Exchange
Income
Corporation

Second Quarter Report

For the three and six months ended June 30, 2018

CEO's Message

The second quarter followed EIC's well established track record of profitable growth, an increasing dividend and a declining payout ratio. Revenue and EBITDA were all time quarterly highs while the Free Cash Flow less Maintenance Capital Expenditures payout ratio fell to 58% for the quarter and 64% for the trailing twelve months. The second quarter performance demonstrates the effectiveness of our model of diversification through accretive acquisition and investment in our subsidiaries. We have always valued a strong balance sheet which has limited leverage and high liquidity to enable us to move quickly when the right opportunities are uncovered. The recent offering of convertible debentures enabled us to extend the maturities of our debt while reducing the potential dilution when these convertible debentures convert into equity because of a material increase in the conversion price when compared to the convertible debentures that were retired with the proceeds of the offering. In short, we delivered strong financial performance while laying the ground work for growth in future periods.

Second Quarter Financial Highlights

- Revenue grew by 15% to $313 million
- EBITDA grew by 7% to $75.1 million
- Adjusted Net Earnings grew by 5% to $25.2 million
- Adjusted Net Earnings is up 4% to $0.80 per share
- Free cash Flow less Maintenance Capital Expenditures increased by 34% to $0.94 per share
- Dividends per share in the quarter increased by 4%
- Payout Ratio when calculated as a percentage of Free Cash Flow less Maintenance Capital Expenditures improved to 58% from 75% for the second quarter and to 64% from 80% for the trailing twelve months
- Payout Ratio when calculated as a percentage of Adjusted Net Earnings was unchanged at 68% and on a trailing twelve month basis improved from 87% to 77%

The increased revenue and EBITDA were driven by the Manufacturing segment in general and by the strong performance of Quest in particular. Quest continued to exceed our internal expectations generating $7.4 million in EBITDA, bringing the year to date total to approximately $15 million. The Aerospace & Aviation segment declined slightly as a result of rapid fuel price escalation early in the quarter and due to the strengthening of the Canadian Dollar exchange rates (relative to the second quarter of 2017), which reduced the Canadian Dollar conversion of Regional One profits. The second quarter of 2017 was an exceptionally strong comparative period for the Aerospace & Aviation segment.

This quarter was an excellent illustration of the benefits of our diversification strategy. The aviation industry faced material headwinds as a result of both significantly higher fuel prices and the skilled labour shortage. Furthermore the strengthening of the Canadian Dollar over the same period last year reduced the Canadian Dollar value of US Dollar EBITDA by approximately $2 million. Given the importance of our Aerospace & Aviation segment to EIC's overall results, it may have lead you to expect a decline in EIC's overall metrics. However, the opposite is true. EBITDA, Adjusted Net Earnings and Adjusted Net Earnings per share all improved to record second quarter levels while twelve month trailing payout ratios improved even with a 4% increase in dividends per share during the quarter. The reason for this is our diversification. The headwinds in Aerospace & Aviation segment were offset by improvements in other businesses, both within the Aerospace & Aviation segment and the Manufacturing segment. Plus, through the acquisitions of Quest and Moncton Flight College, we have further reduced our reliance on any single subsidiary to drive results. Whereas Regional One accounted for 43% of the Corporation's EBITDA before head office costs in Q2 2017, during the second quarter of 2018 it accounted for less than 36%.

The performance of Quest has continued to be a large contributor to EIC's strong performance. In our first quarter report, we announced that the order backlog at Quest had grown significantly and that we would be opening a new facility in Dallas in early 2019. I am pleased to update that the backlog has continued to grow and our landlord is putting the finishing touches on a new 330,000 square foot facility and we will begin installing equipment in the third quarter with initial production early in 2019. We anticipate a capital cost to open the new facility of approximately $20 million Canadian Dollars.

In the fourth quarter of 2017, Keewatin began servicing the Kitikmeot region of Nunavut. This marked the first time that Keewatin had all three regions of Nunavut under contract; however, the contracts for the Baffin and Kivalliq regions were about to expire and the Government put out requests for proposals to service the markets. In our first quarter report we announced that we had been successful in renewing the Baffin contract and I am now proud to report that we were recently awarded a new contract for the Kivalliq region. As a result we now have all of Nunavut medevac work under long term contract.

During the second quarter we completed our investment in Wasaya Airlines. Working with its First Nations owners, we took an equity position and refinanced the airline. We have begun the process of integrating operations where possible to enhance customer service and drive efficiencies in both EIC and Wasaya. We are at the beginnings of this project and expect it will take some time to take advantage of the opportunities, but we are excited about the expansion of our geographic coverage in Northwestern Ontario through this partnership.

The acquisition of Moncton Flight College in the first quarter was a critical step for EIC in vertically integrating our pilot development. The shortage of pilots internationally shows no sign of abating and appears to be intensifying. The demand for its services by third parties is growing and we remain bullish on its growth opportunities for the foreseeable future. Its results in the short period we have owned it are in line with our expectations.

Provincial's maritime surveillance aircraft ("The Force Multiplier"), which we presented to shareholders at our investor day last year, is finalizing certification from Transport Canada and will be going into service during the third quarter. We have made a significant investment in this technologically advanced aircraft and have had great interest from governments around the world to utilize it for short to medium term projects.

One of the key tenets of our corporate strategy is to maintain a strong liquid balance sheet that enables us to move quickly and take advantage of opportunities when they are uncovered, even if it is in challenging times in the capital markets. As such, we strive to ensure our balance sheet limits refinancing risk and is highly liquid. Over the last 18 months we have increased our equity levels with an equity offering which was very well accepted by the market and was over subscribed, refinanced two separate convertible offerings with new facilities that extended maturities by five years or more, reduced interest rates and increased the strike price for conversion. Both of these convertible offerings were also oversold, allowing for an upsized transaction in the first case and the exercise of the over-allotment option in the other. Our convertible debenture financing now has staggered maturities over the 2021 to 2025 period. We also extended our credit facility over a four year term with reduced pricing and an increase in size to approximately $1 billion. Our balance sheet will enable us to continue to grow. We have no refinancing requirements until 2021, and we have approximately $350 million in available capital.

Our investment in capital expenditures has slowed significantly from that experienced in the previous couple of years. While our investment in maintenance expenditures to preserve the ability of our operations to generate profits in the future has increased slightly, the investment in growth expenditures has declined to a nominal amount in the second quarter. This in no way marks a change to our strategy, and in fact follows what we have consistently stated our plan to be. We will invest where opportunities meet our investment criteria whether that be through acquisition or additional capital for our existing subsidiaries. In recent years we have driven growth through investments in our operating subsidiaries, while in 2018 we have grown through recent acquisitions. The proof of the success of this model is in our results. We have maintained a 5% CAGR in our dividend since our inception. Our profits are at all-time highs both on an absolute and more importantly on a per share basis. Our balance sheet is strong and we are well positioned to remain opportunistic in capturing profitable growth opportunities.

We provided guidance that we expected both EBITDA and Adjusted Net Earnings per share to grow by 10% to 20% in 2018. We are well on our way to delivering on that guidance as EBITDA for the first six months has grown by 14% and Adjusted Net Earnings per share has increased by 19%. At the same time, even with an increase in our dividend to an annual rate of $2.19 our payout ratio on a Free Cash Flow less Maintenance Capital Expenditures basis has declined from 80% in 2017 to 64% for the trailing twelve months ending in June 2018.

I want to thank all of our stakeholders for their ongoing support. We are pleased with our progress in the first half of 2018 and look forward to reporting our third quarter in November.

Mike Pyle
Chief Executive Officer

August 8, 2018

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PREFACE

This MD&A supplements the unaudited interim condensed consolidated financial statements and related notes for the three and six months ended June 30, 2018 ("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, 2018, its annual financial statements for the year ended December 31, 2017 and its annual MD&A for the year ended December 31, 2017. The interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of financial statements.

FORWARD-LOOKING STATEMENTS

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

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

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

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

EXCHANGE INCOME CORPORATION

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

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

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

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

Segment Summary

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

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

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

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

1. FINANCIAL HIGHLIGHTS AND SIGNIFICANT EVENTS

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

FINANCIAL PERFORMANCE	2018	per share basic	per share fully diluted	2017	per share basic	per share fully diluted
For the three months ended June 30						
Revenue	$ 313,449			$ 273,145		
EBITDA(1)	75,071			70,071		
Net earnings	19,547	$ 0.62	$ 0.60	25,779	$ 0.83	$ 0.77
Adjusted net earnings(1)	25,208	0.80	0.76	23,943	0.77	0.72
Adjusted net earnings payout ratio(1)		68%	72%		68%	73%
Free Cash Flow(1)	58,785	1.86	1.66	51,731	1.66	1.46
Free Cash Flow less maintenance capital expenditures(1)	29,679	0.94	0.90	21,842	0.70	0.66
Free Cash Flow less maintenance capital expenditures payout ratio(1)		58%	61%		75%	80%
Dividends declared	17,357	0.5475		16,310	0.525	
For the six months ended June 30						
Revenue	$ 579,476			$ 495,673		
EBITDA(1)	129,084			113,419		
Net earnings	28,161	$ 0.89	$ 0.87	31,338	$ 1.01	$ 0.99
Adjusted net earnings(1)	38,140	1.21	1.17	31,751	1.02	1.00
Adjusted net earnings payout ratio(1)		89%	92%		103%	105%
Free Cash Flow(1)	99,381	3.15	2.81	85,520	2.75	2.44
Free Cash Flow less maintenance capital expenditures(1)	39,521	1.25	1.22	28,222	0.91	0.89
Free Cash Flow less maintenance capital expenditures payout ratio(1)		86%	89%		115%	118%
Dividends declared	34,090	1.08		32,645	1.05	
FINANCIAL POSITION	June 30, 2018			December 31, 2017		
Working capital	$ 297,107			$ 240,018		
Capital assets	824,997			796,576		
Total assets	1,946,400			1,749,197		
Senior debt and finance leases	661,011			550,621		
Equity	600,371			577,508		
SHARE INFORMATION	June 30, 2018			December 31, 2017		
Common shares outstanding	31,509,252			31,317,890		
	June 30, 2018			June 30, 2017		
Weighted average shares outstanding during the period - basic	31,518,107			31,064,236		

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

SIGNIFICANT EVENTS

Early Redemption of Convertible Debentures

On January 11, 2018, the Corporation exercised its right to call its 7 year 5.50% convertible debentures which were due on September 30, 2019. The redemption of the debentures was completed with cash on hand from the Corporation's issuance of its December 2017 5.25% convertible debenture offering. Prior to the redemption date, $0.7 million principal amount of debentures were converted into 20,291 common shares at a price of $36.80 per share. On January 11, 2018 the remaining outstanding debentures in the principal amount of $56.8 million were redeemed by the Corporation.

Normal Course Issuers Bid ("NCIB")

On January 31, 2018, the Corporation renewed its NCIB. Purchases under the NCIB commenced on February 5, 2018 and will end on February 4, 2019. Under the NCIB, the Corporation can purchase a maximum of 1,566,827 shares and daily purchases will be limited to 36,859 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 enhances shareholder value.

Purchase of CANLink Global Inc.

On February 28, 2018 the Corporation acquired all of the shares of CANLink Global Inc. ("Moncton Flight College") for up to $55 million. Moncton Flight College is the largest flight training college in Canada and offers domestic Canadian pilot training as well as a foreign pilot program. The total purchase price before normal post-closing adjustments includes $29 million paid in cash at closing, shares of the Corporation issued at closing with a value of $6 million and up to an additional $20 million if post-closing targets are met.

Partnership with Wasaya Group

On April 19, 2018, the Corporation closed the previously-announced partnership transaction with Wasaya Group. The partnership is expected to enhance the level of air service in Northwestern Ontario and result in operational efficiencies. The Corporation invested $25 million in Wasaya, of which $13 million is a loan to Wasaya and $12 million is an equity investment. The equity investment has been funded through the issuance of shares of the Corporation to the vendors of Wasaya.

Amended Credit Facility

On May 7, 2018, the Corporation amended its credit facility to increase its size and extend its term. The amendments included increasing the available credit to $1 billion, of which $945 million is allocated to the Corporation's head office and US $55 million is allocated to EIIF Management US, Inc. This is an increase of $250 million over the Corporation's previous credit facility. In addition to increasing the credit facility available, the revised credit facility includes improved pricing on both amounts borrowed under the facility and standby charges paid for the unutilized portion of the facility. One financial institution was added to the syndicate, increasing the number of syndicate members to 11, and the maturity has been extended to May 7, 2022.

Convertible Debenture Offering

On June 26, 2018, the Corporation closed a bought deal offering of convertible unsecured subordinated debentures. At the closing of the offering, the Corporation issued $80.5 million principal amount of debentures including the exercise of the full $10.5 million over-allotment option that was granted to the underwriters. The debentures bear interest at 5.35% per annum, payable semi-annually. The debentures are convertible at the holder's option into common shares of the Corporation at a conversion price of $49.00 per share. The maturity of the debentures is June 30, 2025.

Subsequent Event – Early Redemption of Convertible Debentures

On July 17, 2018, the Corporation exercised its right to call its 7 year 5.35% convertible debentures which were due on March 31, 2020. The redemption of the debentures was completed with cash on hand from the Corporation's issuance of its June 2018 5.35% convertible debenture offering. Prior to the redemption date, less than $0.1 million principal amount of debentures were converted into 528 common shares at a price of $41.60 per share. On July 17, 2018 the remaining outstanding debentures in the principal amount of $65.0 million were redeemed by the Corporation.

Subsequent Event – Kivalliq Contract Award

During the third quarter of 2018, Keewatin was awarded a long term medevac contract for the Kivalliq region of Nunavut. As a result of the award, Keewatin as the incumbent continues to have all three regions of Nunavut under contract, all of which are now under long term contracts. The award further establishes Keewatin as the preeminent northern medevac provider.

2. RESULTS OF OPERATIONS

Three Month Results

The following section analyzes the financial results of the Corporation's operations for the three months ended June 30, 2018 and the comparative 2017 period.

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

	Three Months Ended June 30, 2017			
	Aerospace & Aviation	Manufacturing	Head Office[2]	Consolidated
Revenue	$ 226,984	$ 46,161	$ -	$ 273,145
Expenses[1]	156,690	41,374	5,010	203,074
EBITDA	70,294	4,787	(5,010)	70,071
Depreciation of capital assets				28,905
Amortization of intangible assets				2,775
Finance costs - interest				8,174
Acquisition costs				48
Gain on disposal of partnership interest				(5,585)
Earnings before tax				35,754
Current income tax expense				11,616
Deferred income tax recovery				(1,641)
Net earnings				$ 25,779
Net earnings per share				$ 0.83
Adjusted net earnings				$ 23,943
Adjusted net earnings per share				$ 0.77

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 $313.4 million, an increase of $40.3 million or 15% over the comparative period. Revenue in the Manufacturing segment increased $33.9 million over the prior year, primarily as a result of the acquisition of Quest in November 2017. Revenue in the Aerospace & Aviation segment increased by $6.4 million.

EBITDA of $75.1 million was generated by the Corporation during the quarter, an increase of $5.0 million or 7% over the comparative period. The Manufacturing segment increased its EBITDA by $9.8 million over the comparative period as a result of the acquisition of Quest and organic growth. The Aerospace & Aviation segment reported a decrease in EBITDA of $3.0 million. During the three months ended June 30, 2018, the Corporation's head office costs increased by $1.8 million over the comparative period. This was a result of an increase in professional costs and higher performance based compensation and deferred share plan costs due, in part, to increased headcount.

Aerospace & Aviation Segment

Revenue generated by the Aerospace & Aviation increased by $6.4 million or 3% to $233.4 million.

Revenue in the Legacy Airlines and Provincial increased by $10.0 million or 7%. The increase was derived from several sources, including revenue from the Kitikmeot contract, which commenced in the fourth quarter of 2017, higher fire suppression revenue in the rotary wing operation, higher passenger volumes in Ontario and the acquisition of Moncton Flight College that closed in the first quarter of 2018 for which there is no comparative.

Regional One's revenue for the quarter, in US Dollars, was essentially unchanged, declining by less than 1%. While gross revenues were relatively flat, the mix of revenue changed with sales and service revenue comprising 74% of the revenue in 2018 compared to 70% in 2017. The stronger Canadian Dollar in the second quarter of 2018 was responsible for a $2.7 million reduction in revenue when the US Dollar sales are converted to Canadian dollars. Compared to the first quarter of 2018, Regional One's revenue quarter over quarter increased by $16.8 million US Dollars. This increase includes quarter over quarter improvements in lease revenue, part sales and sales of whole aircraft and engines.

Regional One Revenues	Three Months Ended June 30,	2018	2017	Variance	Variance %
Sales and service revenue		$ 56,196	$ 55,413	$ 783	1%
Lease revenue		19,361	23,738	(4,377)	-18%
		$ 75,557	$ 79,151	$ (3,594)	-5%

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

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

Sales and service revenue increased by 1% in the current period. While there is essentially no change in the overall dollar value, the sources of the revenue within this category differed from historical norms. Traditionally, parts sales comprise the largest proportion of revenues within this category but in this quarter aircraft and engine sales account for the largest portion of the revenue.

While lease revenue declined by $4.4 million in the current period, $0.8 million of this was due to the impact of the stronger Canadian Dollar. The decrease was largely the result of a significant redelivery settlement that occurred in the comparative period with no such corresponding transaction in the current period. In addition, some of Regional One's CRJ900 aircraft are in between leases as they are being marketed by Regional One.

In the Aerospace & Aviation segment EBITDA decreased by $3.0 million or 4% to $67.3 million.

EBITDA generated by the Legacy Airlines and Provincial increased by $0.2 million. In the Legacy Airlines, increased revenues were outpaced by higher operating costs due primarily to the rapid escalation in fuel prices. Although certain contracts have embedded fuel cost escalation clauses, most lag in time and general fuel surcharges were implemented only after it became evident that fuel cost increases were not going to be temporary in nature. The well-documented industry-wide labour shortage also increased costs in the second quarter as overtime, contractor and training costs were all higher in 2018. The airlines are actively working with Moncton Flight College to develop and implement initiatives to mitigate the impacts of these issues but they will require some time to take effect. Provincial's results benefitted from the acquisition of Moncton Flight College, for which there is no comparative. Provincial's pre-existing operations were negatively impacted in the current period by a customer's labour strike in Labrador that created unused capacity, which was subsequently resolved.

Regional One's EBITDA, in US dollars, was down $1.6 million from the prior year's record levels. This is attributable to the change in revenue mix, with high-margin lease revenue comprising a smaller proportion of the overall revenue. The remainder of the decline in EBITDA was due to the stronger Canadian Dollar, which negatively impacted the Canadian dollar value of Regional One's EBITDA in the quarter, causing a $1.1 million reduction in EBITDA.

The gross margin of approximately 36% generated by the sales and service revenue stream in the current period is an increase over the prior period despite an increase in sales of aircraft and engines, which generally have lower margins than parts sales. Margins on parts sales were higher than those experienced in prior periods.

Manufacturing Segment

Manufacturing segment revenue increased by $33.9 million or 73% to $80.0 million. EBITDA also increased by $9.8 million or 204% to $14.5 million. The acquisition of Quest midway through the fourth quarter of 2017 is the largest contributor to these increases, adding $7.4 million of EBITDA.

All of the other manufacturing entities experienced growth in revenue and EBITDA with the exception of Stainless. The overall increase in revenue for the pre-existing manufacturing entities resulted in increased EBITDA of $2.4 million or 49% compared to the same period in 2017. The operational changes made by WesTower in prior quarters contributed to a $5.6 million increase in revenue and a $1.7 million improvement in EBITDA. Ben Machine experienced a 43% improvement in revenue and a corresponding 27% increase in EBITDA, benefitting from high levels of defense spending worldwide. The strengthening of the Canadian Dollar in 2018 put downward pressure on Stainless' results when converted into Canadian Dollars.

NET EARNINGS

Three Months Ended June 30		2018		2017		Variance	Variance %
Net Earnings	$	19,547	$	25,779	$	(6,232)	-24%
Net Earnings per share	$	0.62	$	0.83	$	(0.21)	-25%

Net Earnings for the quarter ended June 30, 2018 was $19.5 million, a decrease of $6.2 million or 24%. The majority of the decrease is driven by two items. First, in the prior period, the Corporation had an after tax gain of $3.9 million on the disposal of its partnership interest in Innu Mikun, which was a one-time gain. Second, during the current year, the Corporation exercised its option to early redeem its 2020 convertible debenture series, resulting in a decrease in Net Earnings of $1.6 million ($2.2 million pre-tax) as a result of non-cash accelerated interest accretion. In addition, amortization expense and acquisition costs have increased over prior year as a result of the recent acquisition activity of the Corporation. Increases in interest costs and depreciation were offset by a $5.0 million or 7% increase in EBITDA.

Interest costs have increased by $5.9 million compared to the second quarter of 2017. The early redemption of the Corporation's 2020 convertible debenture series resulted in non-cash accelerated interest accretion of $2.2 million. In addition, the increase in long term debt outstanding on the Corporation's credit facility and increases in benchmark borrowing rates from the comparative period have resulted in increased interest costs over the prior period. Further discussion of the Corporation's outstanding debt balances can be found in *Section 6 – Liquidity and Capital Resources*.

Depreciation has increased by $1.5 million or 5% as a result of the purchases of capital assets during 2017 and the depreciation of capital assets acquired with the acquisition of Quest in the fourth quarter of 2017 and Moncton Flight College in the first quarter of 2018.

Acquisition costs vary from year to year depending on the acquisition related activities undertaken by the Corporation. The investment in Wasaya in the second quarter of 2018 is the most significant reason for the increase in acquisition costs.

Income tax expense has decreased by $3.9 million and the effective rate of tax has decreased to 23.7% from 27.9%. The proportion of pre-tax earnings attributable to lower tax rate jurisdictions increased in comparison to the second quarter of 2017. Additionally, the tax rate applicable to taxable earnings in the US has decreased in comparison to the prior year.

The decrease in basic Net Earnings per share was due to lower Net Earnings as described above and the 2% increase in the weighted average number of shares outstanding compared to the second quarter of 2017. Details around the change in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

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

Three Months Ended June 30		2018		2017
Net Earnings	$	19,547	$	25,779
Acquisition costs, net of tax		529		48
Amortization of intangible assets, net of tax		3,210		2,026
Interest accretion on redeemed debentures, net of tax		1,596		-
Interest accretion on acquisition contingent consideration, net of tax		326		-
Gain on disposal of partnership interest in Innu Mikun, net of tax		-		(3,910)
Adjusted Net Earnings	$	25,208	$	23,943
per share - Basic	$	0.80	$	0.77
per share - Diluted	$	0.76	$	0.72

Adjusted Net Earnings for the quarter ended June 30, 2018 increased by 5% to $25.2 million in comparison to 2017. The 2017 calculation includes the removal of a gain on disposal of the Corporation's partnership interest in Innu Mikun, which reduced Adjusted Net Earnings in the comparative period. The Corporation's early redemption of its 2020 convertible debentures resulted in non-cash accelerated interest accretion of $2.2 million, or $1.6 million after tax, which did not occur in the comparative period. Acquisition costs for 2018 increased by $0.5 million compared to the prior year as discussed above and intangible asset amortization net of tax increased by $1.2 million as a result of the recent acquisition activity of the Corporation.

Adjusted Net Earnings per share increased by 4% compared to the second quarter of 2017 as a result of higher Adjusted Net Earnings, partially offset by a 2% increase in the weighted average number of shares outstanding. Details around the change in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

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

FREE CASH FLOW Three Months Ended June 30		2018		2017
Cash flows from operations	$	29,053	$	35,583
Change in non-cash working capital items		29,203		16,100
Acquisition costs, net of tax		529		48
	$	58,785	$	51,731
per share - Basic	$	1.86	$	1.66
per share - Fully Diluted	$	1.66	$	1.46

Free Cash Flow generated by the Corporation for 2018 was $58.8 million, an increase of $7.1 million or 14% over the comparative period. The most significant reasons for the increase are the increase in EBITDA and decrease in current taxes compared to the prior year.

On a basic per share basis, the increase in absolute Free Cash Flow was partially offset by the 2% increase in the weighted average shares outstanding during the period. The combined impact resulted in Free Cash Flow of $1.86 per share, an increase of 12% over the comparative period (fully diluted $1.66, an increase of 14%). Details around the increase in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

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

Six Month Results

The following section analyzes the financial results of the Corporation for the six months ended June 30, 2018 and the comparative 2017 period.

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

				Six Months Ended June 30, 2017
	Aerospace & Aviation	Manufacturing	Head Office(2)	Consolidated
Revenue	$ 404,019	$ 91,654	$ -	$ 495,673
Expenses(1)	290,876	82,174	9,204	382,254
EBITDA	113,143	9,480	(9,204)	113,419
Depreciation of capital assets				53,648
Amortization of intangible assets				5,530
Finance costs - interest				15,879
Acquisition costs				286
Gain on disposal of partnership interest				(5,585)
Earnings before income tax				43,661
Current income tax expense				15,280
Deferred income tax recovery				(2,957)
Net earnings				$ 31,338
Net earnings per share				$ 1.01
Adjusted net earnings				$ 31,751
Adjusted net earnings per share				$ 1.02

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 $579.5 million, an increase of $83.8 million or 17% over the comparative period. Of the increase, $19.2 million was derived from the Aerospace & Aviation segment and $64.6 million was generated by the Manufacturing segment. The majority of the increase in the Manufacturing segment relates to the acquisition of Quest.

EBITDA of $129.1 million was generated by the Corporation during the year, an increase of $15.7 million or 14% over the comparative period. This performance was mainly due to a significant increase in the Manufacturing segment, as a result of both the acquisition of Quest and organic growth.

During the six months ended June 30, 2018, the Corporation's head office costs increased by $2.8 million over the comparative period. This was a result of an increase in professional costs and higher performance based compensation and deferred share plan costs due, in part, to increased headcount.

Aerospace & Aviation Segment

Revenue generated by the Aerospace & Aviation increased by $19.2 million or 5% to $423.2 million.

Revenue in the Legacy Airlines and Provincial increased by $22.3 million or 8%. The increase in revenue includes the benefit of the Kitikmeot contract, which commenced in the fourth quarter of 2017, higher fire suppression services in the rotary wing operation and increased passenger volumes in the Ontario and Kivalliq markets. Consistent with the three month discussion, the acquisition of Moncton Flight College in the first quarter of 2018 with no comparative is the largest factor impacting higher revenues at Provincial. Provincial's Air Borealis partnership entered into in June 2017 also positively impacted results in 2018.

Regional One's US denominated revenues for the current period increased by $1.4 million. As noted in the following table, Regional One's CAD denominated revenue decreased by $3.1 million over the comparative period entirely as a result of the stronger Canadian Dollar in the current period. Had the average exchange rates prevailing in the first six months of 2017 persisted into the current period, Regional One's revenues would have been approximately $4.6 million higher.

Regional One Revenue	Six Months Ended June 30,		2018		2017		Variance	Variance %
Sales and service revenue		$	93,313	$	88,930	$	4,383	5%
Lease revenue			34,892		42,337		(7,445)	-18%
		$	128,205	$	131,267	$	(3,062)	-2%

Sales and service revenue increased by 5% in the current period compared to the same period in 2017 driven by period over period increases in sales of whole aircraft and engines and fee income. As with the three month period, sales of whole aircraft and engines were a higher percentage of the total revenue within this stream than in the prior period.

Lease revenue decreased by $7.4 million in the current period compared to the same period in 2017. The strengthening of the Canadian Dollar in the current period negatively impacted lease revenues by $1.4 million. The factors impacting revenue for the six month period in 2018 are consistent with the three month period discussed above. The Corporation's investment in Regional One's inventory and lease portfolio is discussed further in *Section 3 - Investing Activities*.

In the Aerospace & Aviation segment EBITDA increased by $0.9 million or 1% to $114.0 million.

EBITDA contributed by the Legacy Airlines and Provincial increased by $6.1 million or 10%. The increase is driven by higher revenue, operational efficiencies and the acquisition of Moncton Flight College. Increased capacity sharing across airline subsidiaries and the benefit of investment in additional aircraft partway through 2017 reduced third party charter costs and led to additional revenue opportunities. Although the Legacy Airlines implemented fuel surcharges in the first half of the year, and certain contracts have embedded fuel escalators, rapid fuel price escalation early in the second quarter had an immediate impact putting downward pressure on EBITDA.

Regional One's EBITDA, in US Dollars, was down $2.5 million or 6% from the prior year's record levels. This is attributable to the change in revenue mix, with high-margin lease revenue comprising a smaller proportion of the overall revenue. The remainder of the decline in EBITDA was due to the stronger Canadian Dollar, which negatively impacted the Canadian Dollar value of Regional One's EBITDA in the quarter, causing a $1.8 million reduction in EBITDA.

Manufacturing Segment

Manufacturing segment revenue increased by $64.6 million or 70% to $156.3 million. EBITDA also increased by $17.6 million or 185% to $27.0 million. The acquisition of Quest midway through the fourth quarter of 2017 is the largest contributor to these increases.

In addition to the $14.7 million of EBITDA contributed by Quest, the remaining manufacturing entities, with the exception of Stainless, experienced strong growth in revenue and EBITDA over the first six months of 2017. Revenues for the pre-existing manufacturing entities increased compared to 2017 resulting in growth in EBITDA of $2.8 million or 30% over the same period. The operational improvements WesTower made over the last few quarters are reflected in their improved results for the first half of 2018. The higher level of worldwide defense spending continues to benefit Ben Machine and Alberta Operations has been positively impacted by the slow but steady economic recovery in its markets. Stainless' results for the first six months were strong despite being lower than those achieved in the comparative period and were negatively impacted by the strengthening of the Canadian Dollar in 2018.

NET EARNINGS

Six Months Ended June 30	2018	2017	Variance	Variance %
Net Earnings	$ 28,161	$ 31,338	$ (3,177)	-10%
Net Earnings per share	$ 0.89	$ 1.01	$ (0.12)	-12%

Net Earnings for the six months ended June 30, 2018 was $28.2 million, a decrease of $3.2 million or 10%. As discussed in the three month section, the most significant variances to the prior period on Net Earnings was the one-time gain on the disposal of the Corporation's partnership interest in Innu Mikun in 2017 and the non-cash accelerated interest accretion in 2018 as a result of the early redemption of the Corporation's 2020 convertible debenture series, which on a combined basis decreased Net Earnings by $5.5 million. The increase in EBITDA of $15.7 million or 14% and the decrease in taxes outpaced the growth in interest costs, depreciation, amortization and acquisition costs during the period. In the current six month period, the contingent consideration relating to the acquisition of CarteNav was remeasured, resulting in a gain of $1.5 million (*Section 8 – Critical Accounting Estimates).*

Interest costs have increased by $9.3 million over the prior period. The decision to early redeem the 2020 convertible debenture series resulted in $2.2 million of non-cash accelerated interest accretion during the period. In addition, the increase in long term debt outstanding on the Corporation's credit facility and increases in benchmark borrowing rates from the comparative period resulted in additional interest expense. Further discussion of the Corporation's outstanding debt balances can be found in *Section 6 – Liquidity and Capital Resources*.

Depreciation has increased by $5.2 million or 10% mainly as a result of the purchases of capital assets during 2017 and capital assets acquired with the acquisitions of Quest and Moncton Flight College, which have no comparative in 2017.

Income tax expense has decreased by $4.2 million and the effective rate of tax has decreased to 22.5% from 28.2%. The proportion of pre-tax earnings attributable to lower tax rate jurisdictions increased in comparison to the first six months of 2017. Additionally, the tax rate applicable to taxable earnings in the US has decreased due to tax reform in comparison to the prior year.

The decrease in basic Net Earnings per share was due to a decrease in Net Earnings as discussed above and the 1% increase in the weighted average number of shares outstanding compared to the first six months of 2017. 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,	2018	2017
Net Earnings	$ 28,161	$ 31,338
Acquisition costs, net of tax	1,044	286
Amortization of intangible assets, net of tax	6,680	4,037
Interest accretion on acquisition contingent consideration	659	-
Accelerated interest accretion on redeemed debentures, net of tax	1,596	-
Gain on disposal of Innu Mikun, net of tax	-	(3,910)
Adjusted Net Earnings	$ 38,140	$ 31,751
per share - Basic	$ 1.21	$ 1.02
per share - Diluted	$ 1.17	$ 1.00

Adjusted Net Earnings for the six months ended June 30, 2018 increased by 20% to $38.1 million over the same period in 2017. In addition to the factors identified in the three month discussion above, the six month Adjusted Net Earnings was impacted by an increase in Net Earnings in the first quarter of 2018 over the comparative quarter in 2017.

Adjusted Net Earnings per share increased by 19% compared to the first six months of 2017 as a result of increased Adjusted Net Earnings, slightly offset by the 1% increase in the weighted average number of shares outstanding in the current year. 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,		2018		2017
Cash flows from operations		$	44,667	$	41,894
Change in non-cash working capital items and long-term deferred revenue			53,670		43,340
Acquisition costs, net of tax			1,044		286
		$	99,381	$	85,520
per share - Basic		$	3.15	$	2.75
per share - Fully Diluted		$	2.81	$	2.44

The Free Cash Flow generated by the Corporation for the first six months of 2018 was $99.4 million, an increase of $13.9 million or 16% over the comparative period. The main reasons for this increase are the $15.7 million or 14% increase in EBITDA and decreased current tax expense, partially offset by increased interest costs. Free Cash Flow is discussed further in *Section 12 – Non-IFRS Measures and Glossary*.

On a basic per share basis, the increase in absolute Free Cash Flow was slightly offset by the 1% increase in the weighted average shares outstanding during the period. The combined impact resulted in Free Cash Flow of $3.15 per share, an increase of 15% over the comparative period (fully diluted $2.81, an increase of 15%). Details around the increase in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

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

3. INVESTING ACTIVITIES

Investment through the acquisition of new businesses, through 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.

ACQUISITIONS

CANLink Global Inc.

On February 28, 2018, the Corporation acquired all of the shares of CANLink Global Inc. (“Moncton Flight College”). Moncton Flight College, headquartered in Moncton, New Brunswick, is the largest flight training college in Canada having trained over 19,000 students since its inception. Moncton Flight College offers domestic Canadian pilot training as well as a foreign pilot program. Moncton Flight College provides a unique opportunity as an internal avenue for pilot recruitment and retention for EIC's aviation companies.

The components of the consideration paid to acquire Moncton Flight College are outlined in the table below.

Consideration given:		
Cash (net of closing adjustments)	$	25,376
Issuance of 176,102 shares of the Corporation at $34.06 per share		5,998
Estimated working capital post-closing adjustment		898
Contingent cash consideration - earn out		15,903
Total purchase consideration	$	48,175

The preliminary purchase price allocation will be finalized later in 2018 when final settlement of working capital and other post-closing adjustments occur. The purchase price includes an initial payment of cash and the issuance of common shares to the vendors, net of normal closing adjustments, plus a multi-year earn out if certain performance targets are met for fiscal periods 2018 and 2019. The maximum earn out that can be achieved by the vendors is $20 million. The contingent consideration recorded by the Corporation reflects the discounted liability of the estimated performance targets being met for fiscal 2018 and 2019. The preliminary allocation of the purchase price is reflected in the table that follows.

Fair value of assets acquired:	
Cash	$ 1,464
Accounts receivable	721
Inventory	1,685
Prepaid expenses and deposits	160
Capital assets	10,335
Intangible assets	20,500
	34,865
Less fair value of liabilities assumed:	
Accounts payable and accrued liabilities	1,163
Income taxes payable	4,064
Deferred revenue	2,348
Deferred income tax liabilities	3,552
Fair value of identifiable net assets acquired	23,738
Goodwill	24,437
Total purchase consideration	$ 48,175

Partnership with Wasaya Group

On April 19, 2018, the Corporation closed the previously announced partnership transaction with Wasaya Group. The partnership is expected to enhance the level of air service in Northwestern Ontario and result in operational efficiencies. EIC has invested $25.3 million in Wasaya, of which $13 million is a loan to Wasaya and $12.3 million is an equity investment. The equity investment has been funded through the issuance of shares of the Corporation to the vendors of Wasaya. The Corporation's equity investment in Wasaya is accounted for using the equity method. Upon closing the transaction, the Corporation recorded its equity investment and its loan to Wasaya in Other Assets on the Statement of Financial Position.

CAPITAL EXPENDITURES

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

	Three Months Ended June 30, 2017			
CAPITAL EXPENDITURES	Aerospace & Aviation	Manufacturing	Head Office	Total
Maintenance Capital Expenditures	$ 28,882	$ 356	$ 430	$ 29,668
add: finance lease principal payments	-	221	-	221
Maintenance Capital Expenditures	28,882	577	430	29,889
Growth Capital Expenditures	32,362	686	-	33,048
	$ 61,244	$ 1,263	$ 430	$ 62,937

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

	Six Months Ended June 30, 2017			
CAPITAL EXPENDITURES	Aerospace & Aviation	Manufacturing	Head Office	Total
Maintenance Capital Expenditures	$ 55,727	$ 728	$ 434	$ 56,889
add: finance lease principal payments	-	409	-	409
Maintenance Capital Expenditures	55,727	1,137	434	57,298
Growth Capital Expenditures	91,152	686	-	91,838
	$ 146,879	$ 1,823	$ 434	$ 149,136

Aerospace & Aviation

Maintenance Capital Expenditures for the Legacy Airlines and Provincial for the three and six months ended June 30, 2018 were $19.3 million and $40.8 million, respectively, a decrease of 4% for the three month period and an increase of 5% for the six month period. The variances in both the three and six month periods relate to the timing of maintenance events and includes the impact of additional aircraft engine events in 2018 compared to 2017, which is consistent with our expectations and with our previous disclosures. During the three and six months ended June 30, 2018, the Legacy Airlines and Provincial invested $4.2 million and $7.3 million, respectively, in Growth Capital Expenditures. These expenditures primarily relate to increased infrastructure to support the northern operation, a second base for the Baffin medical contract and the ongoing development of Provincial's demonstrator surveillance aircraft which will enable Provincial to expand its service offering. The investment in northern infrastructure includes the purchase of a previous third party provider of ramp and cargo support services. This investment will result in ancillary revenue and reduced expenses in future periods.

Regional One's Maintenance Capital Expenditures for the three and six months ended June 30, 2018 were $8.9 million and $16.9 million, respectively and are in line with the comparative period. The Maintenance Capital Expenditures for Regional One are directly attributable to the depreciation on its fleet of leased aircraft and engines. The table below provides a summary of the fleet of assets in Regional One's lease portfolio.

Regional One Lease Portfolio	June 30, 2018		December 31, 2017	
	Aircraft	Engines	Aircraft	Engines
Lease portfolio	43	48	37	48

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

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

During the three and six months ended June 30, 2018, Regional One incurred negative Growth Capital Expenditures of $5.4 million and $7.2 million, respectively, due to timing differences between when assets in the lease portfolio were sold or parted-out and the replacement of these assets. In addition to purchases of capital assets, investment in Regional One is made through purchases of parts and aircraft that are intended solely for the purpose of parting-out and are recorded in inventory at the time of purchase. During 2018, the investment in inventory of $10.1 million has outpaced the negative Growth Capital Expenditures, resulting in a net increase in investment in Regional One. Further discussion of investment in inventory at Regional One is included below in the overall discussion of investment in working capital.

Total capital expenditures decreased materially in both the three and six month periods from the comparative year. The largest portion of the decrease relates to significantly lower Growth Capital Expenditures in both the three and six months ended June 30, 2018, decreasing by $32.7 million and $89.5 million, respectively. The Corporation completed the purchase of its fleet of CRJ900 aircraft in the first half of 2017, and, as previously communicated, Growth Capital Expenditures were expected to decrease with the completion of those purchases.

Manufacturing Segment

Maintenance Capital Expenditures in the Manufacturing segment primarily relate to 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.

Maintenance Capital Expenditures of $0.7 million made by the Manufacturing segment during the second quarter of 2018 is an increase of 17% from the comparative period. Maintenance Capital Expenditures of $1.9 million for the first six months of 2018 reflect an increase of 66% from the comparative period. The increase for six month period is mainly the result of the Quest acquisition.

Growth Capital Expenditures of $1.5 million in this segment for the second quarter were related to the purchase of equipment by Ben Machine, Quest and Overlanders to increase production capacity in response to the growth in demand. Growth Capital Expenditures for the first half of 2018 were $2.2 million and included the purchase of equipment by Stainless in the first quarter.

INVESTMENT IN WORKING CAPITAL

During the first six months of 2018, the Corporation made investments in working capital in several subsidiaries. Detail of the increase is included in Note 16 and the Statement of Cash Flows in the Corporation's Consolidated Financial Statements.

The $53.7 million increase in working capital during the first six months of 2018 was principally driven by three items; the sale of an aircraft by Regional One with extended terms, investments in inventory at Regional One and investment in the growth of Quest.

Investment in working capital in our Aerospace & Aviation segment related to purchases of parts inventory as discussed in the Capital Expenditures section above and an increase in accounts receivable at Regional One. Regional One sold an aircraft during the period for which the related receivable is backed by an irrevocable letter of credit which guarantees collection during the fourth quarter of 2018. In addition, Regional One continues its investment in its inventory of parts, including the previously disclosed purchase of 28

ERJ145 aircraft which is anticipated to take several quarters to fully monetize. Changes in working capital within the Legacy Airlines and Provincial were relatively insignificant and reflect variations in the timing of receipts and payments associated with larger customer contracts and fluctuations in foreign currency.

Investment in working capital was made in our Manufacturing segment to support Quest's growth in business volume. Additionally, Quest has begun making deposits on new equipment associated with its new facility in the United States. Once the new equipment is delivered, the deposits associated with the equipment will be transferred to capital assets and will be reflected as Growth Capital Expenditures. This is expected to occur late in the third quarter and into the fourth quarter of 2018. Changes in working capital in other entities within the Manufacturing segment increased in proportion to increased revenues within those entities.

The overall net working capital position of the Corporation at December 31, 2017 included the September 2019 convertible debentures as a current liability as they were redeemed in January 2018. Included in current assets at December 31, 2017 was cash on hand which was used to repay those convertible debentures. At June 30, 2018, the overall net working capital balance includes the March 2020 convertible debentures as a current liability as they were redeemed in July 2018. Included in current assets at June 30, 2018 was cash on hand which was used to redeem those convertible debentures.

4. DIVIDENDS AND PAYOUT RATIOS

The payment of stable and growing dividends to shareholders is a cornerstone goal of the Corporation. We are able to keep this commitment through our 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

			2018 Dividends			2017 Dividends
Month	Record date	Per Share	Amount	Record date	Per Share	Amount
January	January 31, 2018	$ 0.175	$ 5,484	January 31, 2017	$ 0.175	$ 5,438
February	February 28, 2018	0.175	5,517	February 28, 2017	0.175	5,447
March	March 29, 2018	0.1825	5,732	March 31, 2017	0.175	5,450
April	April 30, 2018	0.1825	5,807	April 28, 2017	0.175	5,455
May	May 31, 2018	0.1825	5,791	May 31, 2017	0.175	5,444
June	June 29, 2018	0.1825	5,759	June 30, 2017	0.175	5,411
Total		$ 1.08	$ 34,090		$ 1.05	$ 32,645

Dividends declared for the current year increased over the comparative year as a result of the increase in the dividend rate per month in the current year and the higher number of shares outstanding in 2018. The Corporation increased the monthly dividend rate per share by $0.0075 during the first quarter of 2018 (4% increase).

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 sufficient funds from its operations to pay dividends.

Adjusted Net Earnings excludes acquisition costs, amortization of intangible assets and unusual one-time items. Amortization of intangible assets results from intangible assets that are recorded when the Corporation completes an acquisition as part of the purchase price allocation for accounting purposes. There are no future capital expenditures associated with maintaining or replacing these intangible assets, therefore intangible asset amortization is not considered when assessing the ability to pay dividends. Acquisition costs are external costs incurred by the Corporation depending on acquisition activity and these costs are not required to maintain existing cash flows and therefore these costs are not considered in assessing the payment of dividends. Adjusted Net Earnings includes depreciation on all capital expenditures and is not impacted by the period to period variability in Maintenance Capital Expenditures.

Free Cash Flow less Maintenance Capital Expenditures is a measure that ensures that the resulting payout ratio reflects the replacement of capital assets that is necessary to maintain our 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.

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 of time 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 of time.

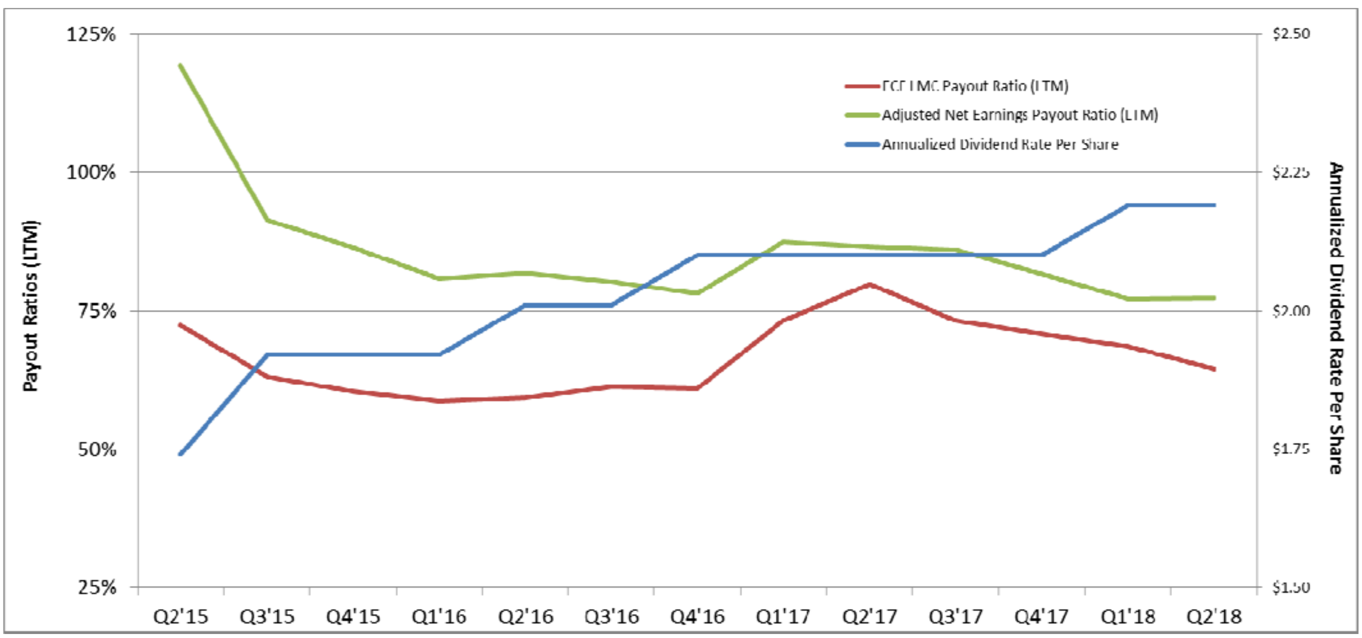
Payout Ratios

Basic per Share Payout Ratios for the Corporation	2018		2017	
periods ended June 30	Three Months	Trailing Twelve Months	Three Months	Trailing Twelve Months
Adjusted Net Earnings	*68%*	*77%*	*68%*	*87%*
Free Cash Flow less Maintenance Capital Expenditures	*58%*	*64%*	*75%*	*80%*

The Corporation's three month Adjusted Net Earnings payout ratio was consistent with the prior year and the three month Free Cash Flow less Maintenance Capital Expenditures payout ratio improved over the prior period. The trailing twelve month payout ratios have both improved materially, improving from 87% to 77% on an Adjusted Net Earnings basis and from 80% to 64% on a Free Cash Flow less Maintenance Capital Expenditure basis. The percentage increase in Adjusted Net Earnings exceeded the increase in dividends declared during the period, resulting in an improved payout ratio for the first six months of 2018 that contributed to a stronger trailing twelve month payout ratio. In addition, the percentage increase in Free Cash Flow exceeded the impact of the increase in Maintenance Capital Expenditures and dividends, resulting in an improved payout ratio for both the three month and trailing twelve month periods.

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 from Maintenance Capital Expenditures and is therefore a more stable metric.

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



5. OUTLOOK

Acquisition strategy

EIC continues to actively pursue acquisitions both through opportunities brought to us by our subsidiaries and the general market. This has led to the potential for tuck-in acquisitions and new stand-alone entities for EIC. While the deal flow is quite strong there are no opportunities where a transaction is considered imminent. Consistent with prior communications, EIC believes the current environment with capital availability in the market has led to inflated acquisition multiples in some industries. EIC will continue to stick to its principles on valuation which often means the intangibles that EIC brings to the potential vendors is critical in completion of an acquisition with EIC. The Corporation is well positioned to take advantage of opportunities with approximately $350 million of available capital.

Aerospace & Aviation Segment

Our diversified aviation companies have many exciting opportunities and initiatives underway. This includes new investments, contract opportunities, and strategies to manage both the labour shortage and fuel price increases facing the aviation industry.

Regional One recently invested in the ERJ145 platform with the acquisition of 28 of these aircraft in the second quarter. We are experiencing strong demand for this new platform, particularly in Asia. In the second quarter Regional One has already benefited from this investment through aircraft sales, lease revenue, and part sales. The ability to part out these aircraft enables Regional One to build the parts inventory necessary to fully service its customers to whom it has sold and leased these aircraft, as well as other ERJ145 operators throughout the world. This investment impacted our capital assets but more significantly increased our inventory investment at Regional One. Similar to our approach on the CRJ platform, we have been able to lever the knowledge gained on the ERJ145 to the ERJ170. This led to the purchase of two ERJ170 aircraft subsequent to the end of the quarter, which is our first investment in the ERJ170 platform. In addition to these investments into the ERJ product line, Regional One has continued to invest in the CRJ platform with the addition of 11 CRJ200's subsequent to the end of the quarter. These investments serve to both replenish Regional One's asset portfolio to the extent we've had dispositions and provides further growth assets to expand their business.

Provincial's investment in the demonstrator surveillance aircraft, under our force multiplier program, is close to becoming operational. This program is expected to start to generate revenue towards the end of the third quarter with more significant contributions in the fourth quarter. Multiple government bodies in North America and overseas have been active in discussions for the services of this aircraft.

Over the last year, the Government of Nunavut put out separate requests for proposals for all three regions in Nunavut. Keewatin was the incumbent in the Kivalliq and Baffin regions and successfully secured both these contracts again in 2018. Keewatin also won the tender process for the third region, Kitikmeot. Keewatin is currently in the first year of each of these five year contracts. The success on these contracts maintains Keewatin's legacy as the preeminent provider of medevac services in northern Canada and as a long standing provider of medevac services to the government of Nunavut.

The Government of Canada released a request for proposal for the Fisheries Aerial Surveillance & Enforcement Program. Provincial currently performs this work under contract and has been performing this work under various contracts for the last 20 years. We expect there to be competition from both domestic and international companies for this contract. With the investment Provincial has made in maritime surveillance, including technology, human resources, and infrastructure, we are eagerly pursing this opportunity as the incumbent. Our proposal was submitted in the third quarter and the contract award is expect to occur in the fourth quarter.

The labour shortage within the aviation industry reported by the media is very real and is only expected to worsen in the near future. As a result, EIC has taken a proactive approach to the labour shortage. A key tenet of this approach was the acquisition of Moncton Flight College, the largest flight training college in Canada. The collective strength of all of our airlines combined with this college has enabled us to create a unified recruitment and retention strategy. This strategy removes barriers for pilots to gain the necessary experience and provides a pathway for the employees' career. This strategy will help EIC manage costs but more importantly will provide our subsidiaries with enough pilots and the right experience to continue to deliver services to our customers, including essential services in northern Canada. This will give our subsidiaries a significant competitive advantage to similar size aviation competitors. The initiatives under this strategy are currently being implemented but will require some time to take effect creating a negative impact on short-term results due to higher contractor and training costs.

Fuel prices have continued to rise in the second quarter. This has and will continue to impact results in the short-term, however over the long-term most of the Company's aviation entities have the ability to adjust prices to reflect higher fuel costs. The services that are performed under contract have embedded fuel escalation clauses allowing us to pass through the higher fuel costs but these price adjustments typically lag behind the fuel price increase. For the remainder of our aviation services, it is necessary to manually adjust prices over time which can have a delayed impact as it is necessary to fully communicate the fuel surcharges well in advance of implementing. As a result of the significant fuel price increases at the end of 2017 and into 2018, many of our entities implemented fuel surcharges over the last number of months. However fuel prices continued to increase in the second quarter and our subsidiaries experienced higher fuel prices over the first quarter of 2018 and fuel prices were significantly higher than the comparable period in 2017. This will result in further fuel surcharges implemented in the third quarter. This is expected to have a negative impact on the short-term results until these fuel surcharges are fully implemented.

Manufacturing Segment

The Manufacturing segment is performing above expectations as the entities within the segment execute on opportunities within their markets. This is especially true for Quest, who has benefited from the timing of some higher margin jobs and strong throughput in the first half of the year. In the fourth quarter EIC outlined that this segment was expected to approximately double in 2018. Through the first six months of 2018 EBITDA is $27.0 million, compared to $9.5 million in first half of 2017 and is already 17% greater than the EBITDA for the full twelve months in 2017.

The customer demand in our Manufacturing segment continues to be robust. Order books at the majority of the entities have strengthened and in particular at Ben Machine and Quest. Ben Machine has invested in additional equipment to meet customers' needs and Quest is investing in a second facility. The second facility will be located in Texas and will more than double capacity, which will lower the lead times in their backlog and facilitate further revenue growth in the future. Shortening the lead time will open up new slots in production capacity to sell to customers who require shorter lead times creating further sales opportunities for Quest.

A new Quest facility in the US will also alleviate the impact of any potential trade issues with the US that affects their industry. To date, Quest, as well as the remainder of our entities, have not incurred sales or margin losses as a result of the trade policies with the US. This is an area all our entities continue to monitor given the fluidity of the trade discussions. However with the completion of the Texas facility in early 2019, the biggest potential cross border trade impact on our results will be mitigated and we do not foresee a situation where trade policy will have a material impact on EIC results.

Capital Expenditures

Maintenance Capital Expenditures were slightly below expectations in the second quarter as the timing of some prescriptive events moved to later in the year. Consistent with the prior outlooks, Maintenance Capital Expenditures are expected to be marginally higher for the full year in 2018 compared to 2017.

As previously discussed EIC is expecting lower Growth Capital Expenditures in 2018, which has held through for the first half of 2018. Despite this lower level of capital expenditures, EIC is still investing in some critical growth projects and will continue to in the second half of the year, specifically at Quest, Keewatin, and Regional One. The capital outlay for Quest's new manufacturing facility in the US will be incurred primarily in the second half of 2018. As part of Keewatin's new Baffin region contract, we will be adding expanded and enhanced coverage through an additional base and two new aircraft, which will also be acquired in the second half of 2018. Subsequent to quarter end, Regional One made an investment in the ERJ170 platform and additional CRJ200 aircraft. In addition, EIC has other smaller growth capital expenditures planned in other subsidiaries throughout the year.

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

6. LIQUIDITY AND CAPITAL RESOURCES

During the first quarter of 2018, the Corporation redeemed its 7 year 5.5% convertible debentures which were due September 30, 2019. The redemption was funded with a portion of the proceeds of the $100 million of 5 year 5.25% convertible unsecured subordinated debenture offering which closed on December 20, 2017. On June 26, 2018, the Corporation issued $80.5 million of convertible unsecured subordinated debentures including the exercise of the full $10.5 million over-allotment option that was granted to the underwriters. The debentures bear interest at 5.35% per annum, payable semi-annually. The debentures are convertible at the holder's option into common shares of the Corporation at a conversion price of $49.00 per share. The maturity of the debentures is June 30, 2025. A portion of the proceeds of this offering were used to make a repayment on the credit facility. Subsequent to June 30, 2018, the remainder of the proceeds were used for the early redemption of its 7 year 5.35% convertible debentures which were to mature on March 31, 2020. Prior to the redemption date, less than $0.1 million principal amount of convertible debentures were converted into 528 common shares at a price of $41.60 per share. On the redemption date, the remaining outstanding convertible debentures in the principal amount of $65.0 million were redeemed by the Corporation.

On May 7, 2018, the Corporation amended its credit facility to increase its size by $250 million and extend its term to May 2022. Additionally, one financial institution was added to the syndicate and the interest rate charged on utilized and unutilized portions of the facility were reduced. The Corporation amends and extends its facility on a regular basis to continuously have a maturity that extends at least three years and to increase the size of the facility to correspond to the increasing size of the Corporation.

Our working capital position, Free Cash Flow and capital resources are strong and we have no long term debt coming due until March 2021. Our strong balance sheet combined with the recent changes to our credit facility and convertible debentures have enhanced our access to capital to make acquisitions and invest in our operating subsidiaries.

As at June 30, 2018, the Corporation had a cash position of $85.5 million (December 31, 2017 of $72.3 million) and a net working capital position of $297.1 million (December 31, 2017 of $240.0 million) which represents a current ratio of 1.98 to 1 (December 31, 2017 of 1.91 to 1). The Corporation's cash balance at December 31, 2017 included $56.8 million to fund the redemption of its 7 year 5.5% convertible debentures which were redeemed in January 2018. The Corporation's cash balance at June 30, 2018 included $65.0 million to fund the early redemption of its 7 year 5.35% convertible debentures which were redeemed in July 2018.

The Corporation aims to maintain leverage ratios at consistent levels over time. There are points where leverage temporarily rises as a result of a significant acquisition where the associated EBITDA has not yet been realized. Our target leverage range, based on senior debt to EBITDA, is between 1.5 and 2.5. Our leverage covenant with our lenders allows for a senior leverage ratio maximum of 3.25. The Corporation's leverage ratio at June 30, 2018 as calculated under the terms of our credit facility, which is adjusted for the impact of the timing of acquisitions, was 2.17 (December 31, 2017 – 1.86). Our leverage ratios at both June 30, 2018 and December 31, 2017 were impacted by the cash position that was used to redeem convertible debentures as noted above.

Overview of Capital Structure

The Corporation's capital structure is summarized below.

	June 30 2018	December 31 2017
Total senior debt outstanding (principal value)	$ 660,966	$ 550,318
Convertible debentures outstanding (par value)	342,335	318,678
Common shares	589,529	576,471
Total capital	$ 1,592,830	$ 1,445,467

Subsequent to the end of the quarter, the Corporation completed the previously announced redemption of its 7 year 5.35% convertible debentures due March 31, 2020. On July 17, 2018, the Corporation used cash on hand to fund the redemption of the $65.0 million of debentures outstanding. The following table reflects the capital structure of the Corporation on July 17, 2018 after this redemption.

	July 17 2018	December 31 2017
Total senior debt outstanding (principal value)	$ 660,966	$ 550,318
Convertible debentures outstanding (par value)	277,355	318,678
Common shares	589,529	576,471
Total capital	$ 1,527,850	$ 1,445,467

Credit facility

The size of the Corporation's credit facility as at June 30, 2018 is approximately $1 billion, with $945 million allocated to the Corporation's Canadian head office and US $55 million allocated to EIIF Management USA Inc. The facility allows for borrowings to be denominated in either Canadian or US funds. As of June 30, 2018, the Corporation had drawn $174.0 million and US $369.8 million (December 31, 2017 - $109.7 million and US $351.2 million). During the year, the Corporation made draws on its credit facility to fund the investment in Wasaya and investments in working capital as described in *Section 3 – Investing Activities*. Draws were also made for purchases of shares for cancellation under its NCIB.

During the quarter, 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 30 days at the same term unless both parties agree to extend the swap for a further 30 days. By borrowing in US Dollars, the Corporation is able to take advantage of lower interest rates. 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 30 days. At June 30, 2018, US $188.0 million (December 31, 2017 – US $194.7 million) of the Corporation's US denominated borrowings are hedged with these swaps.

Convertible Debentures

The following summarizes the convertible debentures outstanding during the period ended June 30, 2018 and the changes in the amount of convertible debentures outstanding during the six months ended June 30, 2018:

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Unsecured Debentures - 2012(1)	EIF.DB.E	September 30, 2019	5.5%	$36.80
Unsecured Debentures - 2013(2)	EIF.DB.F	March 31, 2020	5.35%	$41.60
Unsecured Debentures - 2014	EIF.DB.G	March 31, 2021	6.0%	$31.70
Unsecured Debentures - 2016	EIF.DB.H	June 30, 2023	5.25%	$44.75
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

Par value	Balance, beginning of period	Issued	Converted	Redeemed / Matured	Balance, end of period
Unsecured Debentures - September 2012(1)	$ 56,843	$ -	$ (90)	$ (56,753)	$ -
Unsecured Debentures - March 2013(2)	64,980	-	-	-	64,980
Unsecured Debentures - March 2014	27,880	-	-	-	27,880
Unsecured Debentures - June 2016	68,975	-	-	-	68,975
Unsecured Debentures - December 2017	100,000	-	-	-	100,000
Unsecured Debentures - June 2018	-	80,500	-	-	80,500
Total	$ 318,678	$ 80,500	$ (90)	$ (56,753)	$ 342,335

Note 1) On January 11, 2018, the Corporation redeemed its 7 year 5.50% convertible debentures which were due September 30, 2019.

Note 2) Subsequent to quarter end, on July 17, 2018, the Corporation redeemed its 7 year 5.35% convertible debentures which were due March 31, 2020.

Share Capital

The following summarizes the changes in the shares outstanding of the Corporation during the six months ended June 30, 2018:

	Date issued (redeemed)	Number of shares
Shares outstanding, beginning of period		31,317,890
Issued upon conversion of convertible debentures	various	2,445
Issued under dividend reinvestment plan (DRIP)	various	99,082
Issued under deferred share plan	various	8,534
Shares cancelled under NCIB	various	(493,059)
Issued to Moncton Flight College vendors on closing	February 28, 2018	176,102
Issued under First Nations community partnership agreements	March 14, 2018	1,000
Issued to Wasaya vendors on closing	April 19, 2018	385,908
Issued under employee share purchase plan	June 19, 2018	11,350
Shares outstanding, end of period		31,509,252

On February 28, 2018, the Corporation issued 176,102 shares having a value of $6.0 million as part of the acquisition of Moncton Flight College.

On April 19, 2018, the Corporation issued 385,908 shares having a value of $12.3 million as part of its investment in Wasaya.

The Corporation issued 99,082 shares under its dividend reinvestment plan ("DRIP") during the first six months of 2018 and received $3.2 million for those shares in accordance with the DRIP.

During the first six months of 2018, the Corporation repurchased shares for cancellation under its NCIB, which is detailed further below.

The weighted average shares outstanding during the three and six months ended June 30, 2018 increased by 2% and 1%, respectively, over the comparative period. The increase is mainly attributable to the shares issued in connection with the acquisition of Quest, Moncton Flight College and the investment in Wasaya, mostly offset by shares repurchased and cancelled under the Corporation's NCIB throughout 2017 and 2018.

Normal Course Issuers Bid

On January 31, 2018, the Corporation received approval from the TSX for the renewal of its NCIB to purchase up to an aggregate of 1,566,827 shares, representing 5% of the issued and outstanding shares as at January 23, 2018. Purchases of shares pursuant to the renewed NCIB can be made through the facilities of the TSX commencing on February 5, 2018 and ending on February 4, 2019. The maximum number of shares that can be purchased by the Corporation on a daily basis is 36,859 shares, other than block purchase exemptions.

During the six months of 2018, the Corporation purchased a total of 493,059 shares through its NCIB. The Corporation paid $16.3 million to purchase these shares at a weighted average purchase price of $33.14. All shares purchased under the NCIB were cancelled.

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

7. RELATED PARTY TRANSACTIONS

The related party transactions that the Corporation entered into during the six months ended June 30, 2018 are consistent with those described in the Corporation's MD&A for the year ended December 31, 2017.

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, 2017, other than as noted below.

The Corporation's liabilities for contingent consideration associated with the earn out portion of its acquisitions is reassessed each period end subsequent to the related acquisition. The carrying value of the liability is based on an estimate of both the amount of the potential payment and probability that the earn out will be paid. In the current period, the estimated liability for additional purchase consideration associated with CarteNav was reduced to reflect expected earnings levels during the remaining earn out period. This resulted in a recovery of $1.5 million and is included within the Other line of the Statement of Income.

9. ACCOUNTING POLICIES

The accounting policies of the Corporation used in the determination of the results for these interim condensed consolidated financial statements for the six months ended June 30, 2018 that are discussed and analyzed in this report are described in detail in Note 3 of the Corporation's 2017 annual consolidated financial statements and Note 3 of the Corporation's interim condensed consolidated financial statements for the six months ended June 30, 2018.

The significant accounting policies and methods of computation used in the preparation of these interim condensed consolidated financial statements are the same as those described in Note 3 – Significant Accounting Policies of the Corporation's 2017 annual consolidated financial statements, except as discussed below.

Adoption of IFRS 15 *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring additional disclosures. IFRS 15 supersedes IAS 11, Customer Contracts, and IAS 18, Revenue, as well as various IFRIC and SIC interpretations regarding revenue. The Corporation's adoption of IFRS 15 was effective beginning on January 1, 2018. The Corporation has adopted IFRS 15 from January 1, 2018 which resulted in changes in accounting policies and adjustments recognized in the financial statements. In accordance with the transition provision in IFRS 15, the Corporation has adopted the standard on a modified retrospective basis. There was no restatement of comparative financial information with the cumulative effect of adoption recognized as an adjustment to the opening balance of retained earnings for the period commencing January 1, 2018. Under this transition method, the Corporation has applied IFRS 15 retrospectively only to those contracts that were not completed as of January 1, 2018. The impact of adoption is summarized in the Note 3 – Significant Accounting Policies of the Corporation's interim financial statements.

10. CONTROLS AND PROCEDURES

Internal Controls over Financial Reporting

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

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

Management has evaluated the design of the Corporation's internal controls over financial reporting as at June 30, 2018, and has concluded that the internal controls over financial reporting are effective.

Quest was acquired November 14, 2017 and Moncton Flight College was acquired on February 28, 2018. 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 Quest and Moncton Flight College. Management will include these entities in the scope of its assessments for the year ended December 31, 2018.

Quest and Moncton Flight College had EBITDA of $18.4 million included in the consolidated results of the Company for the six months ended June 30, 2018. As at June 30, 2018, these entities had current assets and non-current assets of $46.9 million and $128.0 million, respectively, and current liabilities and non-current liabilities of $13.4 million and $39.6 million, respectively.

There have been no other material changes to the Corporation's internal controls during the 2018 period that would have materially affected or are likely to materially affect the internal controls over financial reporting.

Disclosure Controls and Procedures

Management has established and maintained disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Corporation is made known to management in a timely manner and that information required to be disclosed by the Corporation is reported within the time periods prescribed by applicable securities legislation. Management has concluded that disclosure controls and procedures were effective as at June 30, 2018.

11. RISK FACTORS

The Corporation and its subsidiaries are subject to a number of business risks. These risks relate to the structure of the Corporation and to the operations at the subsidiary entities. There were no changes to the Corporation's principal risks and uncertainties from those reported in the Corporation's MD&A for the year ended December 31, 2017.

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

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

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

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

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

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

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

13. QUARTERLY INFORMATION

The following summary reflects quarterly results of the Corporation:

	2018		2017				2016		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total revenue	$ 313,449	$ 266,027	$ 263,910	$ 253,367	$ 273,145	$ 222,528	$ 221,657	$ 224,620	$ 226,851
EBITDA	75,071	54,013	63,315	71,964	70,071	43,348	51,304	60,012	56,928
Net earnings	19,547	8,614	16,920	23,902	25,779	5,559	13,822	20,581	17,214
Basic	0.62	0.27	0.55	0.78	0.83	0.18	0.48	0.72	0.62
Diluted	0.60	0.27	0.53	0.72	0.77	0.18	0.47	0.67	0.59
Adjusted net earnings	25,208	12,932	22,260	25,716	23,943	7,808	16,631	23,145	20,403
Basic	0.80	0.41	0.72	0.84	0.77	0.25	0.58	0.81	0.74
Diluted	0.76	0.40	0.68	0.77	0.72	0.25	0.56	0.74	0.69
Free Cash Flow ("FCF")	58,785	40,596	49,745	55,849	51,731	33,789	40,765	45,873	42,683
Basic	1.86	1.29	1.61	1.81	1.66	1.09	1.42	1.60	1.54
Diluted	1.66	1.15	1.45	1.58	1.46	0.98	1.25	1.37	1.34
FCF less maintenance capital expenditures	29,679	9,842	27,748	35,976	21,842	6,380	22,823	26,484	25,476
Basic	0.94	0.31	0.90	1.17	0.70	0.21	0.80	0.93	0.92
Diluted	0.90	0.31	0.86	1.05	0.66	0.20	0.74	0.84	0.84
Maintenance capital expenditures	29,106	30,754	21,997	19,873	29,889	27,409	17,942	19,389	17,207
Growth capital expenditures	301	2,040	15,768	20,771	33,048	58,790	44,760	53,268	33,489

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 2018	December 31 2017
ASSETS		
CURRENT		
Cash and cash equivalents	$ 85,463	$ 72,315
Accounts receivable	263,317	207,796
Costs incurred plus recognized profits in excess of billings	15,208	9,294
Inventory	198,560	178,397
Prepaid expenses and deposits	36,987	29,932
Income taxes receivable	-	5,072
	599,535	502,806
OTHER ASSETS (Note 7)	55,032	25,570
CAPITAL ASSETS	824,997	796,576
INTANGIBLE ASSETS	149,216	135,706
DEFERRED INCOME TAX ASSETS	-	258
GOODWILL	317,620	288,281
	$ 1,946,400	$ 1,749,197
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ 195,657	$ 166,415
Income taxes payable	3,054	-
Deferred revenue (Note 3)	26,686	24,160
Billings in excess of costs incurred plus recognized profits	10,794	14,200
Current portion of long-term debt and finance leases (Note 8)	1,257	1,170
Current portion of convertible debentures (Note 9)	64,980	56,843
	302,428	262,788
LONG-TERM DEBT AND FINANCE LEASES (Note 8)	659,754	549,451
OTHER LONG-TERM LIABILITIES	49,166	34,493
DEFERRED REVENUE	5,379	6,934
CONVERTIBLE DEBENTURES (Note 9)	251,668	240,962
DEFERRED INCOME TAX LIABILITY	77,634	77,061
	1,346,029	1,171,689
EQUITY		
SHARE CAPITAL (Note 10)	589,529	576,471
CONVERTIBLE DEBENTURES - Equity Component (Note 9)	14,944	14,311
CONTRIBUTED SURPLUS	6,631	3,478
DEFERRED SHARE PLAN	11,499	9,867
RETAINED EARNINGS		
Cumulative Earnings (Note 3)	348,081	320,141
Cumulative Dividends	(389,808)	(355,718)
Cumulative impact of share cancellation under the NCIB (Note 10)	(19,298)	(12,074)
	(61,025)	(47,651)
ACCUMULATED OTHER COMPREHENSIVE INCOME	38,793	21,032
	600,371	577,508
	$ 1,946,400	$ 1,749,197

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	2018	2017	2018	2017
REVENUE				
Aerospace & Aviation	$ 233,402	$ 226,984	$ 423,225	$ 404,019
Manufacturing	80,047	46,161	156,251	91,654
	313,449	273,145	579,476	495,673
EXPENSES				
Aerospace & Aviation expenses - excluding depreciation and amortization	134,975	129,826	250,243	239,167
Manufacturing expenses - excluding depreciation and amortization	55,567	35,337	110,828	69,999
General and administrative	47,836	37,911	89,321	73,088
	238,378	203,074	450,392	382,254
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER (Note 4)	75,071	70,071	129,084	113,419
Depreciation of capital assets	30,383	28,905	58,845	53,648
Amortization of intangible assets	4,397	2,775	9,151	5,530
Finance costs - interest	14,121	8,174	25,167	15,879
Acquisition costs	547	48	1,062	286
Gain on disposal on partnership interest, net of transaction costs (Note 7)	-	(5,585)	-	(5,585)
Other (Note 5)	-	-	(1,471)	-
EARNINGS BEFORE INCOME TAXES	25,623	35,754	36,330	43,661
INCOME TAX EXPENSE (RECOVERY)				
Current	7,023	11,616	11,498	15,280
Deferred	(947)	(1,641)	(3,329)	(2,957)
	6,076	9,975	8,169	12,323
NET EARNINGS	$ 19,547	$ 25,779	$ 28,161	$ 31,338
EARNINGS PER SHARE (Note 13)				
Basic	$ 0.62	$ 0.83	$ 0.89	$ 1.01
Diluted	$ 0.60	$ 0.77	$ 0.87	$ 0.99

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands of Canadian dollars)

Attributable to common shareholders	Three Months Ended		Six Months Ended	
For the periods ended June 30	2018	2017	2018	2017
NET EARNINGS	$ 19,547	$ 25,779	$ 28,161	$ 31,338
OTHER COMPREHENSIVE INCOME (LOSS),				
Items that are or may be reclassified to the Statement of Income				
Cumulative translation adjustment, net of tax expense (recovery) for the three months ended June 30 of $7 and $(18), respectively and net of tax expense (recovery) for the six months ended June 30 of $14 and $(21), respectively	11,792	(14,205)	27,146	(16,865)
Net gain (loss) on hedge of net investment in foreign operation, net of tax expense (recovery) for the three months ended June 30 of $(514) and $548, respectively and net of tax expense for the six months ended June 30 of $(1,283) and $582, respectively	(3,848)	5,065	(9,385)	5,544
	7,944	(9,140)	17,761	(11,321)
COMPREHENSIVE INCOME FOR THE PERIOD	$ 27,491	$ 16,639	$ 45,922	$ 20,017

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited, in thousands of Canadian dollars)

					Retained Earnings				
	Share Capital	Convertible Debentures - Equity Component	Contributed Surplus - Matured Debentures	Deferred Share Plan	Cumulative Earnings	Cumulative Dividends	Cumulative impact of share repurchase under NCIB	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2017	$ 463,603	$ 11,245	$ 3,478	$ 7,207	$ 247,981	$ (290,631)	$ (395)	$ 43,649	$ 486,137
Prospectus offering, January 2017	94,288	-	-	-	-	-		-	94,288
Convertible debentures									
Converted into shares	104	(5)	-	-	-	-	-	-	99
Shares issued under dividend reinvestment plan	3,311	-	-	-	-	-	-	-	3,311
Shares issued under First Nations community partnership agreements	230	-	-	-	-	-	-	-	230
Deferred share plan vesting	-	-	-	1,185	-	-	-	-	1,185
Deferred share plan issuance	199	-	-	-	-	-	-	-	199
Shares cancelled under NCIB	(5,320)	-	-	-	-	-	(4,584)	-	(9,904)
Comprehensive income	-	-	-	-	31,338	-	-	(11,321)	20,017
Dividends declared (Note 11)	-	-	-	-	-	(32,645)	-	-	(32,645)
Balance, June 30, 2017	$ 556,415	$ 11,240	$ 3,478	$ 8,392	$ 279,319	$ (323,276)	$ (4,979)	$ 32,328	$ 562,917
Balance, December 31, 2017	$ 576,471	$ 14,311	$ 3,478	$ 9,867	$ 320,141	$ (355,718)	$ (12,074)	$ 21,032	577,508
Restatement (Note 3)	-	-	-	-	(221)	-	-	-	(221)
Balance, January 1, 2018 (Restated - Note 3)	$ 576,471	$ 14,311	$ 3,478	$ 9,867	$ 319,920	$ (355,718)	$ (12,074)	$ 21,032	$ 577,287
Shares issued to acquisition vendors (Note 10)	18,324	-	-	-	-	-	-	-	18,324
Convertible debentures									
Converted into shares (Note 10)	97	(7)	-	-	-	-	-	-	90
Issued	-	3,793	-	-	-	-	-	-	3,793
Matured/Redeemed	-	(3,153)	3,153	-	-	-	-	-	-
Shares issued under dividend reinvestment plan (Note 10)	3,156	-	-	-	-	-	-	-	3,156
Shares issued under First Nations community partnership agreements (Note 10)	35	-	-	-	-	-	-	-	35
Deferred share plan vesting (Note 14)	-	-	-	1,803	-	-	-	-	1,803
Deferred share plan issuance	171	-	-	(171)	-	-	-	-	-
Shares issued under ESPP (Note 14)	386	-	-	-	-	-	-	-	386
Shares cancelled under NCIB (Note 10)	(9,111)	-	-	-	-	-	(7,224)	-	(16,335)
Comprehensive income	-	-	-	-	28,161	-	-	17,761	45,922
Dividends declared (Note 11)	-	-	-	-	-	(34,090)	-	-	(34,090)
Balance, June 30, 2018	$ 589,529	$ 14,944	$ 6,631	$ 11,499	$ 348,081	$ (389,808)	$ (19,298)	$ 38,793	$ 600,371

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	2018	2017	2018	2017
OPERATING ACTIVITIES				
Net earnings for the period	$ 19,547	$ 25,779	$ 28,161	$ 31,338
Items not affecting cash:				
Depreciation of capital assets	30,383	28,905	58,845	53,648
Amortization of intangible assets	4,397	2,775	9,151	5,530
Accretion of interest	3,868	1,204	5,519	2,396
Long-term debt discount (paid) accretion	108	(11)	(135)	152
Gain on sale of disposal of capital assets	(103)	(81)	(207)	(272)
Deferred income tax	(947)	(1,641)	(3,329)	(2,957)
Deferred share program share-based vesting (Note 14)	1,003	738	1,803	1,384
Gain on disposal of partnership interest	-	(5,985)	-	(5,985)
Consideration liability fair value adjustment (Note 5)	-	-	(1,471)	-
	58,256	51,683	98,337	85,234
Changes in non-cash operating working capital items and long-term deferred revenue (Note 16)	(29,203)	(16,100)	(53,670)	(43,340)
	29,053	35,583	44,667	41,894
FINANCING ACTIVITIES				
Proceeds from long-term debt & finance leases, net of issuance costs	31,862	45,511	95,308	39,947
Proceeds from issuance of debentures, net of issuance costs (Note 9)	76,597	-	76,597	-
Redemption of convertible debentures (Note 9)	-	-	(56,753)	-
Issuance of shares, net of issuance costs (Note 10)	1,977	1,785	3,577	96,305
Payment for repurchase of Shares under NCIB (Note 10)	(11,854)	(9,904)	(16,341)	(9,904)
Cash dividends (Note 11)	(17,357)	(16,310)	(34,090)	(32,645)
	81,225	21,082	68,298	93,703
INVESTING ACTIVITIES				
Purchase of capital assets	(51,854)	(73,366)	(92,407)	(167,013)
Proceeds from disposal of capital assets	23,348	11,545	32,033	19,532
Purchase of intangible assets	(605)	(895)	(1,249)	(1,246)
Cash outflow for acquisitions, net of cash acquired	-	-	(23,912)	-
Cash outflow for prior acquisition working capital settlement	-	(144)	-	(144)
Investment in other assets	(11,357)	(2,453)	(14,372)	(3,505)
Finance lease receivable payments, net of reserves and other	(5)	376	(1,406)	2,498
	(40,473)	(64,937)	(101,313)	(149,878)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	69,805	(8,272)	11,652	(14,281)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	14,394	21,058	72,315	26,494
EFFECTS OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	1,264	1,327	1,496	1,900
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 85,463	$ 14,113	$ 85,463	$ 14,113
Supplementary cash flow information				
Interest paid	$ 11,840	$ 5,393	$ 18,260	$ 12,655
Income taxes paid	$ 6,392	$ 11,675	$ 7,453	$ 18,771

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

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

1. ORGANIZATION

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

As at June 30, 2018, the principal operating subsidiaries of the Corporation are Perimeter Aviation LP (including its operating division, Bearskin Airlines), Keewatin Air LP, Calm Air International LP, Custom Helicopters Ltd., Overlanders Manufacturing LP, Water Blast Manufacturing LP, WesTower Communications Ltd., R1 Canada LP, Provincial Aerospace Ltd., Ben Machine Products Company Inc., EIC Aircraft Leasing Ltd., Quest Window Systems Inc., CANLink Aviation Inc. ("Moncton Flight College") and EIIF Management USA Inc. Stainless Fabrication, Inc., Dallas Sailer Enterprises, Inc., and Regional One Inc. are wholly owned subsidiaries of EIIF Management USA Inc. Through the Corporation's subsidiaries, products and services are provided in two business segments: Aerospace & Aviation and Manufacturing.

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

2. BASIS OF PREPARATION

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

In accordance with IFRS, these financial statements do not include all of the financial statement disclosures required for annual financial statements and should be read in conjunction with the Corporation's annual consolidated financial statements for the year ended December 31, 2017. In management's opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim period presented.

During the period the Corporation reclassified certain of the comparative figures to correspond with current period reporting classification on the Statement of Cash Flow.

These interim condensed consolidated financial statements were approved by the Board of Directors of the Corporation for issue on August 8, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and methods of computation used in the preparation of these interim condensed consolidated financial statements are the same as those followed in the most recent annual financial statements, except as noted below. Note 3 of the Corporation's 2017 audited financial statements includes a comprehensive listing of the Corporation's significant accounting policies.

Adoption of IFRS 15 *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring additional disclosures. IFRS 15 supersedes IAS 11, Customer Contracts, and IAS 18, Revenue, as well as various IFRIC and SIC interpretations regarding revenue. The Corporation's adoption of IFRS 15 was effective beginning on January 1, 2018. The Corporation has adopted IFRS 15 from January 1, 2018 which resulted in changes in accounting policies and adjustments recognized in the financial statements. In accordance with the transition provision in IFRS 15, the Corporation has adopted the standard on a modified retrospective basis. There was no restatement of comparative financial information with the cumulative effect of adoption recognized as an adjustment to the opening balance of retained earnings for the period commencing January 1, 2018. Under this transition method, the Corporation has applied IFRS 15 retrospectively only to those contracts that were not completed as of January 1, 2018. As a result of the adoption of IFRS 15, the Corporation's accounting policy for revenue recognition has been revised and disclosed below.

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

The following table shows the adjustments recognized for each individual line item. Line items that were not affected by the changes have not been included. As a result, the subtotals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail below.

	Reported at January 1, 2018	Balance without the adoption of IFRS 15	Impact of Adoption
Statement of Financial Position			
Opening cumulative earnings	$ 319,920	$ 320,141	$ (221)
Opening deferred revenue	24,480	24,160	320
Opening deferred income tax liability	76,962	77,061	(99)

The Corporation made an adjustment to opening retained earnings as a result of the adoption of IFRS 15, reducing opening retained earnings by $221 relating to contracts with a licensing deliverable and an associated support contract. Under the Corporation's previous revenue recognition policy, the revenue associated with the software licenses were recognized immediately. Under IFRS 15, the Corporation determined that the software license revenue should be recognized over the life of the associated support contract as the two deliverables represented a single performance obligation, resulting in a one-time adjustment to reduce previously recognized revenue.

In addition to the transitional disclosures above, additional disclosures required under IFRS 15 are included within Note 12 – Segmented and Supplemental Information.

Revised Revenue Recognition Policy

The Corporation recognizes revenue from the sale of retail and manufactured goods and from the sale of services. Revenue is recognized for the major business activities using the methods outlined below.

Aerospace & Aviation Segment

i. Aftermarket parts sales

Revenue from the sale of parts is recognized when control of the part has passed to the customer, which is generally when the part is shipped and title has passed.

The Corporation is also party to consignment agreements where parts are sold with the Corporation acting as consignee. With respect to consignment sales the Corporation assesses whether it is a principal or an agent under the terms of the agreement. In circumstances where the Corporation is a principal, revenue is recognized in a manner consistent with other parts sales as described above. In circumstances where the Corporation is an agent, revenue is recorded net of the related cost of the part, such that the revenue recognized is equal to the margin earned by the Corporation.

The Corporation may enter into finance leases with customers. In such circumstances, the Corporation records gross profit from the lease that is equivalent to the present value of the lease payments received less the cost of the related asset. Interest revenue is earned over the term of the lease and recognized using the effective interest method. Long-term receivables relating to sales-type leases are recorded within "Other Assets" on the Statement of Financial Position.

ii. Aircraft and engine sales

Revenue from the sale of aircraft and engines is recognized when control of the asset has passed to the customer, which is generally when the asset has been delivered to the customer and title has passed.

iii. Aircraft and engine lease revenue

Revenue from leasing of aircraft and aircraft components is recognized as revenue on a straight-line basis over the terms of the lease agreements. Certain of the Corporation's lease contracts call for billings either in advance of or subsequent to the customer's usage of the aircraft under the lease. Lease revenue received in advance are recorded as deferred revenue until such time that it has been earned. Security deposits received from customers are recorded as a liability within "Other Long-Term Liabilities" on the Statement of Financial Position. Certain leases require payments from the customer that are for the purpose of maintenance of the leased aircraft. In circumstances where the payment must be returned to the customer if it is not used for maintenance activities, the payment received from the customer is recorded as a maintenance liability. The maintenance liability is recorded in Other Long-Term Liabilities on the Statement of Financial Position.

iv. Surveillance and aircraft modification services

Revenue from surveillance services is recognized when the surveillance flight has been taken. In the case of aircraft modification services, the customer is obligated to pay for work performed to date, therefore revenue is recognized over time as the modification services are performed. The stage of completion is determined based on the costs incurred to date in comparison to the expected total costs. The timing of billings to the customer and customer payments can result in either an asset ("Costs incurred plus recognized profits in excess of billings") or a liability ("Billings in excess of costs incurred plus recognized profit").

v. Software development and sales of software licenses

Revenue from software development is recognized over time based on the completion of contractual performance obligations. The stage of completion is determined based on the costs incurred to date in comparison to the expected total costs. The contract price is allocated to the performance obligations. When a performance obligation is completed and the customer is obligated to pay for the work performed, the associated revenue is recognized.

vi. Charter, passenger flight, medevac and cargo services

The Corporation records revenue from flight services (charter, passenger and cargo) when the flight has been completed. Payments for these services that are received in advance of the related flight are recorded as deferred revenue until the flight is taken, the ticket expires or the goods are shipped.

Where a customer receives loyalty points based on the value of the ticket purchased, the points awarded are recognized as a separate component of the purchase price of the ticket. The amount allocated to the loyalty points component is determined based on the fair value of the loyalty points relative to the fair value of the ticket purchased. The amount allocated to the loyalty points awarded is deferred and recognized as revenue when the loyalty points are redeemed by the passenger.

The Corporation performs regular evaluations of its deferred revenue liabilities and these evaluations may result in adjustments to the amount of revenue recognized. Due to the complexity associated with pricing, refunds, exchanges and historical experience with unused tickets and other factors, certain amounts are recognized as revenue based on estimates. Events and circumstances may cause actual results to be different from estimates.

vii. Fixed Base Operations (FBO) sales and services

The Corporation records revenue from the sale of fuel, de-icing and other FBO sales and services when the goods or services have been delivered to the customer. Certain fuel sales transactions have the characteristics of agent sales and as a result, revenue from this type of transaction is recorded based on the net amount received from the customer. The net amount is the difference between the amount billed to the customer less the amount paid to the supplier of the fuel. The amount receivable from the customer and the amount owed to the fuel supplier are not recorded on a net basis because the legal right of offset does not exist.

Manufacturing Segment

i. Sale of equipment and manufactured goods

Revenue from the sale of equipment and manufactured goods is recognized when control of the asset has passed to the customer, this is generally at the time of delivery. Payments received from customers in advance of the delivery of the goods are recorded as deferred revenue.

ii. Manufactured window sales

Revenue from the sale of manufactured windows as a subcontractor, primarily in the US, is recognized when control of the asset has passed to the customer. Revenue from the manufacture and installation of window systems is recognized over time based on output measures such as surveys of work performed and units delivered, which represents the continuous transfer of control of goods and services to the customer. Such contracts provide that the customer accept completion of progress to date and compensate the Corporation for services rendered. The timing of billings to the customer and customer payments can result in either an asset ("Costs incurred plus recognized profits in excess of billings") or a liability ("Billings in excess of costs incurred plus recognized profit").

iii. Tower construction services

Revenue from the construction of towers is recognized over time based on the stage of completion. The stage of completion is determined based on the costs incurred to date in comparison to the expected total costs. Such contracts provide that the customer accept completion of progress to date and compensate the Corporation for services rendered. The timing of billings to the customer and customer payments can result in either an asset (“Costs incurred plus recognized profits in excess of billings”) or a liability (“Billings in excess of costs incurred plus recognized profit”).

iv. Stainless tank sales

Revenue from the construction of stainless tanks is recognized over time based on the stage of completion. The stage of completion is determined based on the costs incurred to date in comparison to the expected total costs. Such contracts provide that the customer accept completion of progress to date and compensate the Corporation for services rendered. The timing of billings to the customer and customer payments can result in either an asset (“Costs incurred plus recognized profits in excess of billings”) or a liability (“Billings in excess of costs incurred plus recognized profit”).

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

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

The Corporation’s liabilities for contingent consideration associated with the earn out portion of its acquisitions is reassessed each period end subsequent to the related acquisition. The carrying value of the liability is based on an estimate of both the amount of the potential payment and probability that the earn out will be paid. In the current period, the estimated liability for additional purchase consideration associated with CarteNav was reduced to reflect expected earnings levels during the remaining earn out period. This resulted in a recovery of $1,471 and is included within the Other line of the Statement of Income.

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

6. ACQUISITIONS

Acquisition of CANLink

On February 28, 2018, the Corporation acquired all of the shares of CANLink Global Inc. ("Moncton Flight College"). Moncton Flight College, headquartered in Moncton, New Brunswick, is a flight training college in Canada. Moncton Flight College offers domestic Canadian pilot training as well as a foreign pilot program.

The components of the consideration paid to acquire Moncton Flight College are outlined in the table below.

Consideration given:		
Cash (net of closing adjustments)	$	25,376
Issuance of 176,102 shares of the Corporation at $34.06 per share		5,998
Estimated working capital post-closing adjustment		898
Contingent cash consideration - earn out		15,903
Total purchase consideration	$	48,175

The preliminary purchase price allocation will be finalized later in 2018 when final settlement of working capital and other post-closing adjustments occur. The purchase price includes an initial payment of cash and the issuance of common shares to the vendors, net of normal closing adjustments, plus a multi-year earn out if certain performance targets are met for fiscal periods 2018 and 2019. The maximum earn out that can be achieved by the vendors is $20,000. The contingent consideration recorded by the Corporation reflects the discounted liability of the estimated performance targets being met for fiscal 2018 and 2019. The preliminary valuation of intangible assets has resulted in the identification of $20,500 of intangible assets, including trade name and customer relationships. The preliminary allocation of the purchase price is reflected in the table that follows.

Fair value of assets acquired:		
Cash	$	1,464
Accounts receivable		721
Inventory		1,685
Prepaid expenses and deposits		160
Capital assets		10,335
Intangible assets		20,500
		34,865
Less fair value of liabilities assumed:		
Accounts payable and accrued liabilities		1,163
Income taxes payable		4,064
Deferred revenue		2,348
Deferred income tax liabilities		3,552
Fair value of identifiable net assets acquired		23,738
Goodwill		24,437
Total purchase consideration	$	48,175

7. OTHER ASSETS

The other assets of the Corporation consist of the following:

Partnership with Wasaya Group

On April 19, 2018, the Corporation closed the previously announced partnership transaction with Wasaya Group. EIC has invested $25,326 in Wasaya, of which $13,000 is a loan to Wasaya and $12,326 is an equity investment, which has been funded through the issuance of shares of the Corporation to the vendors of Wasaya. The Corporation's equity investment in Wasaya is accounted for using the equity method. Upon closing the transaction, the Corporation recorded its equity investment and its loan to Wasaya in Other Assets on the Statement of Financial Position.

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

Air Borealis

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

8. LONG-TERM DEBT AND FINANCE LEASES

The following summarizes the Corporation's long-term debt and finance leases as at June 30, 2018 and December 31, 2017:

	June 30 2018	December 31 2017
Revolving term facility:		
Canadian dollar amounts drawn	$ 174,000	$ 109,700
United States dollar amounts drawn (US$369,810 and US$351,230 respectively)	486,966	440,618
Total credit facility debt outstanding, principal value	660,966	550,318
less: unamortized transaction costs	(2,559)	(1,707)
less: unamortized discount on outstanding Banker's Acceptances	(238)	(103)
Net credit facility debt	658,169	548,508
Finance leases	2,842	2,113
Total net credit facility debt and finance leases	661,011	550,621
less: current portion of finance leases	(1,257)	(1,170)
Long-term debt and finance leases	$ 659,754	$ 549,451

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, 2018.

The Corporation amended its credit facility to increase its size and extend its term during the six months ended June 30, 2018. The amendments included increasing the available credit to $1,000,000, of which $945,000 is allocated to the Corporation's head office and US $55,000 is allocated to EIIF Management US, Inc. This is an increase of $250,000 over the Corporation's previous credit facility. In addition to increasing the credit facility available, the revised credit facility includes improved pricing on both amounts borrowed under the facility and standby charges paid for the unutilized portion of the facility. One financial institution was added to the syndicate and the maturity has been extended to May 7, 2022.

Interest expense recorded by the Corporation during the three and six months ended June 30, 2018 for the long-term debt and finance leases was $6,955 and $13,010, respectively (2017 – $4,083 and $7,653, respectively).

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

Credit Facility

The following is the continuity of long-term debt for the six months ended June 30, 2018:

	Six Months Ended June 30, 2018				
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar portion	$ 109,700	$ 155,300	$ (91,000)	$ -	$ 174,000
United States dollar portion	440,618	135,661	(112,015)	22,702	486,966
	$ 550,318				$ 660,966

9. CONVERTIBLE DEBENTURES

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Unsecured Debentures - 2012[(1)]	EIF.DB.E	September 30, 2019	5.5%	$ 36.80
Unsecured Debentures - 2013[(2)]	EIF.DB.F	March 31, 2020	5.35%	$ 41.60
Unsecured Debentures - 2014	EIF.DB.G	March 31, 2021	6.0%	$ 31.70
Unsecured Debentures - 2016	EIF.DB.H	June 30, 2023	5.25%	$ 44.75
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

Note 1) On January 11, 2018, the Corporation redeemed its 7 year 5.50% convertible debentures which were due September 30, 2019.

Note 2) Subsequent to quarter end, on July 17, 2018, the Corporation redeemed its 7 year 5.35% convertible debentures which were due March 31, 2020 (Note 17).

Summary of the debt component of the convertible debentures:

	2018 Balance, Beginning of Period	Debentures Issued	Accretion Charges	Debentures Converted	Redeemed / Matured	2018 Balance, End of Period
Unsecured - 2012	$ 56,843	$ -	$ -	$ (90)	$ (56,753)	$ -
Unsecured - 2013	63,311	-	1,669	-	-	64,980
Unsecured - 2014	26,833	-	185	-	-	27,018
Unsecured - 2016	65,041	-	303	-	-	65,344
Unsecured - 2017	94,762	-	428	-	-	95,190
Unsecured - 2018	-	74,932	8	-	-	74,940
						327,472
less: unamortized transaction costs						(10,824)
Convertible Debentures - Debt Component, end of period						$ 316,648
less: current portion						(64,980)
Convertible Debentures - Debt Component (long-term portion)						$ 251,668

During the six months ended June 30, 2018, convertible debentures totaling a face value of $90 were converted by the holders at various times into 2,445 shares of the Corporation (2017 – $103 face value into 3,106 shares).

Interest expense recorded during the three and six months ended June 30, 2018 for the convertible debentures was $6,841 and $11,499, respectively (2017 – $4,091 and $8,226, respectively).

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

June 2018 Unsecured Convertible Debenture Offering

The Corporation issued the $80,500 Seven Year 5.35% Convertible Unsecured Subordinated Debentures on June 26, 2018. These debentures bear interest at the rate of 5.35% per annum payable semi-annually in arrears, in cash, on June 30 and December 31 of each year. The maturity date of the debentures is June 30, 2025. Each debenture is convertible, at the debentureholder's option, into shares of the Corporation at any time prior to the close of business on the day prior to the maturity date at a conversion price of $49.00.

At the Corporation's option, on the maturity date, the debentures (or any portion thereof) shall be convertible into shares at the Corporation's forced conversion price equal to 95% of the weighted average trading price of the shares for the 20 trading days ending five days prior to the maturity date. The debentures are not redeemable until after June 30, 2021. After June 30, 2021, but prior to June 30, 2023, the Corporation has the option to redeem these debentures provided that certain thresholds are met surrounding the weighted average market price of the shares at that time. On and after June 30, 2023, but prior to the maturity date the Corporation has the option to redeem these debentures without any weighted average market price thresholds. If the Corporation elects to redeem the debentures, the debentureholders have the option to convert the debentures into shares of the Corporation at the conversion price.

Transaction costs of $3,903 were incurred in relation to the issuance of these debentures.

The June 2018 convertible unsecured debentures have $80,500 (2017 - nil) of principal outstanding as at June 30, 2018 and mature in June 2025.

Subsequent to the end of the quarter, on July 17, 2018, the Corporation redeemed its 7 year 5.35% convertible debentures which were to mature on March 31, 2020. Prior to the redemption date, $22 principal amount of debentures were converted into 528 common shares at a price of $41.60 per share. On the redemption date, the remaining outstanding debentures in the principal amount of $64,978 were redeemed by the Corporation.

Convertible Debentures Equity Component

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

Summary of the equity component of the convertible debentures:

	June 30 2018	December 31 2017
Unsecured Debentures - 2012	$ -	$ 3,160
Unsecured Debentures - 2013	3,062	3,062
Unsecured Debentures - 2014	1,238	1,238
Unsecured Debentures - 2016	3,261	3,261
Unsecured Debentures - 2017	3,590	3,590
Unsecured Debentures - 2018	3,793	-
Convertible Debentures - Equity Component, end of period	$ 14,944	$ 14,311

All convertible debentures outstanding at June 30, 2018 represent direct unsecured debt obligations of the Corporation.

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

10. SHARE CAPITAL

Changes in the shares issued and outstanding during the six months ended June 30, 2018 are as follows:

	Number of Shares		2018 Amount
Share capital, beginning of period	31,317,890	$	576,471
Issued upon conversion of convertible debentures	2,445		97
Issued under dividend reinvestment plan	99,082		3,156
Issued under First Nations community partnership agreements	1,000		35
Issued under deferred share plan	8,534		171
Shares cancelled under NCIB	(493,059)		(9,111)
Issued under employee share purchase plan	11,350		386
Issued to Moncton Flight College vendors on closing	176,102		5,998
Issued to Wasaya vendors on closing	385,908		12,326
Share capital, end of period	31,509,252	$	589,529

On January 31, 2018, the Corporation received approval from the TSX for the renewal of its NCIB and during the six months ended June 30, 2018 purchased a total of 493,059 shares. The Corporation purchased the shares at an average cost of $33.14 per share for aggregate consideration of $16,341. All of the shares repurchased under NCIB were cancelled. The excess of the cost over the average book value of $7,224 was charged to retained earnings.

On February 28, 2018, the Corporation completed its acquisition of Moncton Flight College, which included the issuance of 176,102 shares having a value of $5,998 (Note 6).

On April 19, 2018 the Corporation completed its previously announced partnership transaction with Wasaya Group, which included the issuance of 385,908 shares having a value of $12,326 (Note 7).

11. 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, 2018 and the comparative 2017 period are as follows:

					2018 Dividends					2017 Dividends
Month	Record date		Per Share		Amount	Record date		Per Share		Amount
January	January 31, 2018	$	0.175	$	5,484	January 31, 2017	$	0.175	$	5,438
February	February 28, 2018		0.175		5,517	February 28, 2017		0.175		5,447
March	March 29, 2018		0.1825		5,732	March 31, 2017		0.175		5,450
April	April 30, 2018		0.1825		5,807	April 28, 2017		0.175		5,455
May	May 31, 2018		0.1825		5,791	May 31, 2017		0.175		5,444
June	June 29, 2018		0.1825		5,759	June 30, 2017		0.175		5,411
Total		$	1.08	$	34,090		$	1.05	$	32,645

Subsequent to June 30, 2018 and before these interim condensed consolidated financial statements were authorized, the Corporation declared a monthly dividend of $0.1825 per share for July 2018.

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

12. SEGMENTED AND SUPPLEMENTAL INFORMATION

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

The Corporation's operating business segments include strategic business units that offer different products and services. The Corporation has two operating business segments: Aerospace & Aviation and Manufacturing. The Aerospace & Aviation segment provides airline services to communities in Manitoba, Ontario, Nunavut and eastern Canada and also provides aircraft and engine aftermarket parts to regional airline operators around the world. In addition, Provincial's aerospace business designs, modifies, maintains and operates custom sensor equipped aircraft. Moncton Flight College provides pilot training services. The results of Moncton Flight College are included in the Aerospace & Aviation segments results as of the date of acquisition (Note 6). The Manufacturing segment consists of niche specialty manufacturers in markets throughout Canada and the United States.

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

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

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

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

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

	Six Months Ended June 30, 2018			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 423,225	$ 156,251	$ -	$ 579,476
Expenses	309,197	129,207	11,988	450,392
EBITDA	114,028	27,044	(11,988)	129,084
Depreciation of capital assets				58,845
Amortization of intangible assets				9,151
Finance costs - interest				25,167
Acquisition costs				1,062
Other (Note 5)				(1,471)
Earnings before income tax				36,330
Current income tax expense				11,498
Deferred income tax recovery				(3,329)
Net earnings				$ 28,161

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

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

	For the period ended June 30, 2018			
	Aerospace & Aviation	Manufacturing	Head Office[(1)]	Consolidated
Total assets	$ 1,543,907	$ 322,661	$ 79,832	$ 1,946,400
Net capital asset additions, excluding finance leases	56,492	3,561	321	60,374

	For the year ended December 31, 2017			
	Aerospace & Aviation	Manufacturing	Head Office[(1)]	Consolidated
Total assets	$ 1,354,888	$ 318,039	$ 76,270	$ 1,749,197
Net capital asset additions, excluding finance leases	220,865	2,713	907	224,485

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

Revenues

In accordance with IFRS 15, the following table provides disaggregated information about revenue from contracts with customers. We believe that disaggregation by type of sale is most appropriate. The purpose of this disclosure is to provide information about the nature of our contracts and about the timing, amount and uncertainties associated with customer contracts. The comparative figures in the chart below have not been adjusted for the impact of IFRS 15 as it is not required under the modified retrospective method.

		Three Months Ended		Six Months Ended	
Revenue Streams	Periods Ended June 30	2018	2017	2018	2017
Aerospace & Aviation Segment					
Sale of goods - point in time		$ 115,157	$ 114,454	$ 212,346	$ 208,745
Sales of services - point in time		117,104	110,616	208,004	192,332
Sale of services - over time		1,141	1,914	2,875	2,942
Manufacturing Segment					
Sale of goods - point in time		45,096	15,617	88,548	30,620
Sale of services - over time		34,951	30,544	67,703	61,034
Total revenue		$ 313,449	$ 273,145	$ 579,476	$ 495,673

13. EARNINGS PER SHARE

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

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

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

The computation for basic and diluted earnings per share for the Corporation for the three and six months ended June 30, 2018 and comparative periods in 2017 are as follows:

	Three Months Ended		Six Months Ended	
Periods Ended June 30	2018	2017	2018	2017
Net earnings for the period, available to common shareholders	$ 19,547	$ 25,779	$ 28,161	$ 31,338
Effect of dilutive securities				
Convertible debentures	1,244	2,987	867	-
Diluted earnings for the period	$ 20,791	$ 28,766	$ 29,028	$ 31,338
Basic weighted average number of Shares	31,652,600	31,085,669	31,518,107	31,064,236
Effect of dilutive securities				
Vested deferred shares	796,345	631,718	796,345	631,718
Convertible debentures	2,420,836	5,883,336	973,308	-
Diluted basis weighted average number of Shares	34,869,781	37,600,723	33,287,760	31,695,954
Earnings per share:				
Basic	$ 0.62	$ 0.83	$ 0.89	$ 1.01
Diluted	$ 0.60	$ 0.77	$ 0.87	$ 0.99

14. EMPLOYEE BENEFITS

Deferred Share Plan

During the six month period ended June 30, 2018, the Corporation granted deferred shares to certain personnel. The fair value of the deferred shares granted was $4,229 (2017 - $3,313) 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, 2018, the Corporation recorded compensation expense of $1,003 and $1,803, respectively for the Corporation's Deferred Share Plan within the general and administrative expenses of head office (2017 - $738 and $1,384, respectively).

Employee Share Purchase Plan

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

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

During the six month period ended June 30, 2018, employees acquired 11,350 shares from Treasury at a weighted average price of $34.08 per share, effective June 19, 2018 for the 2018 program that will vest in 18 months. The grant date fair value of the shares that will be awarded upon the vesting conditions of the plan being attained is estimated at $141 based on the share price and monthly dividend rate as at that time.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation's activities expose it to a variety of financial risks: market risk (primarily currency risk and interest rate risk), credit risk and liquidity risk. Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary. The following describes the risk management areas that have significantly changed from those described in the audited December 31, 2017 consolidated financial statements.

Market Risk

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

Currency Risk

The Corporation has US $369,810 or $486,966 (December 31, 2017 - US $351,230 or $440,618) outstanding on its credit facility. The outstanding funds in USD results in currency risk that the future cash flows will fluctuate with the changes in market currency rates. The exposure for the USD portion of its credit facility outstanding is offset by the cash generated through the operations of its US based subsidiaries. Of the total US credit facility drawn, US $20,510 (December 31, 2017 - US $230) is drawn by EIIF USA, an entity that uses US dollars as its functional currency. Therefore, the currency risk on this balance is recognized in other comprehensive income.

The Corporation`s investment in those subsidiaries with USD functional currencies are hedged partially by US $161,250 (December 31, 2017 - US $156,300) of credit facility draws, which mitigates the foreign currency translation risk arising from the subsidiary`s net assets. The loan is designated as a net investment hedge and no ineffectiveness was recognized from the net investment hedge.

During the quarter, the Corporation continued the use of derivatives through several cross currency basis swaps (“swap”) with a member of the Corporation’s lending syndicate. The swap requires that funds are exchanged back in 30 days at the same terms unless both parties agree to extend the swap for a further 30 days. By borrowing in US dollars, the Corporation is able to take advantage of lower interest rates. The swap mitigates the risk of changes in the value of the Corporation’s US dollar LIBOR borrowings as they will be exchanged for the same Canadian equivalent in 30 days. The swap is designated as a hedge of the underlying debt instrument and no ineffectiveness was recognized. The fair value of the swaps at June 30, 2018 was a loss of $2,442 (December 31, 2017 - loss of $5,748). At June 30, 2018, the notional value of the swaps outstanding is US $188,000 (December 31, 2017 - US $194,700).

Interest Rates

The Corporation is subject to the risk that future cash flows associated with the credit facility outstanding (Note 8) 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, 2018:

- US $367,000 (December 31, 2017 – US $351,000) was outstanding under US LIBOR,
- US $2,810 (December 31, 2017 – US $230) was outstanding under US Prime,
- $43,000 (December 31, 2017 – $66,500) was outstanding under Prime, and
- $131,000 (December 31, 2017 – $43,200) was outstanding under Banker’s Acceptances.

The interest rates of the convertible debentures (Note 9) have fixed interest rates.

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

Fair Value of Financial Instruments

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

		Fair Value		
Recurring fair value measurements	Carrying Value June 30, 2018	Quoted prices in an active market Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Financial Liabilities				
Consideration liabilities - Financial liability at fair value through profit and loss	$ (33,292)	$ -	$ -	$ (33,292)
Other long term liabilities - Cross currency basis swap - Financial liability at fair value through profit and loss	(2,442)	-	(2,442)	-
Fair Value Disclosures				
Other assets - Amortized cost	11,855	-	11,855	-
Other assets - Fair value through OCI	1,961	-	-	1,961
Long term debt - Amortized cost	(658,169)	-	-	(660,966)
Convertible debt - Amortized cost	(316,648)	(342,231)	-	-

		Fair Value		
Recurring fair value measurements	Carrying Value December 31, 2017	Quoted prices in an active market Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Financial Liabilities				
Consideration liabilities - Financial liability at fair value through profit and loss	$ (17,410)	$ -	$ -	$ (17,410)
Other long term liabilities - Cross currency basis swap - Financial liability at fair value through profit and loss	(5,748)	-	(5,748)	-
Fair Value Disclosures				
Other assets - Amortized cost	8,170	-	8,170	-
Other assets - Fair value through OCI	1,963	-	-	1,963
Long term debt - Amortized cost	(548,508)	-	-	(550,318)
Convertible debt - Amortized cost	(297,805)	(323,815)	-	-

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.

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The following table summarizes the changes in the consideration liabilities recorded on the acquisitions of Regional One, CarteNav, Team J.A.S., Quest, and Moncton Flight College, 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		2018		2017
Opening	$	17,410	$	3,765
Accretion		660		238
Settled during the period		(108)		(463)
Change in estimate (Note 5)		(1,471)		-
Acquisition of Quest		-		13,889
Acquisition of CANLink		16,801		-
Translation (gain)/loss		-		(19)
Ending	$	33,292	$	17,410

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

Included in the $33,292 above is the earn outs for CarteNav, Quest, Moncton Flight College, and the estimated working capital settlement for Moncton Flight College.

There were 438,209 shares of the Corporation that were originally issued into escrow at the time of acquisition of Regional One and relate to the retention of the vendor as CEO. The 87,642 shares remaining in escrow at the end of the first quarter were released on April 13, 2018.

During the second quarter, the Corporation finalized the working capital settlement with the vendors of Quest. The receivable set up by the Corporation from the vendors for the working capital deficiency at close has been paid by the vendors during the quarter.

Financial Instrument Fair Value Disclosures

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

As at June 30, 2018, management had determined that the fair value of its long term debt approximates its carrying value. The fair value of long-term debt has been calculated by discounting the expected future cash flows using a discount rate of 4.00%. The discount rate is determined by using a risk free benchmark bond yield for instruments of similar maturity adjusted for the Corporation's specific credit risk. In determining the adjustment for credit risk, the Corporation considers market conditions, the underlying value of assets secured by the associated instrument and other indicators of the Corporation's credit worthiness.

As at June 30, 2018, management estimated the fair value of the convertible debentures based on trading values. The estimated fair value of its convertible debentures is $342,231 (December 31, 2017 - $323,815) with a carrying value of $316,648 (December 31, 2017 - $297,805).

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

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

16. CHANGES IN WORKING CAPITAL ITEMS

The changes in non-cash operating working capital items during the three and six months ended June 30, 2018 and the comparative period in 2017 are as follows:

	Three Months Ended		Six Months Ended	
Periods Ended June 30	2018	2017	2018	2017
Accounts receivable	$ (45,656)	$ (33,250)	$ (49,714)	$ (19,208)
Costs incurred plus recognized profits in excess of billings	(1,267)	118	(5,713)	(2,024)
Inventory	(7,197)	1,708	(12,952)	(22,789)
Prepaid expenses and deposits	(4,949)	3,727	(6,570)	3,747
Accounts payable and accrued charges	30,156	15,065	22,926	3,745
Income taxes receivable/payable	535	(212)	3,950	(3,705)
Deferred revenue	(213)	(3,171)	(178)	(2,637)
Billings in excess of costs incurred plus recognized profits	206	1,082	(3,864)	1,747
Net change in working capital items	$ (28,385)	$ (14,933)	$ (52,115)	$ (41,124)

For the three and six months ended June 30, 2018, long-term deferred revenue decreased by $818 and $1,555, respectively (June 30, 2017 – $1,167 and $2,216, respectively) and is reflected with the change in working capital from the table above on the statement of cash flows.

17. SUBSEQUENT EVENTS

On July 17, 2018, the Corporation redeemed its 7 year 5.35% convertible unsecured debentures which were to mature on March 31, 2020. Prior to the redemption date, $22 principal amount of debentures were converted into 528 common shares at a price of $41.60 per share. On the redemption date, the remaining outstanding debentures in the principal amount of $64,978 were redeemed by the Corporation.