Risk

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

Currency Risk

The Corporation has US $435,600 or $539,883 (December 31, 2020 - US $477,100 or $607,444) outstanding on its credit facility. The outstanding funds in US dollars 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 $85,200 (December 31, 2020 - US $82,500) is drawn by EIIF Management USA, Inc., an entity that uses US dollars as its functional currency. Therefore, the currency risk on this balance is recognized in other comprehensive income.

The Corporation's investment in those subsidiaries with US dollar functional currencies are hedged partially by US $142,400 (December 31, 2020 - US $137,400) of credit facility draws, which mitigates the foreign currency translation risk arising from the subsidiary`s net assets. The loan is designated as a net investment hedge and no ineffectiveness was recognized from the net investment hedge.

During the quarter, the Corporation continued the use of derivatives through several cross-currency basis swaps ("swap") with a member of the Corporation's lending syndicate. The swap requires that funds are exchanged back in one month at the same terms unless both parties agree to extend the swap for an additional month. By borrowing in US dollars, the Corporation is able to take advantage of lower interest rates. The swap mitigates the risk of changes in the value of the Corporation's US dollar LIBOR borrowings as they will be exchanged for the same Canadian equivalent in one month. The swap is designated as a hedge of the underlying debt instrument and no ineffectiveness was recognized. The fair value of the swaps at June 30, 2021, was a financial asset of $2,195 (2020 - financial liability of $4,433). At June 30, 2021, the notional value of the swaps outstanding is US $208,000 (2020 - US $257,200). Hedging gains and losses are reclassified from other comprehensive income to the interim condensed consolidated statement of income to the extent effective. Accordingly, $2,195 was reclassified from other comprehensive income (2020 - $4,433).

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, 2021:

- US $435,600 (December 31, 2020 – US $477,100) was outstanding under US LIBOR and,
- $190,000 (December 31, 2020 – $190,000) was outstanding under Banker's Acceptances.

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

The Corporation continued the use of its interest rate swap with certain members of its lending syndicate whereby the Corporation has fixed interest rates on $190,000 of its Canadian credit facility debt until May 15, 2024. The derivative financial instrument hedges the exposure to variability in cash flow associated with the future payment of interest on Bankers' Acceptance debt that would impact profit or loss and therefore qualifies as a cash flow hedge. The interest rate swap is classified as an other long-term financial liability of $4,053 (December 31, 2020 - other long-term financial liability of $7,407) and is recorded as a separate line within other comprehensive income.

Other Price Risk

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

To mitigate the income statement impact of a change in the Corporation's share price, the Corporation entered into a derivative instrument for each of the 2019, 2020, and 2021 Restricted Share Plan grants, which fixes the cost of the plan for the Corporation. Any changes in fair value will either be paid to the counterparty or be paid to the Corporation by the counterparty at the vesting date. These derivative instruments fix the cost to the Corporation and do not impact the variability of the award received by the participant. The derivative financial instruments hedge the exposure to variability in cash flow associated with the future settlement of restricted shares issued under the Restricted Share Plan that would impact profit or loss and therefore qualifies as a cash flow hedge. On a combined basis, the initial grant date fair value for the 2019, 2020, and 2021 programs was $12,583. The instruments are classified as a long-term financial asset of $591 (2020 - long-term financial liability of $43) and are recorded as a separate line within other comprehensive income.

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Fair Value of Financial Instruments

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

		Fair Value		
Recurring fair value measurements	**Carrying Value June 30, 2021**	**Quoted prices in an active market Level 1**	**Significant other observable inputs Level 2**	**Significant unobservable inputs Level 3**
Financial Assets				
Other long-term assets - Cross currency basis swap - Financial asset at fair value through profit and loss	$ 2,195	$ -	$ 2,195	$ -
Other long-term assets - Restricted share hedge - Financial asset at fair value through profit and loss (Note 6)	591	-	591	-
Other assets - Fair value through OCI (Note 6)	7,740	-	-	7,740
Financial Liabilities				
Consideration liabilities - Financial liability at fair value through profit and loss	(5,856)	-	-	(5,856)
Other long-term liabilities - Interest Rate Swap - Financial liability at fair value through OCI	(4,053)	-	(4,053)	-
Fair Value Disclosures				
Other assets - Amortized cost	21,592	-	21,592	-
Long-term debt - Amortized cost	(727,310)	-	-	(729,883)
Convertible debt - Amortized cost	(318,568)	(345,917)	-	-

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

		Fair Value		
Recurring fair value measurements	Carrying Value December 31, 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)	$ 7,975	$ -	$ -	$ 7,975
Financial Liabilities				
Consideration liabilities - Financial liability at fair value through profit and loss	(5,714)	-	-	(5,714)
Other long-term liabilities - Cross-currency basis swap - Financial liability at fair value through profit and loss	(4,433)	-	(4,433)	-
Other long term liabilities - Restricted Share Plan Derivative - Financial liability at fair value through profit and loss	(43)	-	(43)	-
Other long-term liabilities - Interest Rate Swap - Financial liability at fair value through OCI	(7,407)	-	(7,407)	-
Fair Value Disclosures				
Other assets - Amortized cost	26,353	-	26,353	-
Long-term debt - Amortized cost	(794,194)	-	-	(797,444)
Convertible debt - Amortized cost	(315,830)	(335,454)	-	-

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

The following table summarizes the changes in the consideration liabilities recorded on the acquisitions of Moncton Flight College, Wings Over Kississing, LV Control, and AWI including any changes for settlements, changes in fair value, and changes due to foreign currency fluctuations:

Consideration Liability Summary	**June 30**	December 31
For the periods ended	**2021**	2020
Opening	**$ 5,714**	$ 12,411
Accretion	**142**	272
Settled during the period	**-**	(7,255)
Change in estimate (Note 5)	**-**	(177)
Acquisition of Advanced Window, including change in estimate (Note 6)	**-**	422
Translation loss	**-**	41
Ending	**$ 5,856**	$ 5,714

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

Included in the $5,856 above is the earn out liability for LV Control.

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

Financial Instrument Fair Value Disclosures

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

As at June 30, 2021, management had determined that the fair value of its long-term debt approximates its carrying value. The fair value of long-term debt has been calculated by discounting the expected future cash flows using a discount rate of 2.2%. The discount rate is determined by using a risk-free benchmark bond yield for instruments of similar maturity adjusted for the Corporation’s specific credit risk. In determining the adjustment for credit risk, the Corporation considers market conditions, the underlying value of assets secured by the associated instrument, and other indicators of the Corporation’s credit-worthiness.

As at June 30, 2021, management estimated the fair value of the convertible debentures based on trading values. The estimated fair value of its convertible debentures is $345,917 (December 31, 2020 - $335,454) with a carrying value of $318,568 (December 31, 2020 - $315,830).

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

15. CHANGES IN WORKING CAPITAL

The changes in non-cash operating working capital during the three and six months ended June 30, 2021, and the comparative period in 2020 are as follows:

	Three Months Ended		Six Months Ended	
Periods Ended June 30	**2021**	2020	**2021**	2020
Accounts receivable, including long-term portion	**$ (23,481)**	$ 26,249	**$ (26,330)**	$ 50,436
Amounts due from customers on construction contracts	**(4,308)**	2,519	**(3,906)**	(1,666)
Inventory	**(5,992)**	4,550	**(5,040)**	(6,757)
Prepaid expenses and deposits, including long-term portion	**(985)**	56	**(8,144)**	599
Accounts payable and accrued expenses, including long-term portion	**(137)**	(24,125)	**22,812**	(19,843)
Income taxes receivable/payable	**280**	8,459	**(1,850)**	2,844
Deferred revenue, including long-term portion	**9,461**	(289)	**16,190**	(2,541)
Amounts due to customers on construction contracts	**1,800**	4,451	**3,901**	(27)
Net change in working capital	**$ (23,362)**	$ 21,870	**$ (2,367)**	$ 23,045

16. SUBSEQUENT EVENTS

Acquisition of Carson Air

On July 5, 2021, the Corporation acquired Carson Air (“Carson”) for $61 million. The purchase price was funded by issuance of $3 million of the Corporation’s common shares to the vendor and cash in the amount of $58 million that was available from the Corporation's credit facility. Carson was established in 1990 and is a provider of fixed wing air ambulance services in British Columbia. In addition to air ambulance services, which is Carson Air's primary business, it provides dedicated cargo services in B.C. and Alberta and operates a flight school, Southern Interior Flight Centre.

Bought Deal Financing of Convertible Debentures

On July 30, 2021, the Corporation closed a bought deal offering of convertible debentures. At the closing of the offering, the Corporation issued $143,750 principal amount of debentures including the exercise of the full $18,750 overallotment option that was granted to the underwriters. The debentures bear interest at 5.25% per annum, payable semi-annually. The debentures are convertible at the holder’s option into common shares of the Corporation at a conversion price of $52.70 per share. The maturity of the debentures is July 31, 2028.

Credit Facility Extension

On August 6, 2021, the Corporation completed the extension of the maturity of its credit facility to August 6, 2025. The remaining terms included within the facility were virtually unchanged from the Corporation’s previous credit facility.

Early Redemption of Convertible Debentures

On July 30, 2021, the Corporation provided notice of its intent to call the 7 year 5.25% convertible debentures which were due on June 30, 2023. The redemption will occur on September 2, 2021. The redemption of the debentures will be completed with cash on hand from the Corporation's issuance of its July 2021 5.25% convertible debenture offering.

Acquisition of Macfab Manufacturing

On August 11, 2021, the Corporation acquired Macfab Manufacturing Inc. ("Macfab") for $11 million. The purchase price was funded by the issuance of $2 million of the Corporation's common shares to the vendor and cash in the amount of $9 million that was available from the Corporation's credit facility. Macfab was founded in 1987 and is a contract manufacturer of precision custom components and sub-assemblies for medical, life sciences, aviation security, avionics, and space instruments. Serving customers across Canada, US and the UK, Macfab provides prototype and production volumes, and offers a complete suite of precision machining, finishing, cleaning, and assembly solutions.